Translation

Consolidated Financial Results for the First Nine Months of the Fiscal Year Ending February 28, 2022 [Japanese GAAP]

January 13, 2022

Company name:	TKP Corporation
Stock exchange listing:	Tokyo Stock Exchange
Code number:	3479
URL:	https://www.tkp.jp
Representative:	Takateru Kawano, CEO and Representative
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Scheduled date of filing quarterly securities report:	January 13, 2022
Scheduled date of commencing dividend payments:	None
Availability of supplementary briefing material on quarterly financial results:	Yes
Schedule of financial results briefing session:	Yes (for analysts and institutional investors)

(Amounts of less than one million yen are rounded down)

1. Consolidated financial results for the nine months ended November 30, 2021 (March 1, 2021 to November 30, 2021)

(1) Consolidated operating results (accumulated) (Percentage figures indicate year-on-year changes)

	Net sales		EBITDA※		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended November 30, 2021	32,903	2.1	3,032	35.0	(1,114)	—	(1,437)	—	(2,938)	—
Nine months ended November 30, 2020	32,232	(18.8)	2,245	(69.1)	(1,919)	—	(2,114)	—	(2,856)	—

(Note) Comprehensive Income: Nine months ended November 30, 2021: ¥(2,875) million (- %)
Nine months ended November 30, 2020: ¥(2,856) million (- %)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended November 30, 2021	(72.98)	—
Nine months ended November 30, 2020	(76.00)	—

※EBITDA is calculated by adding depreciation, goodwill amortization, amortization of long-term prepaid expenses, and amortization of intangible assets such as customer-related assets to operating profit/loss.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
November 30, 2021	107,297	39,864	35.4
February 28, 2021	116,946	35,142	28.4

(Reference) Equity: As of November 30, 2021: ¥37,974 million
As of February 28, 2021: ¥33,220 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended February 29, 2021	—	0.00	—	0.00	0.00
Fiscal year ending February 28, 2022	—	0.00	—		
Fiscal year ending February 28, 2022 (forecast)			—	0.00	0.00

(Note) Changes in dividend forecast subsequent to most recent announcement: None

3. Consolidated financial results forecast for the fiscal year ending February 28, 2022 (March 1, 2021 to February 28, 2022)

(Yen, Percentage figures indicate year-on-year changes)

	Net Sales		EBITDA		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million	%	Million	%	Million	%	Million	%	Million	%	Yen
Full Year	43,800	1.5	3,600	17.1	(1,900)	—	(2,500)	—	(3,900)	—	(98.34)

(Note) Changes in earnings forecast subsequent to most recent announcement: None

*Notes

(1) Significant changes in scope of consolidation (changes in scope of consolidation of specified subsidiaries) : No

(2) Changes in financial results forecast subsequent to most recent announcement : No

(3) Changes in accounting policies and accounting estimates

1. Changes in accounting policies due to the revision of accounting standards : No
2. Changes in accounting policies other than stated in 1 : No
3. Changes in accounting estimates : No
4. Retrospective restatement : No

(4) Number of shares issued (common stock)

1. Number of shares issued (including treasury shares)	As of November 30, 2021	42,196,185	As of February 28, 2021	38,422,285
2. Number of treasury shares	As of November 30, 2021	504,833	As of February 28, 2021	504,810
3. Average number of shares issued	Nine months ended November 30, 2021	40,268,698	Nine months ended November 30, 2020	37,591,523

* This financial report is not subject to the quarterly review procedures by independent auditors.

* Explanation regarding appropriate use of results forecast and additional notes

(Notes on forward-looking statements)

Forward-looking statements, including the results forecast, contained in this document are based on information available to us and on certain assumptions deemed to be reasonable as of the date of release of this document. Actual business results may differ substantially due to a number of factors. For conditions prerequisite to the results forecast, and the points to be noted in the use thereof, please refer to page 7 “1. Qualitative overview of quarterly performance (3) Explanation on future outlook including consolidated profit forecast” of the attachment.

(Notes on supplementary information for the quarterly financial results and briefing on the quarterly financial results)

We are going to organize a briefing session on the quarterly financial results for institutional investors and analysts on Friday, January 14, 2022. The actual proceedings and details of the briefing session, along with the supplementary information on the quarterly financial results to be presented at the briefing, will be posted on our website, at our earliest convenience after the briefing session.

