



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, 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
¥621	8,308,000 shares		¥5,159 million	10.1%	100 shares
DPS Est	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥12.00	1.9%	¥70.15	8.9x	¥451.96	1.4x

*The share price is the closing price on July 28. Each figure was taken from the brief report on results for the fiscal year ended May 2021.

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 Est.	22,000	880	870	550	70.15	12.00

*Unit: million yen, yen. The estimated values are those announced by the Company. Stock split in a ratio 1:2 was conducted on 1st December 2017 and 1st April 2018. EPS and DPS were retroactively adjusted.

The financial statement for the fiscal year ended May 2021 and many more about I.K Co., Ltd. will be described.

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Key Points

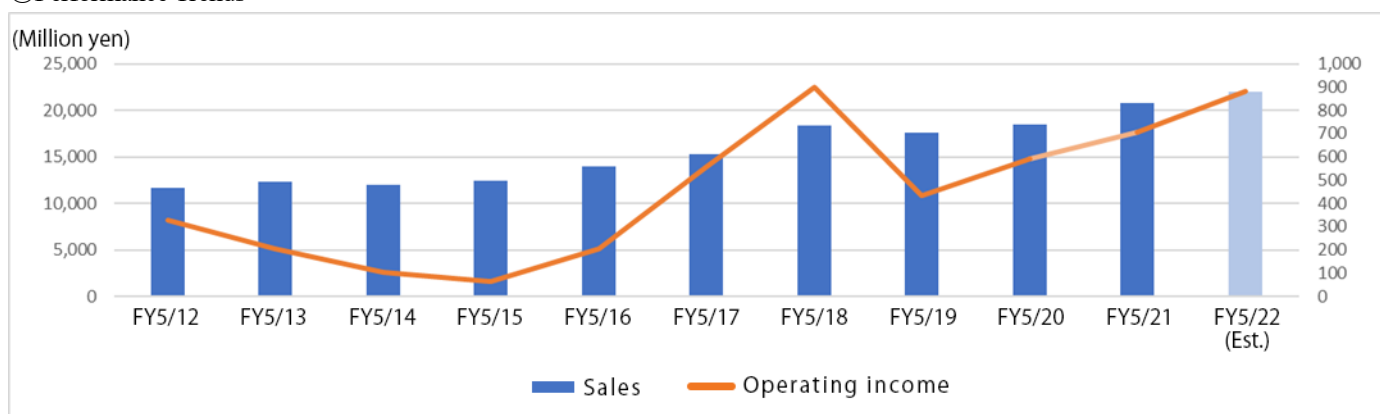
- Both sales and profit increased for two consecutive terms in the fiscal year ended May 2021. Sales grew 12.3% year on year to 20,754 million yen, hitting a record high. Compared to the previous fiscal year, sales rose by 1,811 million yen in the B-to-C Business, by 346 million yen in the B-to-B-to-C Business, and by 115 million yen in the Other Business, increasing the overall sales by 2,271 million yen. Operating income stood at 705 million yen, up 115 million yen year on year, because gross profit margin grew 3.0 points year on year to 51.1% while the ratio of selling, general and administrative (SG&A) expenses went up 2.8 points year on year to 47.7% owing to the increased ratio of packing and freight expenses and advertising costs to sales. Gross profit amounted to 10.6 billion yen, exceeding 10 billion yen for the first time. Net income, however, went down 16.3% year on year because the company recorded an extraordinary loss of 173 million yen.
- Sales grew dramatically in the B-to-C Business with sales from Air Yawn sold through TV shopping rising 1,357 million yen year on year and those from Speed Heat increasing 1,822 million yen year on year. The ratio of private-label products (products developed in-house), whose gross profit margin is high, went up 5.9 points year on year to 65.34% and contributed to profit.
- For the fiscal year ending May 2022, the company aims to achieve record-high sales of 22 billion yen. Operating income is forecast to grow for three terms in a row to 880 million yen. In the Direct Marketing (former B-to-C) Business, the company will continuously make investment in TV shopping and expect a sales increase at brick-and-mortar stores. In the Sales Marketing (former B-to-B-to-C) Business, the company projects that sales will be at almost the same level as that of the previous term because sales from wholesale to retail stores will rise again and special demand stimulated by the Covid-19 pandemic is subsiding. The company changes the names of the business segments in the fiscal year ending May 2022, but the details of the businesses remain the same. A dividend to be paid will be unchanged at 12.00 yen per share while the company aims at a payout ratio of 20%. The estimated payout ratio is 17.1%.
- The company made its medium-term business plan, which it had never disclosed, available to the public for the first time. The plan is for three years with the fiscal year ending May 2024 deemed as the final year. The company enriches the life of senior citizens from the aspects of healthcare, beauty, and entertainment in Japan, whose population is getting super-aging rapidly. 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. As management indicators, the company endeavors to achieve sales of 25 billion yen and Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) after adjustment of 1.97 billion yen in the fiscal year ending May 2024.
- A succession of the second, third, and fourth waves of Covid-19 imposed tight restrictions on individual consumption and business operations and fueled downward economic trends, continuously heightening a sense of uncertainty about the future. In fact, sales early in the fiscal year ending May 2022 fell below those of the same month of the year before, but we would like to expect the company to start delivering strong performance. While the company aims to become a full-fledged marketing manufacturer, a business model that is one of a kind in the world, we would like to pay attention to how speedily the proportion of the company's products developed in-house will grow from the current percentage of 65% to 100%.

