



Chairman & CEO Hiroshi Iida

I.K CO., Ltd(2722)



Company Information

Market	Tokyo stock exchange 1st section and Nagoya stock exchange 1st section
Industry	Retail Business (Commerce)
Chairman & CEO	Hiroshi Iida
HQ Address	KDX Nagoya Station Building 5F, 3-26-8 Meieki, Nakamura-ku, Nagoya-shi, Aichi
Year-end	End of May
Homepage	https://www.ai-kei.co.jp/en

Stock Information

Share Price	Shares Outstanding		Total market cap	ROE (Act)	Trading Unit
¥372	8,308,000 shares		¥3,090 million	10.1%	100 shares
DPS (FCST)	Dividend yield (FCST)	EPS (FCST)	PER (FCST)	BPS (Act)	PBR (Act)
¥12.00	3.2%	¥-67.27	-x	¥451.96	0.8x

*The share price is the closing price on January 21. Each figure and number of shares outstanding (including treasury stock) were taken from the financial results for second quarter of fiscal year ending May 2022.

*Market cap was calculated by multiplying the closing price on Jan. 21 by the number of outstanding shares. ROE, BPS, and PBR were taken from the financial results for the term ended May 2021. The figures were rounded.

Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
May 2018 (Act)	18,337	898	899	641	86.07	10.00
May 2019 (Act)	17,614	431	437	238	31.85	12.00
May 2020 (Act)	18,483	590	623	384	52.19	12.00
May 2021 (Act)	20,754	705	730	321	42.60	12.00
May 2022 (FCST)	16,500	-134	-120	-528	-67.27	12.00

*Unit: million yen. The estimated values are those announced by the Company.

The financial statement for the second quarter of fiscal year ending May 2022 and many more about I.K Co., Ltd. will be described.

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Key points

- In the second quarter of the fiscal year ending May 2022, sales dropped, and operating income fell into the red. Sales decreased 26.4% year on year to 8,162 million yen. The sales of the Sales Marketing Business declined 747 million yen year on year, being in line with the forecast, but the sales of the Direct Marketing Business dropped considerably by 2,207 million yen year on year, falling below the forecast. Operating income dropped 850 million yen year on year to negative 315 million yen. Due to the sluggish performance of TV shopping, which is a highly profitable business in the Direct Marketing Business segment, gross profit margin dropped 5.0 points year on year to 47.6%. In addition, the ratio of SG&A increased 3.6 points year on year due to the drop in sales.
- The earnings forecasts for the fiscal year ending May 2022 have been downwardly revised twice, and it is expected that sales will be 16.5 billion yen and operating loss will be 134 million yen. In the second half, operating income/loss is expected to recover from the downturn in the first half, but remains in the red. The performance of the Sales Marketing Business is projected to be unchanged from the previous term, thanks to the stable revenues from co-op stores and mail-order, etc. The Direct Marketing Business is projected to be stagnant, because there will be no hit products in the current term as the company will revise its marketing strategy. The company will pay a dividend of 12.00 yen/share, to achieve a payout ratio of 20%.
- Regarding TV shopping, some products had an MR (sales/media costs) of 2 or higher, but there were few hit products, so the performance in the current term is sluggish. Some young people ceased to watch TV, but the target customers of TV shopping are in their 50s to 70s, and the demand from them is expected to remain strong, so the key is whether they will be able to create a lot of hit products through test marketing. In addition, we would like to pay attention to whether they can improve the ratio of subscription sales for stabilizing the revenues from the TV shopping business and whether they can develop all-season products without relying on seasonal products.

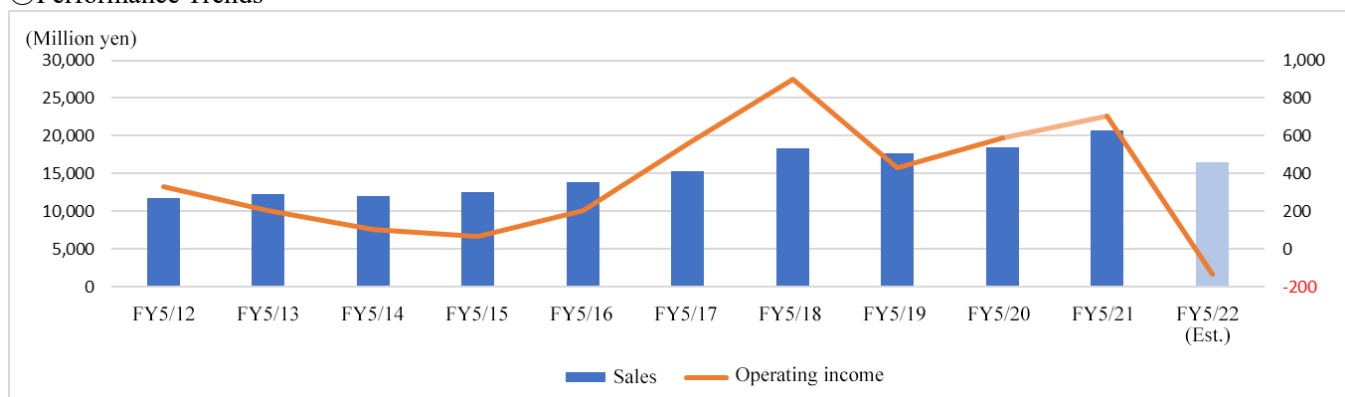
1. Company Overview

I.K Co., Ltd. is a “marketing manufacturer,” which conducts integrated business activities including product planning, manufacturing, selling and distribution through its original promotion strategy.

The company operates the three businesses: the “Direct Marketing Business,” to sell sundries, food products, and cosmetics via TV shopping, EC, and shops to consumers, the “Sales Marketing Business,” to sell products via various routes, including co-op stores, mail-order companies, shops, overseas channels, etc., and the “IT Solutions Business,” to offer IT solutions for developing and selling systems.

The company strives to establish a group management to make all stakeholders its fans by promoting “the increase of fans” as its corporate philosophy.

◎Performance Trends



1-1 Corporate History

After spending his high school and college days in a “freewheeling” school environment, Mr. Hiroshi Iida (present chairman and CEO), who had a strong entrepreneurial spirit from the beginning, worked for a nonlife insurance company and went on to establish I.K Ltd. in May 1982. While working on the sales of various products, he opened an account of Aichi CO-OP Union in April 1983 on getting favors from people in charge of sales and started trading with occupational co-ops.

As the sales of flyers about a rechargeable cleaner, the first product, became a major hit, the horizontal expansion to other co-ops progressed, the number of items handled also increased and the business expanded rapidly. It got listed on the JASDAQ market in December 2001.

Due to the increase in recognition and reliability after the listing, the company began supplying products to the mail-order systems of department stores and retailers in a full-fledged manner, steadily expanding sales outlets, and achieved sales increases for 25 consecutive terms until the fiscal year ended May 2007.

However, as the Lehman’s bankruptcy put the growth at halt, the company shifted to a “marketing manufacturer” that conducts integrated business activities including product planning, manufacturing, sales and distribution of products on its own using a unique promotion strategy and established “B to C channels” in addition to “B to B to C” to offer its products directly to customers, which allowed it to return to the growth track once again.

The company is actively putting efforts in M&A such as making Prime Direct Inc., a major company for television shopping, into a wholly owned subsidiary in September 2014.