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1. Qualitative overview of quarterly performance

(1) Overview of management performance

During the course of the first nine-month period of this fiscal year (from March 1, 2021 to November 30, 2021), TKP group initially experienced difficult business environment as the state of emergency in the major cities were declared consistently as the pandemic persisted. However, thanks to the progress of vaccinations among the citizens, we began to observe gradual normalization of the society and economy, particularly after the state of emergency declarations and quasi state of emergency declarations were both lifted from October 2021.

Under such circumstances, orders for our rental meeting room business gradually started to recover. We are also receiving inquiries for banquets with F&B to be hosted for the next fiscal year. As such, we believe the actual face-to-face event related demands are returning. On the other hand, we also believe so-called hybrid style events, which orchestrates actual contacts and online connections simultaneously, will remain in certain occasions. That is why, we decided to prepare ourselves for this trend. Specifically, we introduced high-speed internet connections and we agreed to an official partner contract with Zoom Video Communications, Inc, which is a large-scale provider of the online meeting tools. Also, on November 1st, we opened another location in Shibuya. Shibuya will be our 14th hybrid operation between TKP and Regus. The beauty of the hybrid operation is a better control of the profit. Since the lead time required toward breakeven points are different between TKP and Regus, depending upon the progress of the occupancies, we can switch around between the two setups to properly maneuver the operation and better control the profit from that particular location.

As a result of these, our consolidated net sales for the first nine month for this fiscal year resulted in 32,903 million yen (up 2.1% from corresponding figure last year). EBITDA(note) for the same period ended up in 3,032 million yen (up 35.0%) and operating loss came in at 1,114 million yen (operating loss of 1,919 million yen was recorded in the same period last year). Ordinary loss during the period was 1,437 million yen (2,114 million yen of ordinary loss was recorded during the same period last year) and net loss attributable to the owners of the parent company was 2,938 million yen (the loss was 2,856 million yen last year).

(note) EBITDA is calculated by adding depreciation, goodwill amortization, amortization of long-term prepaid expenses, and amortization of intangible assets such as customer-related assets to operating profit/loss.

1) Consolidated performance (Million yen)

	Nine months ended in November 2020	Nine months ended in November 2021	YoY change
Net sales	32,232	32,903	2.1%
EBITDA	2,245	3,032	35.0%
Operating profit (loss)	(1,919)	(1,114)	-
Ordinary profit (loss)	(2,114)	(1,437)	-
Profit (loss) attributable to owners of parent	(2,856)	(2,938)	-

2) Overview of performance by companies

The TKP Group has a single business segment, the space regeneration and distribution business. However, for the reference, TKP and Regus Japan operating results are disclosed separately below.

i) TKP (non-consolidated basis)

(Million yen)

	Nine months ended in November 2020	Nine months ended in November 2021	YoY change
Net sales	17,560	18,291	4.2%
Gross profit	4,144	5,654	36.4%
Sales, General & Administrative Expenses	5,875	5,570	(5.2%)
EBITDA	(1,036)	755	-
Operating profit (loss)	(1,730)	83	-

During the third quarter of this fiscal year (from September 1, 2021 to November 30, 2021), TKP opened four new facilities. Also, as the lease contracts expired, we closed three facilities. As a result, as of the end of November 2021, we operate in 242 locations. The orders for our rental meeting rooms are eventually recovering from October, as the society and economy gradually normalizes. We are also observing the rising demand for actual face-to-face meetings such as training sessions for fresh graduates that are going to be happening in April and onward. This means that we have a certain visibility for next fiscal year. However, as a nature of our business, there are certain time lag between the demand recovery and actual usage of our facilities. Therefore, positive effects to our top line derived from this demand recovery during the third quarter this year was limited. Top line per tsubo, which is one of the KPIs of our rental meeting room business ended up with 24,141 yen, a reduction of 2,513 yen from the same period last year, when the end of the pandemic was expected. Said that, we are experiencing increase in reservations with F&B options nowadays. So, we believe sales per tsubo will eventually recover.