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

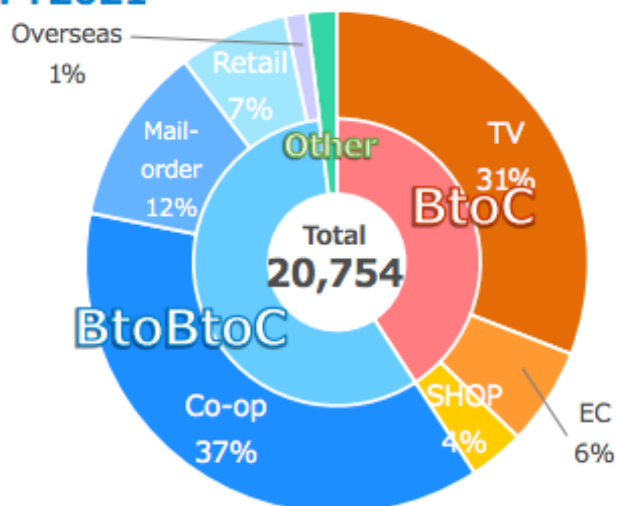
Increase of fans	What they should pursue to become a leading company in the 21 st century is not the amount of sales, capital or the number of employees. When they look ahead 100 years, they consider that making more and more people their “fans” will lead to prosperity for the company, therefore, they 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.

FY2021



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

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

(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 May 2021 was 23, including 18 directly managed shops and 5 franchised ones, which are located mainly in station buildings of major cities in Japan.

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., 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	Matsumoto Kiyoshi Co., Ltd., Tsuruha Holdings Co., Ltd., Create SD Co., Ltd., Ain Pharmaciez Co., Ltd., Sundrug Co., Ltd., Sugi Holdings Co., Ltd., cocokarafine Healthcare Inc., AEON Retail Co., Ltd., Daikoku Corporation, etc.
	Home Center type	Komeri Co., Ltd., Cainz Co., Ltd., etc.
	Home appliance type	Yamada Denki Co., Ltd., Biccamera Co., Ltd., Yodobashi Camera Co., Ltd, etc.
Overseas route	China, Taiwan, Hong Kong, South Korea, Singapore, Vietnam, and the U.S. 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



Aged Black Garlic



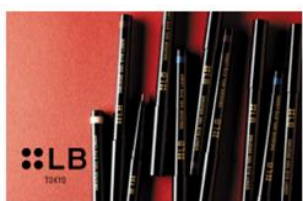
Core Lounge Ultra



Tear Grass Series

(Source: The company)