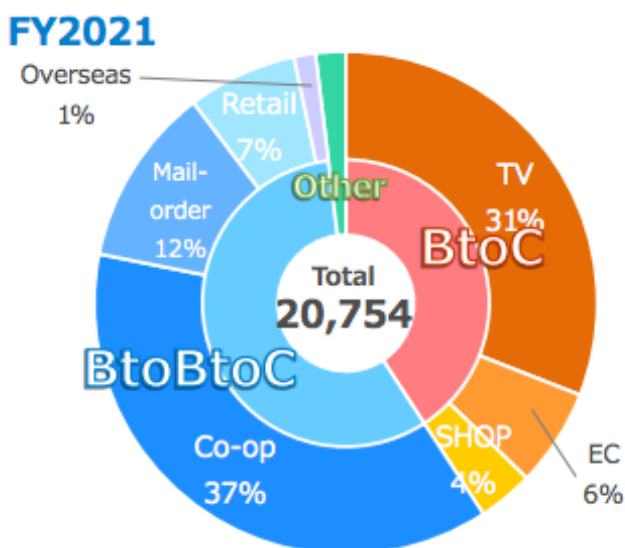
1-2 Management Philosophy

Increase of fans	What they should pursue to become a leading company in the 21 st century is not the amount of sales, capital or the number of employees. When they look ahead 100 years, they consider that making more and more people their “fans” will lead to prosperity for the company, therefore, they set “increase of fans” as the company’s management philosophy with a goal of “making all people involved in I.K Co., Ltd its fans.”
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1-3 Business Description

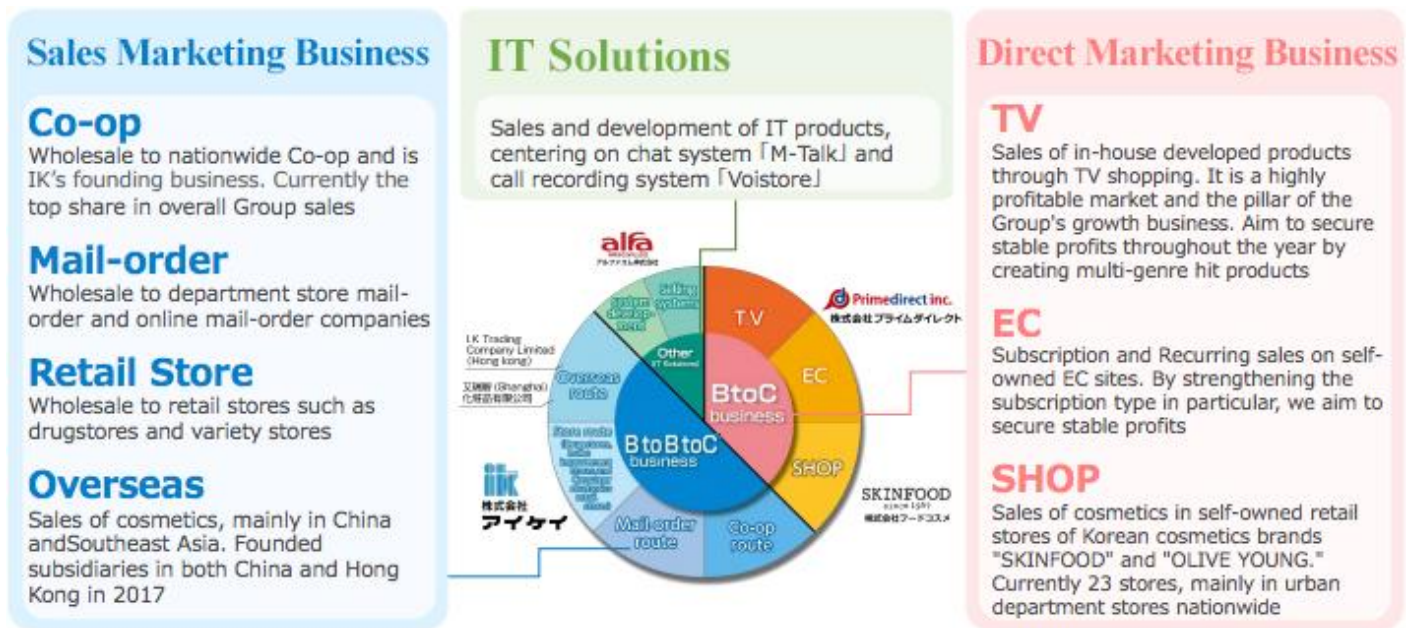
(1) Segments

In the fiscal year ending May 2022, the company changes the names of the business segments to Direct Marketing (former B-to-C) Business, Sales Marketing (former B-to-B-to-C) Business, and IT Solutions (former Other) Business in an effort to describe the details of its businesses more appropriately in the course of pursuing a business model of a marketing manufacturer.



(Note: Sales by channel are presented under the former segment names for FY 5/21.)

BRIDGE REPORT



(Source: The company)

① Direct Marketing (former B-to-C) Business: Retail

The subsidiary, Primedirect Inc. offers products directly to consumers via websites and TV shopping slots, while the subsidiary Food Cosmetic Co., Ltd. sells SKINFOOD, which is a product of a South Korean cosmetic brand, and OLIVE YOUNG at shops. The total number of shops as of the end of November 2021 was 21, including 17 directly managed shops and 4 franchised ones, which are located mainly in station buildings of major cities in Japan. The company opened two stores of the new South Korean cosmetics brand OLIVE YOUNG PB COSMETICS.

② Sales Marketing (former B-to-B-to-C) Business: Wholesale

The cosmetics, apparel goods, shoes, bags, products related to beauty and health, etc. designed and developed by the company as a manufacturer are offered to consumers through various routes, including co-op stores, mail-order companies, shops, and overseas channels.

(Major Sales Routes)

Co-op route	Co-op Sapporo, Co-op Tohoku Sun Net Business Union, Co-op deli Consumer's Co-operative Union, Palsystem Consumer's Co-operative Union, Tohto Co-op, U Co-op, Tokai Co-op Business Union, Co-op Kinki Business Union, Co-op Kobe, Co-op Chugoku Shikoku Business Union, Co-op Hokuriku Business Union, Green Co-op Union, Co-op Kyushu Business Union, All School Co-operative Unions in Japan, Aichi Co-op Union, Japan Consumer's Co-operative Union, etc.	
Mail-order route	Takashimaya Co., Ltd., Isetan Mitsukoshi Ltd., Dinos Corporation Co., Ltd., Cecile Co., Ltd., Belluna Co. Ltd., Senshukai Co., Ltd., Nissen Co., Ltd., Aeon Retail Co., Ltd., au Commerce & Life, Inc., ABC Media Communications, JAF Service, JALUX Inc., East Japan Railway Trading Co., Ltd., Shogakukan-Shueisha Productions Co., Ltd., QVC Japan, Inc., Ropping Life, Nihon Bunka Center Co., Ltd., Zenkokutsuhan Co., Ltd., Japan Green Stamp Co., Ltd., Shaddy Co., Ltd., Television Shopping Kenkyujo Co., Ltd., Yamachu Co., Ltd., LightUp Shopping Club Inc., TV Tokyo Direct Inc., Credit Saison Co., Ltd., Japan Post Trading Service Co., Ltd., etc.	
Store route	Variety type	Don Quijote Co., Ltd., Nagasakiya Co., Ltd., UD Retail Co., Ltd., Loft Co., Ltd., cosme next Co., Ltd., Tokyo Dome Co., Ltd., Izumi Co., Ltd., Tokyuhands Co., Ltd., etc.
	Drug store type	MatsukiyoCocokara & Co., Tsuruha Holdings Co., Ltd., Create SD Co., Ltd., Ain Pharmaciez Co., Ltd., Sundrug Co., Ltd., Sugi Holdings Co., Ltd., AEON Retail Co., Ltd., Daikoku Corporation, etc.
	Home Center type	Komeri Co., Ltd., Cainz Co., Ltd., etc.