With regard to our hotel operation, namely APA Hotels, which was significantly damaged by the pandemic during the third quarter last year, we have decided to lease out four of them to the relevant authorities. Specifically, they are “APA Hotel Hakata Higashihie Ekimae”, “APA Hotel Sendai Ekikita”, “APA Hotel Fukuoka Tenjin Nishi” and “APA Hotel TKP Nippori Ekimae.” These hotels are block leased and they are being used as treatment and accommodation facilities for mild COVID-19 patients as well as temporary quarantine facilities for the returned travellers back to Japan from foreign countries. These deals with respective authorities are likely to continue until the end of this fiscal year.

As a result of these, sales for the first nine months of this year came in at 18,291 million yen (up by 4.2% from same period last year). Thanks to the fixed cost reduction program, which is continuing from last year, EBITDA turned out to be 755 million yen (we lost 1,036 million yen in EBITDA last year). The operating profit was 83 million yen (we had operating loss of 1,730 million yen last year).

Sales per tsubo for meeting rooms (yen)

	Average in Q1	Average in Q2	Average in Q3
FY ended in Feb. 2021 (A)	24,476	20,255	26,654
FY ended in Feb. 2022 (B)	22,825	29,687	24,141
(B) – (A)	(1,651)	9,432	(2,513)

Note: Sales are the combination of meeting room rental fees and ancillary charges, such as optional and catering fees.

ii) Regus Japan

(Million yen)

	Nine months ended in November 2020	Nine months ended in November 2021	YoY change
Net sales	13,125	13,029	(0.7%)
Gross profit	4,285	2,965	(30.8%)
Sales, General & Administrative Expenses	3,811	3,986	4.6%
EBITDA	2,778	1,230	(55.7%)
Operating profit (loss)	473	(1,020)	-

(note) For calculation of SG&A expenses and operating profit (loss), we added amortization of goodwill & intangible assets such as customer related assets, all related to the acquisition of Regus Japan to SG&A expenses.

During the third quarter of this fiscal year (from September 1, 2021 to November 30, 2021), Regus Japan opened three new facilities. As a result, as of the end of November 2021, we operate in 170 locations.

Since the average contract length is between 12 to 18 months, which is longer than TKP's rental meeting room business, the negative impacts of the pandemic were limited during the same period last year. Although after that, we started to feel the negative impacts and the top line eventually dropped. However, at the end of February 2021, the declining trend had stopped. With the opening of the new facilities, the overall revenue on Regus Japan is on the rising trend recently again.

Anticipating further growth of the flexible office market in the future, we had actively opened up new facilities. With such ambitious move, expenses such as rent payment for the new locations, personnel cost, as well as advertisement and promotion spending, are on the rising trend. As a result, gross profitability had deteriorated. Going forward, we plan to prioritize economical facility opening methods such as sharing start-up costs with property owners or introducing sales-linked rent. These economical methods are not new to us. But we are conducting this more than before. By doing so, initial facility opening cost will be lower.

As a result of these, sales for the first nine months of this year came in at 13,029 million yen (down by 0.7% from same period last year). EBITDA turned out to be 1,230 million yen (down 55.7% from last year). The operating loss, after deducting amortization of goodwill and amortization of customer-related intangible assets (1,697 million yen), was 1,020 million yen (we had operating profit of 473 million yen last year).

As of the end of November 2021, the average occupancy rate of all the Regus Japan's facilities, which is an important KPI, turned out to be 68.5% or down 1.3%-point from the end of August, due greatly to the opening of two large facilities as well as floor expansion at existing facilities.

Occupancy rate trend at Regus Japan

			Q1	Q2	Q3	Q4
Feb. '21	All the facilities		**75.8%**	**71.5%**	**68.5%**	**67.5%**
		Less than two years since opening	17.1%	17.5%	21.4%	29.9%
		More than two years since opening	77.7%	75.4%	73.0%	71.5%
Feb. '22	All the facilities		**67.4%**	**69.8%**	**68.5%**	**-**
		Less than two years since opening	36.2%	43.6%	41.6%	-
		More than two years since opening	71.3%	73.4%	73.1%	-
Y-Y change in all the facilities			**(8.4 pt)**	**(1.7 pt)**	**0 pt**	**-**

(2) Overview of Financial Position

(Current assets)

Current assets as of the end of this quarter dropped by 2,739 million yen from the end of last fiscal year to become 18,633 million yen. Main reason for this is a reduction of cash & deposits by 4,185 million yen.