<<Beauty>>



LB Series



Cocoegg Series



OLIVE YOUNG



LUXER Medical Use Deep Line White Serum

(Source: The company)

<<Entertainment >>



Speed Heat Thermal Vest



Manuka Honey Almond



Large Size Cushion Pillow Mochilax



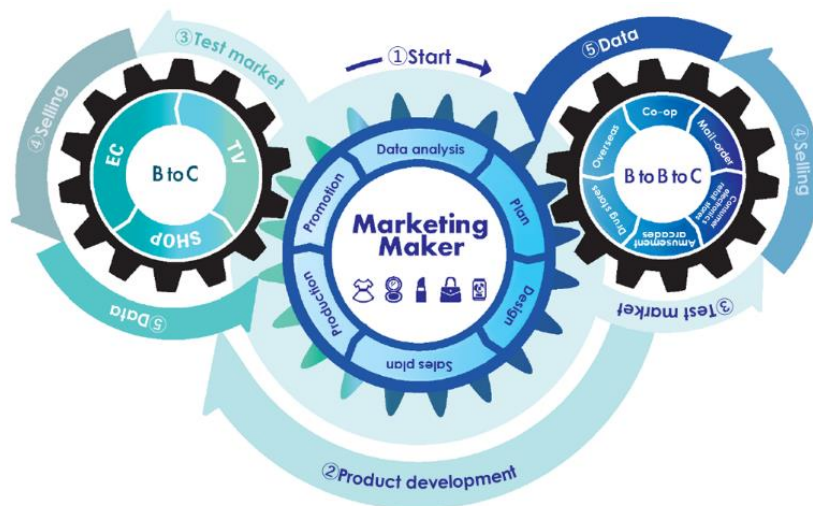
Mashed Sweet Potatoes with Sweetened Chestnuts Kudzu Starch Cake

(Source: The company)

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 expected to increase to 2.50%.

2. Fiscal Year ended May 2021 Earnings Results

(1) Consolidated Business Results

	FY 5/20	Ratio to Sales	FY 5/21	Ratio to Sales	YY change
Sales	18,483	100.0%	20,754	100.0%	+12.3%
Gross Profit	8,898	48.1%	10,613	51.1%	+19.3%
SG&A	8,307	45.0%	9,908	47.7%	+19.3%
Operating Income	590	3.2%	705	3.4%	+19.4%
Ordinary Income	623	3.4%	730	3.5%	+17.1%
Net Income	384	2.1%	321	1.5%	-16.3%

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

Sales and profit increased for two consecutive years.

Sales went up 12.3% year on year to 20,754 million yen, hitting a record high. Although the company faced an uphill struggle caused by the decrease of customers due to the Covid-19 pandemic at SKINFOOD shops and other stores, products sold through TV shopping that can fulfill demand from home-bound consumers, including Speed Heat Thermal Vest, Step 8, and Air Yawn, and products developed in-house sold through co-op stores and mail-order companies that allow customers to buy items without going out served as a driving

BRIDGE REPORT



force. The rise in sales through TV shopping increased gross profit margin and raised gross profit by 19.3% year on year to 10.6 billion yen, exceeding 10 billion yen for the first time. SG&A expenses, such as advertising costs, increased, but was offset, and operating income grew 19.4% year on year. Net income, however, shrank 16.3% year on year because the company recorded an extraordinary loss of 173 million yen (including an impairment loss of 58 million yen, expenses for customer compensation of 41 million yen, a provision of reserve for customer compensation of 17 million yen, and a provision of reserve for administrative monetary penalties of 47 million yen).