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	Home appliance type	Yamada Denki Co., Ltd., Biccamera Co., Ltd., Yodobashi Camera Co., Ltd, etc.
Overseas route	China, Taiwan, Hong Kong, Vietnam, Thailand, and Indonesia etc.	

③ IT Solutions (former Other) Business

The subsidiary AlfaCom, Ltd. sells systems for the establishment of contact centers, such as the voice call recording system “Voistore,” the business version of LINE “LINE WORKS,” the chat system “M-Talk,” etc.

(2) Main Products Developed by the Company

As a marketing manufacturer, the company develops products in various genres in house.

<<Healthcare>>



Locox Shapoline

(Source: The company)



Aged Black Garlic



Core Lounge Ultra



Tear Grass Series

<<Beauty>>



LB Series

(Source: The company)



Cocoegg Series



OLIVE YOUNG



LUXER Medical Use Deep Line White Serum

<<Entertainment >>



Speed Heat Thermal Vest

(Source: The company)



Manuka Honey Almond



Large Size Cushion Pillow Mochilax

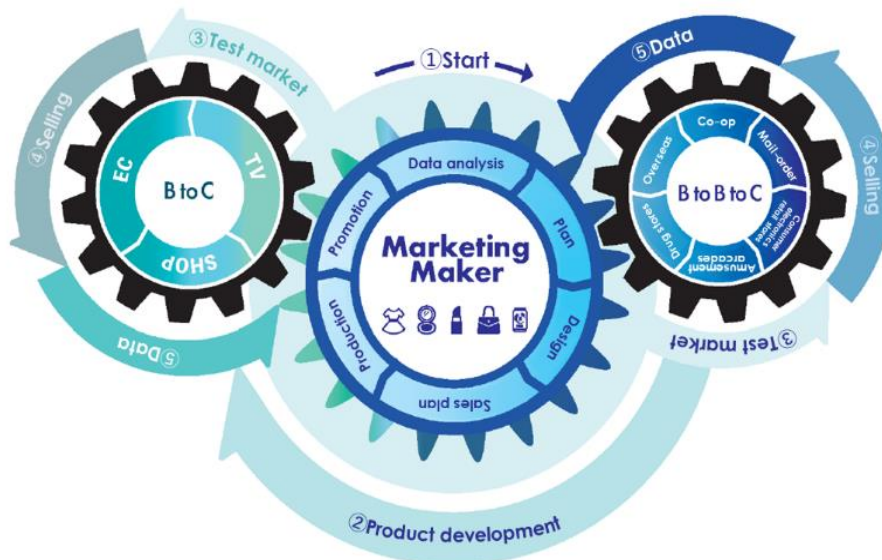


Mashed Sweet Potatoes with Sweetened Chestnuts Kudzu Starch Cake

1-4 Characteristics and strengths: Business model as a marketing manufacturer

The primary point characterizing the company is a business model as a "marketing manufacturer" which conducts integrated business activities including planning, manufacturing, sales, and distribution of products on its own with a unique promotion strategy.

The company’s business model is composed of the following 3 functions.



I.K Co., Ltd. is a “marketing manufacturer,” which conducts integrated business activities including product planning, manufacturing, selling and distribution through its original promotion strategy.

(1) Powerful product development, discovery, and procurement

The company is developing, discovering and procuring attractive products by taking advantage of information gained from a wide range of sales channels and experiences cultivated over 30 years. The "Development Approval Conference" is held once a week, and three teams of cosmetics, sundries and food with 7 to 8 members in each team, propose new products to officers and people in charge of sales.

In their company where challenges are valued, each team proposes an average of 10 or more items each month based on freewheeling ideas, but not everything is approved.

The company has set "10 rules for development," which stipulates "emphasis on originality" and "thorough differentiation" regarding product development, and the proposed product is strictly criticized based on them, and homework is given out sometimes. However, these processes train the staff members in charge of development and are leading to further enhancement of product development capabilities.

(2) High marketing ability

“High marketing ability” is playing a major role in developing a hit product.

Test marketing is conducted using various sales channels to check whether candidate products actually sell well. By making innovations in various aspects such as package, timing, target and price and conducting new promotions, the company has been creating many hit products.

(3) Various sales channels

Rather than just proposing products to the various sales outlets mentioned above, they propose the best ways of selling and showcasing in other sales channels together with successful stories of those channels.

They blend ideas unique to I.K co., Ltd. with the needs and feedbacks of customers and brush them up daily.

It is a major feature of the company that it provides all solutions, which fit the sales channels, to customers including product selection, catalog and medium creation, quality control, order reception, logistics and customer service.

Solutions	Outline
Creation	Create a flyer/catalogue sized paper tailored to the project

Order reception	They have a flexible core system that can handle all order reception styles such as calls, emails, FAX and post cards with which it performs order receiving work faster and more accurately.
Quality control	In addition to preparing for compliance, they set voluntary standards for each product category, and they check the products to prevent complaints.
Logistics	They provide individual delivery service from their own distribution center to the end user, keeping in mind the five keywords: sorting, setting in order, cleaning, hygiene, discipline.
Customer Service	In-house staff members provide one-stop services such as responding to inquiries about products, delivery and exchange, and after sales services at the call center.

While many other companies in the same industry specialize in planning and marketing of products, have only stores as their sales channels, and outsource manufacturing and distribution work to other companies, the company can execute a unique promotion strategy that they cannot imitate as the company can respond flexibly with the system and know-how.

1-5 ROE Analysis

	FY 5/14	FY 5/15	FY 5/16	FY 5/17	FY 5/18	FY 5/19	FY 5/20	FY 5/21
ROE (%)	-2.3	-3.4	4.9	25.0	29.0	9.1	14.0	10.1
Net income margin (%)	-0.29	-0.40	0.53	2.79	3.50	1.35	2.08	1.55
Total asset turnover [times]	2.74	2.75	2.93	3.04	3.19	2.69	2.61	2.84
Leverage [times] (x)	2.91	3.07	3.18	2.95	2.60	2.51	2.59	2.29

The return on equity (ROE) deteriorated in the fiscal year ended May 2021 because net income margin shrank due to posting of an extraordinary loss of 173 million yen. The net income margin for the fiscal year ending May 2022 is forecasted to decrease to -3.2% due to Impact of the decline in TV shopping.

2. Second Quarter of Fiscal Year ending May 2022 Earnings Results

(1) Consolidated Business Results

	2Q of FY 5/21	Ratio to Sales	2Q of FY 5/22	Ratio to Sales	YoY
Sales	11,091	100.0%	8,162	100.0%	-26.4%
Gross Profit	5,835	52.6%	3,882	47.6%	-33.5%
SG&A	5,301	47.8%	4,198	51.4%	-20.8%
Operating Income	534	4.8%	-315	-	-
Ordinary Income	534	4.8%	-297	-	-
Net Income	323	2.9%	-598	-	-

*Unit: million yen. Net income is profit attributable to owners of parent.