(Non-current assets)

Non-current assets as of the end of this quarter dropped by 6,908 million yen from the end of last fiscal year to become 88,664 million yen. Main reasons for this include reduction of land by 2,607 million yen, reduction of goodwill by 1,750 million yen, and reduction of customer-related assets by 1,962 million yen.

(Current liabilities)

Current liabilities as of the end of this quarter dropped by 8,205 million yen from the end of last fiscal year to become 18,749 million yen. Main reasons for this include reduction of income taxes payable by 2,873 million yen, and reduction of current portion of long-term borrowings by 4,288 million yen.

(Non-current liabilities)

Non-current liabilities as of the end of this quarter dropped by 6,165 million yen from the end of last fiscal year to become 48,684 million yen. Main reasons for this include reduction of long-term borrowings by 4,821 million yen and reduction of corporate bond by 968 million yen.

(Net assets)

Net assets as of the end of this quarter rose by 4,722 million yen from the end of last fiscal year to become 39,864 million yen. Main reasons for this include an increase in paid-in capital by 3,834 million yen, an increase of capital surplus by 3,835 million yen, and a drop of retained earnings by 2,938 million yen.

(3) Explanation on future outlook including consolidated profit forecast

For the full year forecast, ever since our public disclosure titled “notice concerning profit forecast revision and its announcement” on October 6th, 2021, there is no change. If we need to make additional revisions, we shall disclose accordingly.

2. Consolidated quarterly financial statements and notes

(1) Consolidated quarterly balance sheets

(Million yen)

	Previous fiscal year (Feb. 28, 2021)	First nine months of fiscal year (Nov. 30, 2021)
Assets		
Current assets		
Cash and deposits	15,195	11,010
Accounts receivables	3,318	3,008
Others	2,875	4,643
Allowance for doubtful debts	(17)	(28)
Total current assets	21,373	18,633
Non-current assets		
Property, plant & equipment		
Buildings and structures, net	24,805	24,625
Tools, furniture and fixtures, net	973	928
Land	10,193	7,585
Lease assets, net	2,524	2,364
Construction in progress	219	41
Others, net	18	12
Total property, plant & equipment	38,735	35,558
Intangible assets		
Goodwill	37,102	35,351
Customer related assets	4,945	2,982
Others	148	118
Total intangible assets	42,196	38,452
Investment and other assets		
Investment securities	1,326	1,246
Leasehold and guarantee deposits	9,998	10,080
Deferred tax assets	2,251	2,292
Others	1,064	1,034
Total investments and other assets	14,641	14,653
Total non-current assets	95,573	88,664
Total assets	116,946	107,297

(Million yen)

	Previous fiscal year (Feb. 28, 2021)	First nine months of fiscal year (Nov. 30, 2021)
Liabilities		
Current liabilities		
Accounts payable	706	840
Current portion of corporate bonds	855	1,193
Current portion of long-term borrowings	11,048	6,759
Income taxes payable	3,157	283
Others	11,187	9,672
Total current liabilities	26,955	18,749
Non-current liabilities		
Corporate bonds	3,634	2,665
Long-term borrowings	44,480	39,659
Asset disposition related obligations	2,628	2,525
Lease obligations	1,770	2,029
Deferred tax liabilities	1,510	935
Others	823	868
Total non-current liabilities	54,849	48,684
Total liabilities	81,804	67,433
Net assets		
Shareholders' equity		
Paid-in capital	12,448	16,282
Capital surplus	14,466	18,301
Retained earnings	6,128	3,189
Treasury shares	(17)	(17)
Total shareholders' equity	33,025	37,756
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	277	221
Deferred gains or losses on hedges	(111)	(86)
Foreign currency translation adjustment	28	81
Total accumulated other comprehensive income	194	217
Share acquisition rights	75	49
Non-controlling interests	1,846	1,840
Total net assets	35,142	39,864
Total liabilities and net assets	116,946	107,297