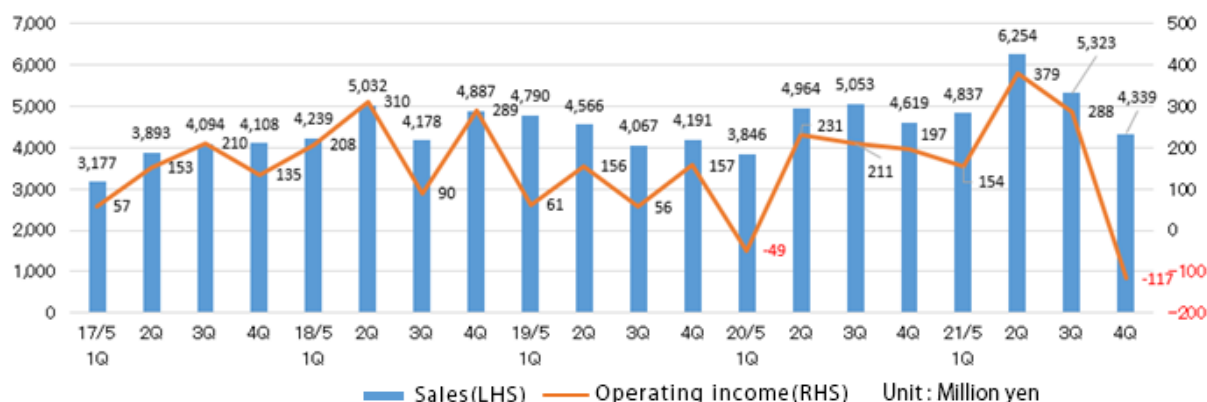
(Variation in Selling, General and Administrative Expenses)

	FY 5/20	Ratio to sales	FY 5/21	Ratio to sales	YY change
Labor cost	1,479	8.0%	1,500	7.2%	+1.4%
Advertising cost	3,544	19.2%	4,306	20.8%	+21.5%
Packing and freight expenses	1,368	7.4%	1,744	8.4%	+27.5%
Total SGA	8,307	44.9%	9,908	47.7%	+19.3%

*Unit: million yen.

Such factors as a rise in broadcast slots for TV shopping increased the ratio of advertising costs by 1.6 points year on year. The ratio of packing and freight expenses also went up 1.0 points year on year due to increases in the number of products received at the distribution centers and fees for shipping work. Meanwhile, a 0.8 point improvement in labor costs caused the ratio of SG&A expenses to grow only by 2.8 points year on year.

©Quarterly Earnings



(2) Trend of each segment

	FY 5/20	Ratio to Sales	FY 5/21	Ratio to Sales	YY change
Sales					
B to C Business	6,656	36.0%	8,467	40.8%	+27.2%
B to B to C Business	11,539	62.4%	11,885	57.3%	+3.0%
Other	287	1.6%	402	1.9%	+40.0%
Total	18,483	100.0%	20,754	100.0%	+12.3%
Operating Income					
B to C Business	359	5.4%	298	3.5%	-17.0%
B to B to C Business	176	1.5%	324	2.7%	+83.3%
Other	3	1.2%	52	13.0%	+1472.9%
Adjustments	50	-	30	-	-
Total	590	3.2%	705	3.4%	+19.4%

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

BRIDGE REPORT



① B to C business

Sales rose and profit declined.

Such top-selling products as Speed Heat Thermal Vest, which is the new version released in 2020, Step 8, and Air Yawn through TV shopping offset the sales decline at the SKINFOOD stores, causing total sales to go up 1,811 million yen to 8,467 million yen.

Operating income of the B-to-C Business as a whole stood at 298 million yen, down 61 million yen year on year, because advertising costs and packing and freight expenses rose as a reaction to a rise in the quota of test marketing in the fourth quarter and the sales efficiency of Step 8 and Air Yawn passed the peak. On the other hand, sales through TV shopping increased following a 1.0 point improvement of the media ration (MR; sales/media costs) and the gross profit margin improved 2.7 points,

② B to B to C business

Sales increased and profit significantly grew.