Sales dropped, and an operating loss was posted.

Sales decreased 26.4% year on year to 8,162 million yen. The sales of the Sales Marketing Business declined 747 million yen year on year, being in line with the forecast, but the sales of the Direct Marketing Business dropped considerably by 2,207 million yen year on year, falling below the forecast. Operating income dropped 850 million yen year on year to negative 315 million yen. Due to the sluggish performance of TV shopping, which is a highly profitable business in the Direct Marketing Business segment, gross profit margin dropped 5.0 points year on year to 47.6%. In addition, the ratio of SG&A increased 3.6 points year on year due to the drop in sales.

BRIDGE REPORT



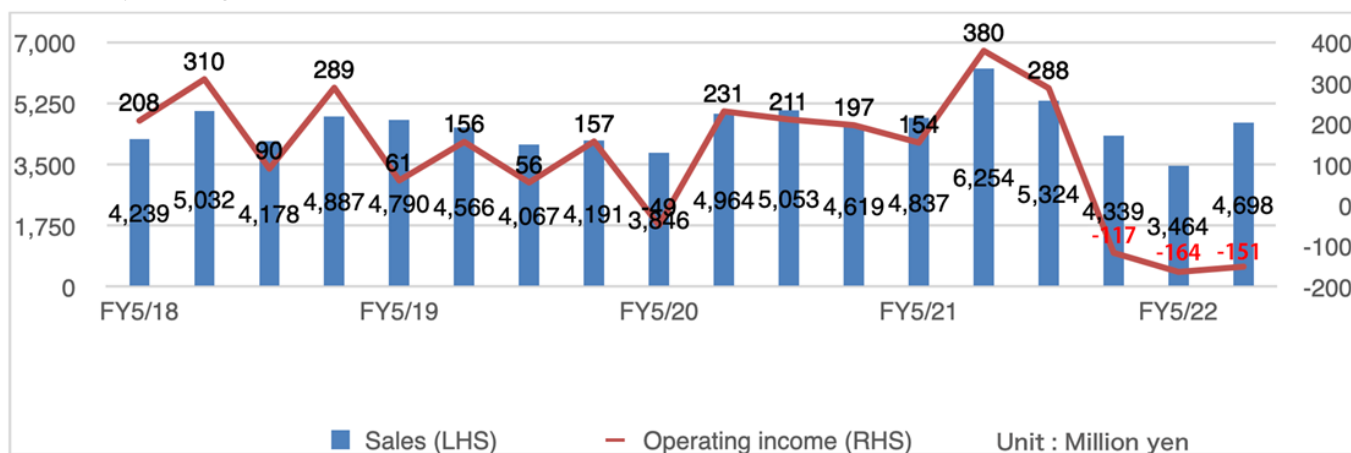
(Variation in Selling, General and Administrative Expenses)

	2Q of FY 5/21	Ratio to sales	2Q of FY 5/22	Ratio to sales	YoY
Labor cost	760	6.9%	758	9.3%	-0.3%
Advertising cost	2,455	22.1%	1,833	22.5%	-25.3%
Packing and freight expenses	898	8.1%	744	9.1%	-17.1%
Total SGA	5,301	47.8%	4,198	51.4%	-20.8%

*Unit: million yen.

Since the response of major customers to TV shopping was not good, the company decreased broadcast slots, so advertising cost decreased considerably by 25.3% year on year. Labor cost was unchanged, but the ratio of labor cost to sales rose 2.4 points due to the drop in sales. The company is striving to reduce packing and freight expenses, but due to the drop in sales, the ratio of packing and freight expenses to sales increased 1.0 point.

©Quarterly Earnings



(2) Trend of each segment

	2Q of FY 5/21	Ratio to Sales	2Q of FY 5/22	Ratio to Sales	YoY
Sales					
Direct Marketing Business	4,989	45.0%	2,782	34.1%	-44.2%
Sales Marketing Business	5,920	53.4%	5,173	63.4%	-12.6%
IT Solution Business	181	1.6%	206	2.5%	+13.8%
Total	11,091	100.0%	8,162	100.0%	-26.4%
Operating income					
Direct Marketing Business	364	7.3%	-449	-	-
Sales Marketing Business	132	2.2%	122	2.4%	-7.6%
IT Solution Business	17	9.6%	8	4.1%	-52.9%
Adjustments	20	-	4	-	-
Total	534	4.8%	-315	-	-

*Unit: million yen. Composition ratio of operating income is operating income margin.

① Direct Marketing Business

Sales dropped, and an operating loss was posted.

In TV shopping, the company started the sales promotion of Speed Heat Thermal Vest 2021, which is a core winter product, in mid-September 2021, but its sales significantly fell below the initial forecast, due to the unusually warm weather that lingered until mid-November. In addition, the performance of Step 8 (a stepladder that can change in eight ways according to place), Air Yawn (a bed that inflates automatically), etc. was sluggish compared with the same period of the previous fiscal year. Furthermore, the operation of SKINFOOD stores was still affected by the voluntary restraint of going out for preventing the spread of Covid-19, and the number of visitors to the stores decreased. The total sales of the Direct Marketing Business dropped 2,207 million yen to 2,782 million yen.

As gross profit margin decreased 3.1 points year on year, the total operating income of the Direct Marketing Business dropped 813 million yen year on year to negative 449 million yen.

② Sales Marketing Business

Sales and profit declined.

The sales from the co-op channel, which is their revenue base, decreased slightly year on year, as housebound consumers' demand for food products amid the Covid-19 pandemic subsided. Regarding miscellaneous goods, the sales of the private-label products, Egg Cosmetics Series, have been healthy since the start of sales promotion, but the total sales via the co-op channel decreased year on year. The sales via other sales channels dropped year on year, too. The total sales of the Sales Marketing Business decreased 747 million yen year on year to 5,173 million yen. As the ratio of private-label products rose and the ratio of SG&A decreased, operating income was 122 million yen, down only 10 million yen year on year.

③ IT Solutions Business

Sales grew, but profit dropped.

Sales increased, as the company made continuous efforts to enhance the marketing for the chat system M-Talk. Regarding profit, operating income decreased, as the ratio of SG&A rose.

(3) Financial condition and cash flow

◎Main BS

	End of May 2021	End of Nov 2021		End of May 2021	End of Nov 2021
Current Assets	6,230	6,919	Current Liabilities	2,614	3,856
Cash	800	812	Payables	1,007	1,162
Receivables	2,800	2,969	ST Interest Bearing Liabilities	570	1,508
Inventories	1,947	2,482	Noncurrent liabilities	1,055	1,132
Noncurrent Assets	996	948	LT Interest Bearing Liabilities	737	817
Tangible Assets	361	380	Total Liabilities	3,669	4,988
Intangible Assets	157	135	Net Assets	3,557	2,879
Investment, Others	476	432	Retained Earnings	2,400	1,707
Total Assets	7,226	7,868	Total Liabilities and Net Assets	7,226	7,868
*Unit: million yen.			Balance of Debts	1,308	2,326
			Capital adequacy ratio	49.0%	36.3%

Due to the increase in inventory assets, total assets rose 641 million yen from the end of the previous term to 7,868 million yen. Due to the augmentation of short and long-term interest-bearing liabilities, etc., total liabilities grew 1,319 million yen from the end of the previous term to 4,988 million yen. Due to the decline in retained earnings, etc., net assets decreased 678

million yen from the end of the previous term to 2,879 million yen. Equity ratio decreased 12.7 points from the end of the previous term to 36.3%.