(2) Consolidated quarterly statement of income and comprehensive income sheets

(Quarterly statement of income)

(First nine months of the fiscal year)

(Million yen)

	First nine months (previous) (From March 1, 2020 to November 30, 2020)	First nine months (current) (From March 1, 2021 to November 30, 2021)
Net sales	32,232	32,903
Cost of sales	23,836	24,022
Gross profit	8,396	8,880
Selling, general and administrative expenses	10,315	9,995
Operating profit (loss)	(1,919)	(1,114)
Non-operating income		
Interest income	1	1
Dividend income	4	2
Compensations	230	16
Subsidies	285	136
Others	119	70
Total non-operating income	641	227
Non-operating expenses		
Interest on borrowings	430	410
Interest on corporate bonds	15	12
Commission paid	210	78
Foreign exchange losses	23	6
Others	157	43
Total non-operating expenses	836	550
Ordinary profit (loss)	(2,114)	(1,437)
Extraordinary gains		
Fixed asset disposition gains	740	322
Subsidy for employment adjustment	233	-
Others	100	12
Total extraordinary gains	1,074	334
Extraordinary losses		
Impairment	566	1,869
Evaluation losses on investment securities	180	-
Losses related to COVID-19 pandemic	252	-
Differences from fixed asset disposition obligations	151	-
Others	336	120
Total extraordinary losses	1,486	1,990
Profit (Loss) before income tax	(2,526)	(3,093)
Income taxes	1,003	405
Income taxes – adjustment	(692)	(601)
Total income taxes	311	(195)
Net profit (loss)	(2,838)	(2,898)
Net profit (loss) attributable to non-controlling interests	18	40
Net profit (loss) attributable to owners of parent	(2,856)	(2,938)

(Quarterly comprehensive income sheets)

(First nine months of the fiscal year)

(Million yen)

	First nine months (previous) (From March 1, 2020 to November 30, 2020)	First nine months (current) (From March 1, 2021 to November 30, 2021)
Net profit (loss)	(2,838)	(2,898)
Other comprehensive income		
Valuation difference on other marketable securities	(17)	(55)
Deferred gains or losses on hedges	50	25
Foreign currency translation adjustment	(50)	53
Total other comprehensive income	(17)	22
Comprehensive income	(2,856)	(2,875)
(Breakdown)		
Comprehensive income attributable to owners of parent	(2,874)	(2,915)
Comprehensive income attributable to non-controlling interests	18	40

(3) Notes to the consolidated quarterly financial statements

(notes concerning the going concern assumption)

Not applicable

(notes related to the significant change in shareholders' equity)

During the first nine months for this fiscal year, paid-in capital and capital surplus rose by 3,834 million yen, respectively due to the executions of share acquisition rights (#4 tranche & #7 tranche).

As a result of these actions, our paid-in capital rose to 16,282 million yen and our capital surplus amounted to 18,301 million yen as of the end of this nine-month period.

(additional information)

(Financial covenants)

The financial covenants indicated below were attached to a syndicated loan agreement to us that entered into on September 30, 2014 to finance the capital investment on office buildings and hotel banquet halls. In the event we fail to meet the financial covenants, multiple number of the lenders may request to forfeit the benefit of time or accelerate the repayment clause with respect to all of the obligations associated with the syndicated loan agreement.

(1) Total net assets stated in the non-consolidated balance sheet as of the end of the fourth quarters of fiscal years from the fiscal year ended February 28, 2015 (including the fiscal year ended February 28, 2015) shall be maintained at 75% or more to the value of the total net assets as of the end of the immediately preceding fourth quarter or as of the end of February 28, 2014, whichever higher.

(2) Ordinary profit as of the end of the fourth quarters of fiscal years from the fiscal year ended February 28, 2015 (including the fiscal year ended February 28, 2015) shall not be negative on a non-consolidated basis for two consecutive fiscal years.

(3) The ratio of the total interest-bearing debts recorded at the non-consolidated balance sheets as of the end of the fourth quarters of fiscal years from the fiscal year ended February 28, 2015 (including the fiscal year ended February 28, 2015) divided by non-consolidated EBITDA shall not exceed 7.0 times for two consecutive fiscal years.