Sales were 11,885 million yen, up 346 million yen in the B-to-B-to-C Business as a whole because sales from food products rose 24.7% at the co-op stores and 22.6% at mail-order companies although sales from cosmetics were disappointing as people got accustomed to wearing face masks. The 0.6 point drop of the ratio of SG&A expenses to sales as well as the sales increase caused operating income to increase 147 million yen to 324 million yen.

③ Other

Sales increased and profit significantly grew.

Sales increased as a result of marketing activities aimed at sales expansion for one of the company's mainstay products, M-Talk (a chat system). Operating income grew significantly because sales from M-Talk were strong and the ratio of SG&A expenses shrank 8.0 points.

(3) Financial condition and cash flow

◎Main BS

	End of May 2020	End of May 2021		End of May 2021	End of May 2021
Current Assets	6,268	6,230	Current Liabilities	3,082	2,614
Cash	670	800	Payables	1,154	1,007
Receivables	3,176	2,800	ST Interest Bearing Liabilities	809	570
Inventories	1,852	1,947	Noncurrent liabilities	1,477	1,055
Noncurrent Assets	1,100	996	LT Interest Bearing Liabilities	1,175	737
Tangible Assets	380	361	Total Liabilities	4,559	3,669
Intangible Assets	163	157	Net Assets	2,809	3,557
Investment, Others	556	476	Retained Earnings	2,166	2,400
Total Assets	7,369	7,226	Total Liabilities and Net Assets	7,369	7,226
			Balance of Debts	1,985	1,308
			Equity Ratio	38.0%	49.0%

*Unit: million yen.

A decline in trade receivables caused total assets to shrink 142 million yen from the end of the previous year to 7,226 million yen. Total liabilities stood at 3,669 million yen, down 890 million yen from the end of the previous year, because of a decrease in long-term debt. Net assets increased 747 million yen from the end of the previous year to 3,557 million yen owing to such factors as a rise in retained earnings. Equity ratio grew 11.0 points from the end of the previous year to 49.0%.

◎Cash Flow

	FY 5/20	FY 5/21	Increase and Decrease
Operating cash flow	712	636	-76
Investing cash flow	-374	-220	+153
Free cash flow	338	415	+77
Financing cash flow	-139	-258	-118
Cash and equivalent	802	967	+164

*Unit: million yen.

The investing and free cash flows rose because the company made no expenditure arising from business transfer and sold investment securities.

An increase in repayment of long-term debt widens the deficit of the financing cash flow. The cash position increased.

3. Fiscal Year ending May 2022 Earnings Forecasts

(1) Full-year earnings forecast

	FY 5/21	Ratio to Sales	FY 5/22 Est.	Ratio to Sales	YY change
Sales	20,754	100.0%	22,000	100.0%	+6.0%
Operating Income	705	3.4%	880	4.0%	+24.8%
Ordinary Income	730	3.5%	870	4.0%	+19.2%
Net Income	321	1.5%	550	2.5%	+71.3%

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

Sales and profit are estimated to increase. Sales are expected to mark a record high.

For the fiscal year ending May 2022, the company aims to achieve record-high sales of 22 billion yen. Operating income is forecast to grow for three terms in a row to 880 million yen. In the Direct Marketing (former B-to-C) Business, the company will continuously make investment in TV shopping and expect a sales increase at brick-and-mortar stores. In the Sales Marketing (former B-to-B-to-C) Business, the company projects that sales will be at almost the same level as that of the previous term because sales from wholesale to retail stores will rise again and special demand stimulated by the Covid-19 pandemic is subsiding. The company changes the names of the business segments in the fiscal year ending May 2022, but the details of the businesses remain the same. A dividend to be paid will be unchanged at 12.00 yen per share while the company aims at a payout ratio of 20%. The estimated payout ratio is 17.1%.