◎Cash Flow

	2Q of FY 5/21	2Q of FY 5/22	Increase/ Decrease
Operating cash flow	77	-708	-785
Investing cash flow	-74	-205	-130
Free cash flow	2	-913	-916
Financing cash flow	0	925	+925
Cash and equivalent	801	986	+184

*Unit: million yen.

Free cash flow dropped, because net profit fell into the red.

Financing cash flow grew considerably, due to the increase in short-term interest-bearing liabilities. The cash position declined.

3. Fiscal Year ending May 2022 Earnings Forecasts

(1) Full-year earnings forecast

	FY 5/21	Ratio to sales	FY 5/22 (Current)	Ratio to sales	YoY	FY 5/22 (Previous)
Sales	20,754	100.0%	16,500	100.0%	-20.5%	18,360
Operating Income	705	3.4%	-134	-	-	437
Ordinary Income	730	3.5%	-120	-	-	464
Net Income	321	1.5%	-528	-	-	220

*Unit: million yen. The estimated values are those announced by the company.

It is forecast that sales will decrease, and an operating loss will be posted.

For the fiscal year ending May 2022, it is expected that sales will be 16.5 billion yen and operating loss will be 134 million yen. The initial forecast, which called for sales of 22 billion yen and an operating income of 880 million yen, has been revised downwardly twice. In the second half, operating income/loss is expected to recover from the downturn in the first half, but remains in the red. The performance of the Sales Marketing Business is projected to be unchanged from the previous term, thanks to the stable revenues from co-op stores and mail-order, etc. The Direct Marketing Business is projected to be stagnant, because there will be no hit products in the current term as the company will revise its marketing strategy. The company will pay a dividend of 12.00 yen/share, to achieve a payout ratio of 20%.

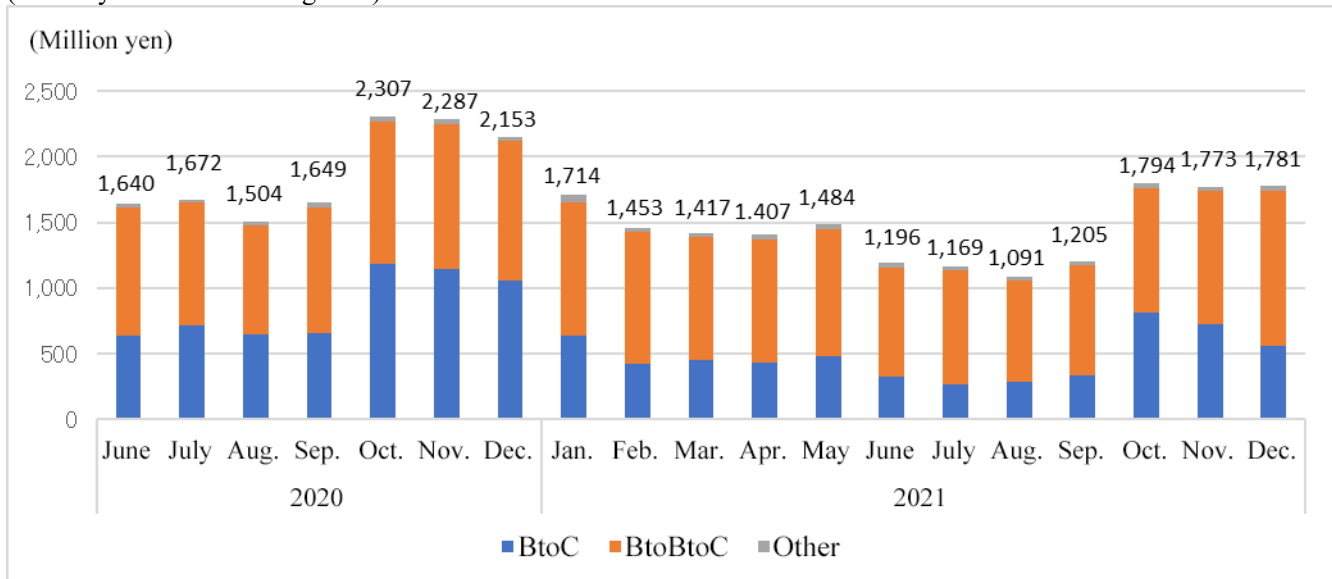
(2) Trend of each segment

*Sales forecast for each segment

	FY 5/21	Ratio to Sales	FY 5/22 (FCST)	Ratio to Sales	YoY
Direct Marketing Business	8,467	40.8%	4,965	30.1%	-41.4%
Sales Marketing Business	11,885	57.3%	11,090	67.2%	-6.7%
IT Solutions Business	402	1.9%	445	2.7%	+10.7
Total	20,754	100.0%	16,500	100.0%	-20.5%

*Unit: million yen.

(Monthly sales for each segment)

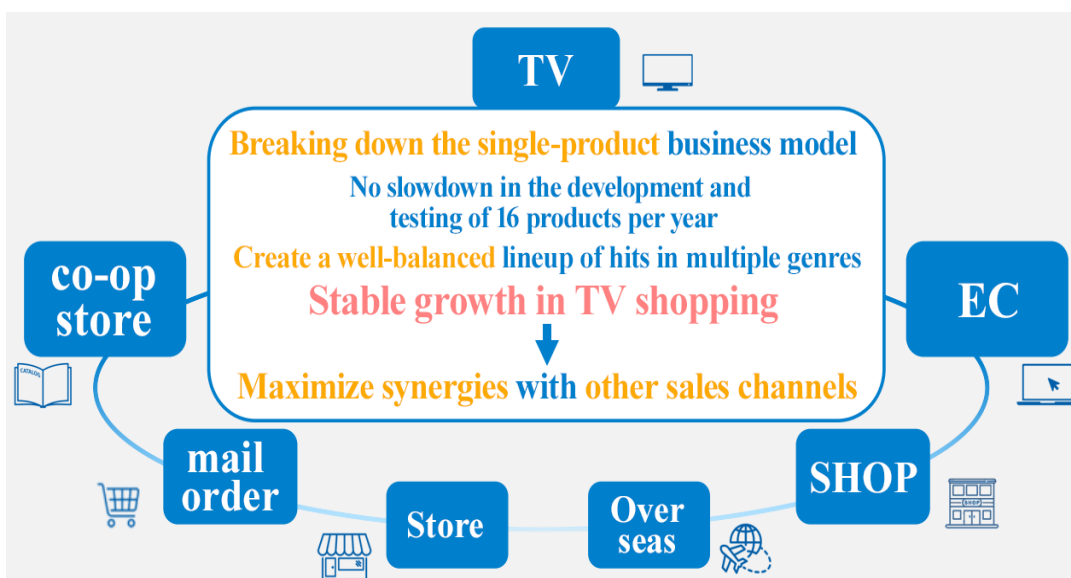


4. Future Strategy

(1) Direct Marketing Business

①TV shopping

The company will stably grow TV shopping, which is recognized as a growth engine. TV will contribute to profit significantly.