		First nine months of this year (November 30, 2021)
Contract amount		¥1,750 million
Balance	Current portion of long-term borrowings	¥214 million
	Long-term borrowings	¥105 million

At the end of the fourth quarter of the fiscal year that ended on February 28, 2021, we did not meet the terms of the financial covenants attached to the syndicated loan mentioned earlier. However, the financial institutions already agreed to waive their claims to forfeit the benefit of time.

The financial covenants indicated below were attached to a syndicated loan agreement we entered into on January 29, 2020 to refinance the funding raised to acquire Regus Japan. In the event we fail to meet the financial covenants, multiple number of the lenders may request to forfeit the benefit of time or accelerate the repayment clause with respect to all of the obligations associated with the syndicated loan agreement.

(1) The consolidated net leverage ratio* shall be below the values outlined in the figure below as of the end of the second and fourth quarters of fiscal years from the fiscal year ended February 29, 2020 (including the fiscal year ended February 29, 2020, and with each being for the most recent 12-month period), with both values remaining positive.

Net leverage ratio: α
Fiscal year ended February 29, 2020: α 6.50
First half ending August 31, 2020: α≦6.25
Fiscal year ending February 28, 2021: α≦6.00
First half ending August 31, 2021: α≦5.75
Fiscal year ending February 28, 2022: α≦5.50
First half ending August 31, 2022: α≦5.25
Fiscal year ending February 28, 2023: α≦5.00
First half ending August 31, 2023: α≦4.75
Fiscal year ending February 29, 2024: α≦4.50
First half ending August 31, 2024: α≦4.25

* Net leverage ratio = (net interest-bearing debt − (accounts receivable + inventories - accounts payable)) / (operating profit + depreciation (including lease depreciation) + goodwill amortization + amortization of long-term prepaid expenses + acquisition-related costs − repayment of lease obligations)

(2) Total net assets stated in the consolidated balance sheet as of the end of the second and fourth quarters of fiscal years from the fiscal year ended February 29, 2020 (including the fiscal year ended February 29, 2020) shall be maintained at 80% or more of the value of total net assets as of the end of the preceding second and fourth quarters, respectively, and at least ¥24.7 billion.

(3) Total net assets stated in the consolidated balance sheet as of the end of the second and fourth quarters of fiscal years from the fiscal year ended February 29, 2020 (including the fiscal year ended February 29, 2020) shall be maintained at 30% or more of total assets for the corresponding periods.

(4) Ordinary profit as of the end of the second and fourth quarters of fiscal years from the fiscal year ended February 29, 2020 (including the fiscal year ended February 29, 2020) shall not be negative on a consolidated basis.

The contract amount and balance of debt under this agreement are outlined below.

		First nine months of this year (November 30, 2021)
Contract amount		¥25,000 million
Balance	Current portion of long-term borrowings	¥2,004 million
	Long-term borrowings	¥13,500 million

At the end of the first half of the fiscal year ending on February 28, 2022, we did not meet the terms of the financial covenants attached to the syndicated loan mentioned earlier. However, the financial institutions already agreed to waive their claims to forfeit the benefit of time.

The financial covenants indicated below were attached to a syndicated loan agreement we entered into on March 31, 2020 to refinance then existing loan agreement. In the event we fail to meet the financial covenants, multiple number of the lenders may request to forfeit the benefit of time or accelerate the repayment clause with respect to all of the obligations associated with the syndicated loan agreement.

(1) The consolidated net leverage ratio* shall be below the values outlined in the figure below as of the end of the second and fourth quarters of fiscal years from the fiscal year ended February 29, 2020 (including the fiscal year ended February 29, 2020, and with each being for the most recent 12-month period), with both values remaining positive.