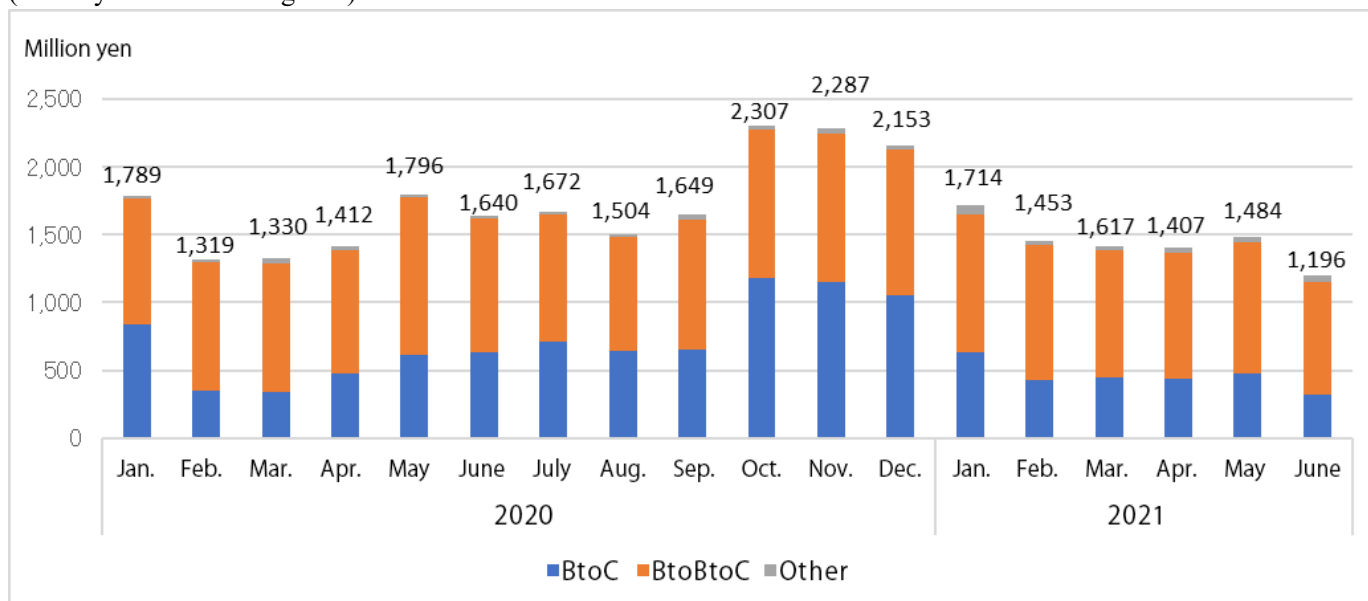
(2) Trend of each segment

(Sales forecast for each segment)

	FY 5/21	Ratio to Sales	FY 5/22 Est.	Ratio to Sales	YY change
Direct Marketing Business	8,467	40.8%	9,776	44.4%	+15.4%
Sales Marketing Business	11,885	57.3%	11,803	53.7%	-0.6%
IT Solutions Business	402	1.9%	421	1.9%	+4.7%
Total	20,754	100.0%	22,000	100.0%	+6.0%

*Unit: million yen.

(Monthly sales for each segment)



4. Future Strategy

(1) Future strategy

Starting off with wholesale to co-op stores, the company diversifies its business, ranging from a business model of sales marketing, which is wholesale to mail-order companies and retail stores, to a business model of direct marketing through such means as television programs and e-commerce websites, and to an overseas business targeted mainly at China.

(2) Strategy by business segment

① Direct Marketing Business

◎ TV shopping

The indicator MR 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. An MR that exceeds two can boost operating income. Companies that have five to six kinds of such items can put together a portfolio. The ideal number of such items is considered to be seven to eight.

TV shopping are targeted at consumers in their 50s to 70s (senior citizens who account for 88% of the sales in FY 5/21) whose number will continue to be on the rise for the next few years. Senior citizens are growing in number also in South Asia and Southeast Asia at least up until 2026.

◎ E-commerce

The company aims to maximize profit while creating synergy with the television business as a tool for getting orders through TV shopping.

It strives to carry out unique e-commerce promotions and expand sales through such e-commerce websites as Rakuten and Amazon. The company plans to begin releasing new products around the fall as a recurring-revenue e-commerce business.