(Source: The company)

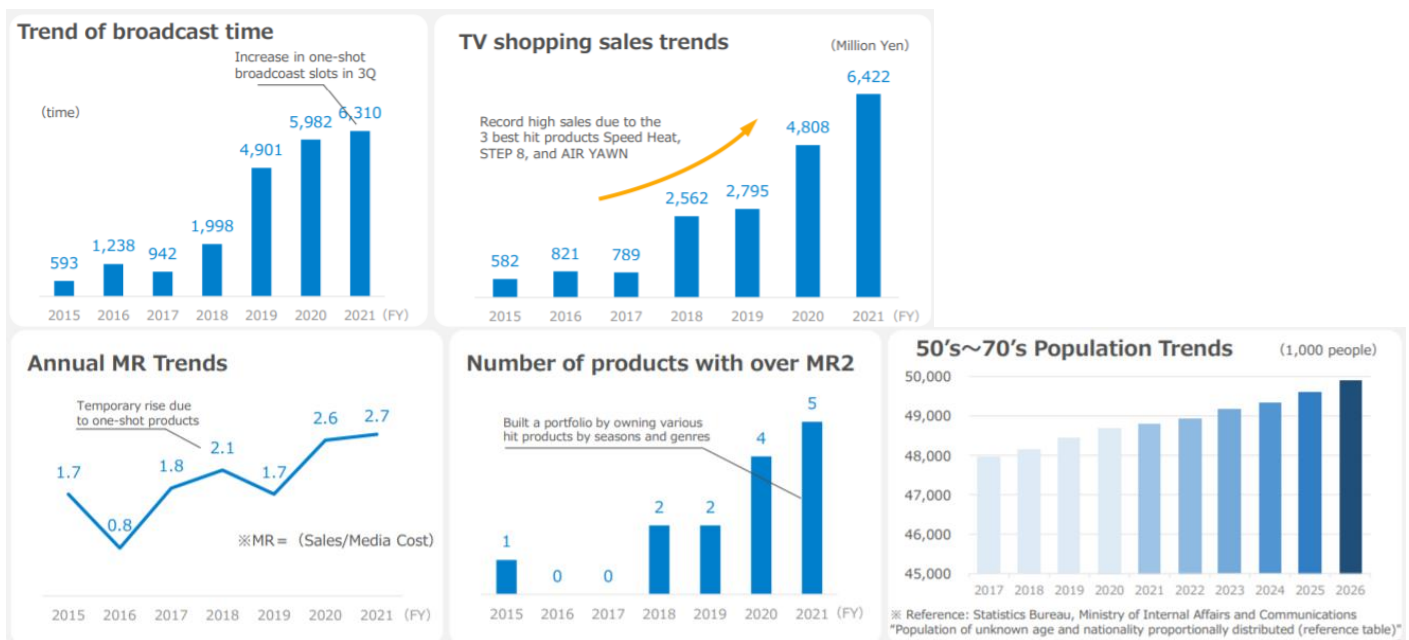
Future trend of TV shopping

The indicator MR (Note) that indicates the sales efficiency of TV shopping rose on a yearly average for the second consecutive term, and the number of products with an MR of two and over is growing.

TV shopping are targeted at consumers in their 50s to 70s whose number will continue to be on the rise for the next few years. Some young people ceased to watch TV, but the target customers' demand for TV is expected to remain strong. From now on, the company will conduct test marketing for 16 items per year, have five to six hit products, optimize TV shopping slots, and continue investment in TV shopping as a promising business of the corporate group.

Note: MR is an indicator of sales efficiency of TV shopping, and is calculated by dividing sales by media costs. The break-even point is 2, and as MR is larger, TV shopping contributes to earnings more.

BRIDGE REPORT



(Source: The company)

In the first half of the current term, there were no hit products, and sales were stagnant, but in the second half, the company will promote the products that burgeoned in the first half and continue test marketing to catch up in TV shopping.

Priority strategies

By conducting test marketing for 16 or more items per year, they will create hit items.

They will optimize TV slots according to the characteristics of each product and reproduce the promotional videos of existing products, to maximize the response from customers.

Shift from selling-out to subscription

To stabilize the TV shopping business, the company will shift its product development policy from selling-out to subscription.

Not to rely on seasonal products

The company will develop mainly all-season products rather than seasonal ones among products to be sold out.

②E-commerce

The company aims to maximize profit by using EC as a tool for receiving orders in TV shopping while pursuing synergy with TV. In addition, the company will establish a department specializing in EC and start promotion and product development exclusively for EC this term, to enter the EC market on a full-scale basis.

Priority Strategy

As a tool for receiving orders in TV shopping, the company aims to realize optimization.

The company will promote products introduced uniquely in TV shopping for EC and conduct sales promotion via Rakuten and Amazon.

The company will continue product development for subscription in EC, to develop a recurring-revenue base.

③Shops

In addition to SKINFOOD, the company will focus on selling products of OLIVE YOUNG that the company started to sell last year.

As the flow of people is recovering little by little, the company aims to expand in-shop sales while concentrating on the increase of EC sale.

Priority Strategy

The company will lead customers of the physical SKINFOOD stores to the SKINFOOD website, and vice versa.

To start wholesale of private-label cosmetics of OLIVE YOUNG.

To start handling new South Korean cosmetic brands.

To establish a position as a general Japanese agency for South Korean cosmetics.

(2) Sales Marketing Business (co-op, mail-order, retail stores, and overseas)

In the Sales Marketing Business, the company aims to secure stable revenues as a group-wide revenue base.

In the previous term, the co-op and mail-order business grew by meeting the demand from housebound consumers, but from now on, the business will grow stably.

◎ New Growth Strategy for Miscellaneous Goods and Cosmetics

The company will proceed with product development in promising genres, such as bedding and interior goods, while strengthening products used for going out, such as apparel and shoes. The company plans to increase wholesale to TV media, which performed well in the first half. Regarding cosmetics, the performance of skincare products was severely affected by the Covid-19 pandemic, but the demand for base makeup is still growing.

◎ Expansion of Profit in the Food Product Business

The sales of the food product business, which increased considerably due to the Covid-19 in the previous term, declined slightly from last year this term. The company will strengthen the confectionery genre, which has a high profit margin, and strive to increase sales of wellness products for health and immunity.

◎ Improvement in Sales Efficiency of the Retail Store Business


The company will switch from direct wholesale to retailers to wholesale via wholesalers, to improve sales efficiency and expand sales channels.

While the restrictions on going out are being lifted, this business can be said to have significant room to grow.

(3) Noteworthy product

Rakuraku My Cart Ecoca

When the company released it in Makuake, a site for supportive purchase, it was swamped with orders, and the supportive purchase amount reached around 13 million yen in less than a month. Ecoca is a privately owned shopping cart with which users can move goods easily from a supermarket to their automobile and from their automobile to their house. The advertisement via TV started in the second quarter of the fiscal year ending May 2022, and sales are healthy. The company will sell it through multiple channels, including co-op shops, mail-order, and retail stores.



Rakuraku My Cart
Makes your regular shopping
EcoCa **Raku!**
Foldable Shopping Cart

Popularity on TV

Pleasant!

Sold out twice in about a month due to overwhelming orders. / It was a massive hit at Makuake, a service site for supporting purchases.