Net leverage ratio: α
Fiscal year ended February 29, 2020: α 6.50
First half ending August 31, 2020: α≦6.25
Fiscal year ending February 28, 2021: α≦6.00
First half ending August 31, 2021: α≦5.75
Fiscal year ending February 28, 2022: α≦5.50
First half ending August 31, 2022: α≦5.25
Fiscal year ending February 28, 2023: α≦5.00
First half ending August 31, 2023: α≦4.75
Fiscal year ending February 29, 2024: α≦4.50
First half ending August 31, 2024: α≦4.25

* Net leverage ratio = (net interest-bearing debt − (accounts receivable + inventories - accounts payable)) / (operating profit + depreciation (including lease depreciation) + goodwill amortization + amortization of long-term prepaid expenses + acquisition-related costs − repayment of lease obligations)

(2) Total net assets stated in the consolidated balance sheet as of the end of the second and fourth quarters of fiscal years from the fiscal year ended February 29, 2020 (including the fiscal year ended February 29, 2020) shall be maintained at 80% or more of the value of total net assets as of the end of the preceding second and fourth quarters, respectively, and at least ¥24.7 billion.

(3) Total net assets stated in the consolidated balance sheet as of the end of the second and fourth quarters of fiscal years from the fiscal year ended February 29, 2020 (including the fiscal year ended February 29, 2020) shall be maintained at 30% or more of total assets

for the corresponding periods.

(4) Ordinary profit as of the end of the second and fourth quarters of fiscal years from the fiscal year ended February 29, 2020 (including the fiscal year ended February 29, 2020) shall not be negative on a consolidated basis.

The contract amount and balance of debt under this agreement are outlined below.

		First nine months of this year (November 30, 2021)
Contract amount		¥2,500 million
Balance	Current portion of long-term borrowings	¥250 million
	Long-term borrowings	¥1,875 million

At the end of the first half of the fiscal year ending on February 28, 2022, we did not meet the terms of the financial covenants attached to the syndicated loan mentioned earlier. However, the financial institutions already agreed to waive their claims to forfeit the benefit of time.

(Impact of COVID-19 pandemic)

We are currently still experiencing negative impacts from the pandemic including the reduction in demand for rental meeting rooms as well as accommodations / food & beverages. As a result, our financial position, business performance and cash flows were negatively affected. Although the overall economy is gradually recovering from the large-scale economic recession during the first round of state of emergency which was issued in April 2020, the outlook for the economy to our future business performance remains unclear.

Amid such environment, based upon currently available information and intelligence, we assume that although we are going to be negatively impacted during the course of this fiscal year, the pandemic will be eventually subdued toward the end of February 2022. Alongside with this, we also assume that our own business performance will improve.

Based on these assumptions, we estimated future cash flows—an important component of accounting estimates—with regard to impairment losses on non-current assets (including goodwill). As a result, we booked an impairment loss on non-current assets of 1,761 million yen during the first half of the year ending on February 28, 2022. In addition to that, we decided to impair additional 108 million yen for non-current assets. Therefore, the impairment amount for the entire three quarters of the year turned out to be 1,869 million yen.

These assumptions are subject to a high degree of uncertainty, and if the COVID-19 pandemic takes longer to subside due possibly to the variants or others, and if the negative impacts to us prolongs, we may record additional impairment losses in the future.

(sub-segment information)
Details are omitted since we have only one segment, which is space regeneration and distribution business.

(Significant subsequent events)
Not applicable

3. Others

Significant events regarding premise of going concern, etc.

In the first nine months of the fiscal year ending February 28, 2022 (from March 1, 2021 to November 30, 2021), the TKP Group posted an ordinary loss of 1,437 million yen due to impact of the COVID-19 pandemic. There are events or conditions that raise significant doubts regarding the Group's ability to continue as a going concern. Although at the end of the first half of this fiscal year, we did not meet the terms of the financial covenants attached to some of the syndicated loans. However, the financial institutions already agreed to waive their claims to forfeit the benefit of time.

In addition to the new business opportunities, uniquely arose from the pandemic, such as university entrance examinations at our locations, online seminars / workshops, as well as live streaming of AGMs, we are already beginning to observe mild recovery in our orders, driven from the fact the state of emergency declarations and quasi state of emergency declarations were lifted from October 2021. Furthermore, to further stabilize our financial background, we have agreed to commitment line contracts and overdrafts contracts with our commercial bankers. We have already sold certain number of properties and issued share subscription rights by way of third-party allotment. With all of these efforts, we have already secured cash & deposits, as well as financial availabilities, far exceeding our 12 month working capital requirements.

Therefore, the TKP Group firmly believe that significant uncertainty regarding the premise of its going concern is not justified.