(Source: The company)

(4) Roadmap for releasing new products

As various regulations will be eased, the company will adjust product development genres. Since there are various risks, including the risk of spread of the Omicron variant of the Covid-19, the company will strive to develop a portfolio of products, always including hit products in multiple genres.



(Source: The company)

◎ Medium-Term Business Plan

The company made its medium-term business plan, which it had never disclosed, available to the public for the first time. It adopted new management indicators, which are EBITDA after adjustment and Cash Conversion Cycle (CCC), in the current business plan.

(1) Purpose

I.K. Co., Ltd. improves customers' life satisfaction and realize a sustainable society through its products.

The company pursues harmony with the global environment as its product development policy, which the company has worked on for the past 24 years.

(2) Strengths

① Extensive data amassed through the relationship with customers for the past 40 years.

I.K. Co., Ltd. has cultivated extensive data and experiences through contact with customers and product distribution for the last 40 years since its establishment.

The company is capable of delivering the products desired in daily life to as many customers as possible in a prompt manner and through an appropriate distribution route by swiftly grasping the social trend and combining marketing and promotion according to the trend.

② The corporate group's main customers are senior citizens who are in their 50s to 70s.

The major customers of I.K. Co., Ltd. are senior citizens who are in their 50s to 70s.

These customers have an enormous appetite for buying healthcare, beauty, and entertainment products because many of them are free from childcare responsibilities, have a large amount of disposable income, and have a relatively considerable amount of time to spare, providing the company with a solid foundation.

③ Plentiful sales channels and efficient logistics

The company has efficient logistics for delivering products to customers swiftly through a multitude of its sales channels while being capable of conducting transactions directly with each of the marketing channels, including TV shopping, e-commerce websites, consumers' cooperatives, mail-order companies, drugstores, and variety stores, as well as operating stores. This allows the company to expeditiously provide customers with products that they want when they desire.

(3) Vision that the company strives to achieve

◎ Background of how the plan was formulated

The principal reason behind the formulation of the business plan is that the company considers that it is meaningful to enrich the life of senior citizens from the aspects of healthcare, beauty, and entertainment in Japan, whose population is getting super-aging rapidly (the amount of savings outstrips the amount of debts when people are in their 50s, and the amount of net savings

(calculated by subtracting the amount of debts on hand from the amount of savings on hand) reaches the peak when people are in their 70s).

After improving the quality of its services in Japan, which is a country facing an issue of an aging population ahead of other countries, the company will expand business into markets in the Asian region at an accelerated rate in preparation for an aging society, with which Asian nations will be confronted in the near future (the population aged 65 and over will nearly double from 400 million as of 2020 to 700 million in 2050).

◎ Vision that the company strives to achieve

Attracting fans: To continue to be an excellent company from the customer viewpoint

Companies can survive and have their purposes by adapting to the rapidly changing social environment.

I.K. Co., Ltd. will expand into the Asian region with a keyword of “attracting fans” by listening to the voices of customers at all times.

(4) Priority measures

① Merger and acquisition in priority investment areas (aggressive measure).

The company makes proactive investment in TV shopping and e-commerce websites, focuses on subscription products sold through such sales channels, and releases products made in Japan to overseas markets.

② Structural reform of the corporate group that is the base for agile decision-making (defensive measure).

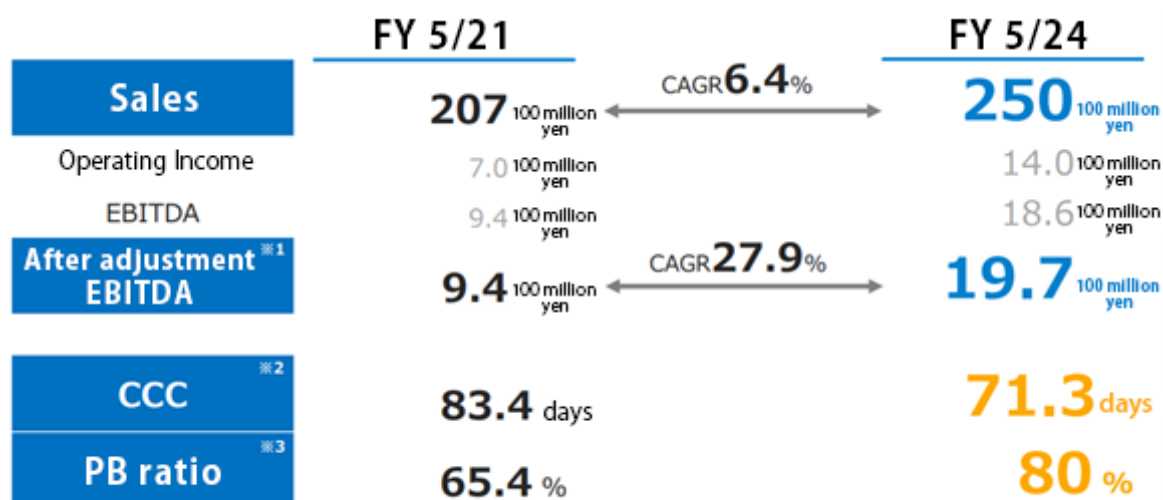
The company enhances its business portfolio management and corporate functions.

③ Shift to cash flow-based business

The company strengthens its business operations especially by shortening CCC for raising funds and investing in a growth business of private-label products.

(5) Numerical goals

The company will invest 3 billion yen for the next three years mainly through the aforementioned priority measures ① to ③.



※1 After adjustment EBITDA ... EBITDA(Operating Income+Amortization expenses)+M&A related expenses+Structural reform expenses

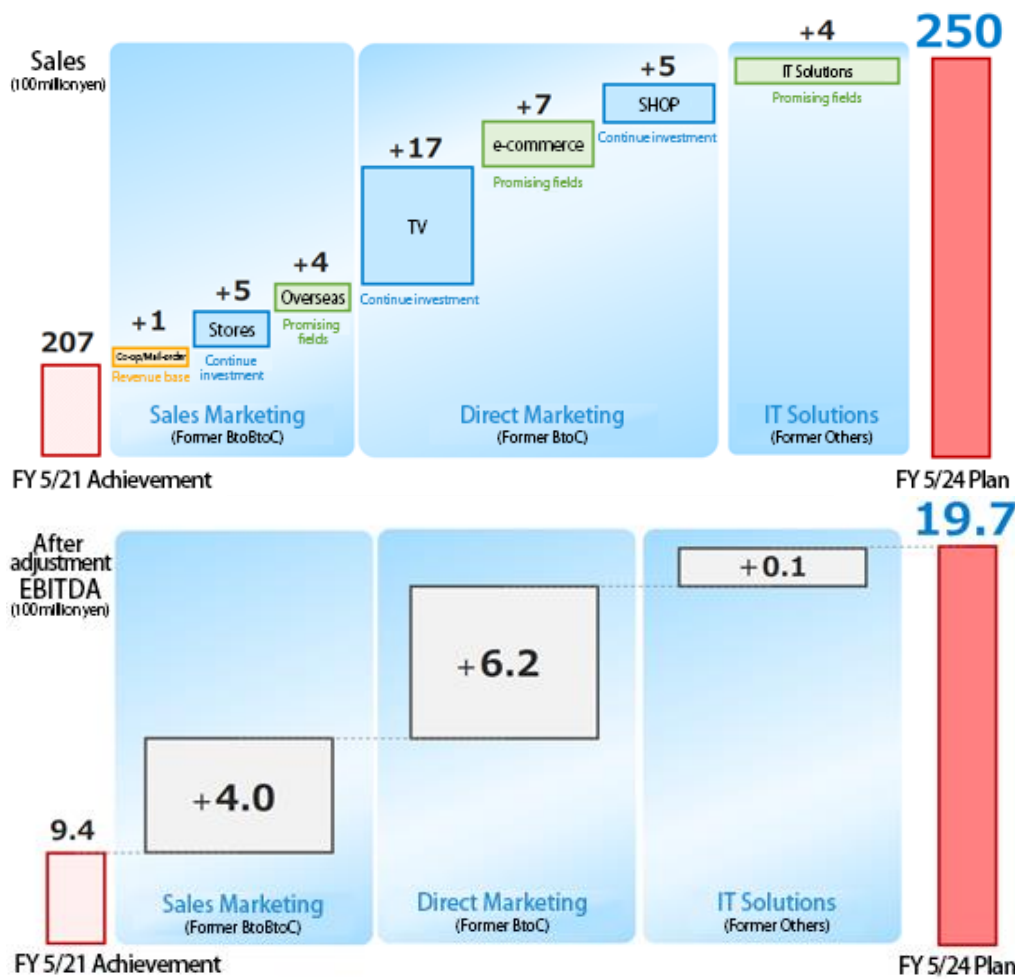
※2 CCC(Cash Conversion Cycle) ... Inventories turnover period + Trade receivables turnover period - Payables turnover period

※3 PB ratio ... Ratio of original products (private brand products) to total sales

(Source: The company)

CCC: If the Direct Marketing Business takes a greater share, the company will be able to collect cash more quickly. So, the company will increase the scale of the Direct Marketing Business.

BRIDGE REPORT

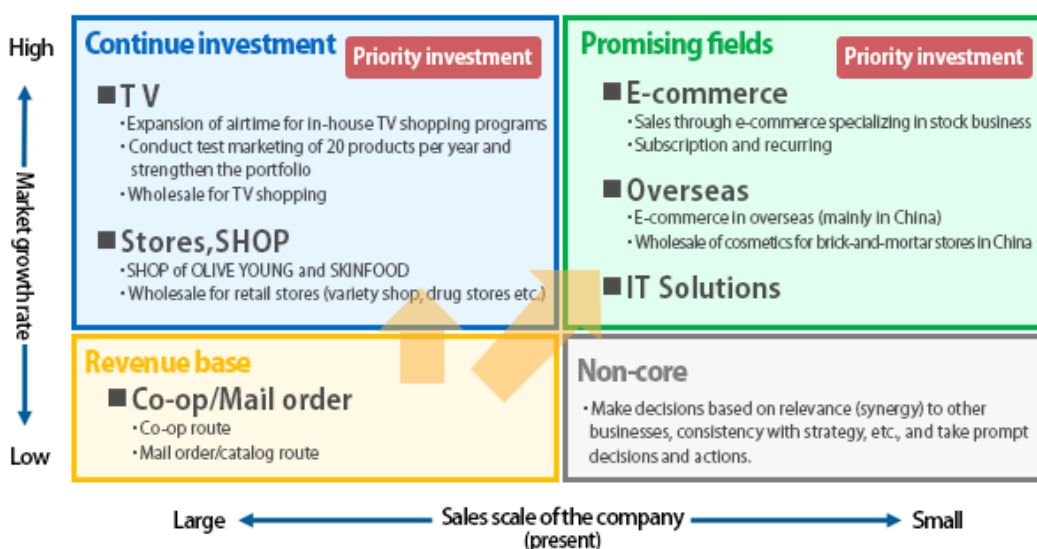


(6) Growth investment

The company will “continue investment” in priority areas and invest 2.5 billion yen in M&A in “promising fields” in the next three years.

The company will spend the cash generated from the revenue foundation on the television business, stores, and the shop business.

The company plans to use the cash also for the e-commerce business, the overseas business, and the IT Solutions Business in the future.



(Source: The company)

(7) Policy on shareholder return

The company aims at a payout ratio of around 20% (unchanged from the conventional ratio) while taking into account the balance of surplus funds.

The company intends to prioritize strategic growth investment for the coming three years.

5. Conclusions

Regarding TV shopping, some products had an MR (sales/media costs) of 2 or higher, but there were few hit products, so the performance in the current term is sluggish. Some young people ceased to watch TV, but the target customers of TV shopping are in their 50s to 70s, and the demand from them is expected to remain strong, so the key is whether they will be able to create a lot of hit products through test marketing. In addition, we would like to pay attention to whether they can improve the ratio of subscription sales for stabilizing the revenues from the TV shopping business and whether they can develop all-season products without relying on seasonal products.

<Reference: Regarding Corporate Governance>

◎ Organization type, and the composition of directors and auditors

Organization type	Company with audit and supervisory committee
Directors	7 directors, including 3 outside ones

◎ Corporate Governance Report

Last updated: December 17, 2021

<Basic Policy>

While corporate governance is expected to function effectively, the company strives to become a reliable firm by improving its management foundation, maintaining high ethics and increasing the transparency of the management further in order to fulfil the social mission and responsibility as a listed company.

Also, the company considers the establishment of a management structure that can respond to the changes in the business environment fast and accurately as one of the important business challenges, and it is making efforts in information sharing from many sides by holding a regular meeting of Board of Directors (once/month), an extraordinary meeting of Board of Directors (as per the need), an in-house officers meeting (once/week) with regular directors (including directors serving as audit and supervisory committee members) and executive officers, and a top meeting (once/week) composed of people from team managers post or above.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Principles	Reasons for not implementing the principles
Supplementary Principle1-2. (4) Electronic exercise of voting rights, English translation of convocation notices	The company does not use an online voting platform or provide English translation of convocation notices for ordinary general meetings of shareholders, but it will take the shareholders' convenience into account based on the composition of shareholders such as institutional investors and foreign investors, and discuss them as necessary.
Supplementary Principle 4-1. (2)Explanation of a medium-term management plan	The company has its medium-term plan, and it makes efforts to allow shared recognition with shareholders and investors through medium-term vision. The medium-term profit plan is not disclosed, but the company will consider disclosing it in future.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principles	Disclosure contents
Principle 1-4 So-called Strategically-held Shares	<p>The company owns strategically held shares in order to maintain and strengthen a continuous, stable and good business relation with its clients. However, it will conduct tests regularly from a medium-to-long term perspective based on returns, risks, etc., and it will recommend the sale of shares in case there is no longer necessity. Regarding the concerned shares, the board of directors verifies the holding purpose, reasonability and the status of dividend income, compares the acquisition price and current price, and checks the need for holding the shares every year. Furthermore, since the company makes its decision regarding the exercise of voting rights by comprehensively considering strengthening and maintenance of business relation, circumstances of the company concerned, etc., it does not have external standards.</p>
Principle 5-1 Policy to have Constructive Dialogue with Shareholders	<p>In the company, the management team/general affairs group are designated as the IR department, and they respond to the requests for dialogue by the shareholders within reasonable range in order to contribute to sustainable growth of the company and improvement of corporate value over medium-to-long term.</p> <p>The company's chairman holds the financial results briefing twice a year for shareholders and institutional investors. Further, the company upload videos and handouts of the briefing on its website for shareholders and investors who are not able to attend the briefing.</p>

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