◎ Shops

In addition to SKINFOOD, the company will focus on selling products of OLIVE YOUNG that the company started to sell last year. The company will lead customers of the physical SKINFOOD stores to the SKINFOOD website, and vice versa, and open official retail stores of private-label cosmetics of OLIVE YOUNG.

The company will begin trial marketing for the type of store selling products of multiple Korean cosmetics brands.

The company endeavors to expand sales at brick-and-mortar stores while the flow of people is on an upward trend gradually.

② Sales Marketing Business

◎ Stable growth of co-op store and mail-order shopping businesses

The company believes that the impact of Covid-19 boosted sales primarily from food products in the previous term, but sales from general goods and cosmetics will rise in the current and subsequent terms, allowing the business as a whole to grow stably. Specifically, the company will create synergy with the television business in order to boost sales and revenue from private-label products by expanding sales mainly of top-selling products in TV shopping to co-op stores and brick-and-mortar stores.

◎ Reconstruction of the retail shop business

Maintaining the current number of stores, the company strives to improve sales efficiency by increasing sales at existing stores.

The company will expand sales of other products than cosmetics, such as Coccoegg and hair removal milk.

The company will generate synergy within the corporate group through direct wholesale of the top-selling products in TV shopping and at co-op stores to physical stores.

◎ Reconstruction of the overseas business

An officer in charge has been stationed in Mainland China since January 2021 in order to rebuild the Chinese subsidiary.

The company reforms the e-commerce sales channels, such as T-mall and RED, through enhanced promotion.

The company will prospect for new customers in Mainland China and fully begin to sell Coccoegg in China.

◎ 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).

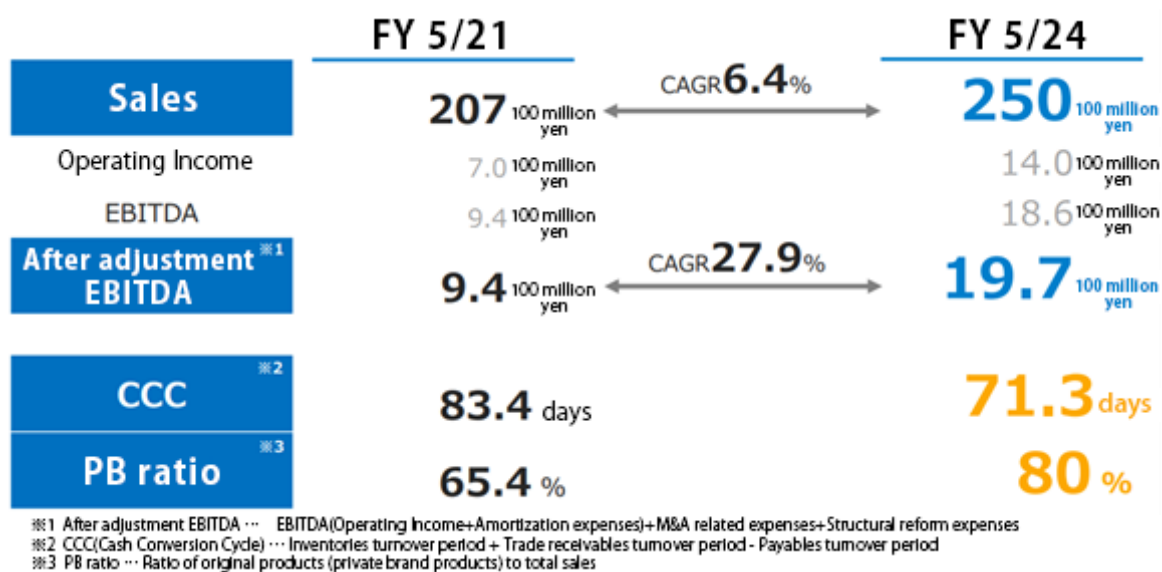
The company enhances its business portfolio management and corporate functions.

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

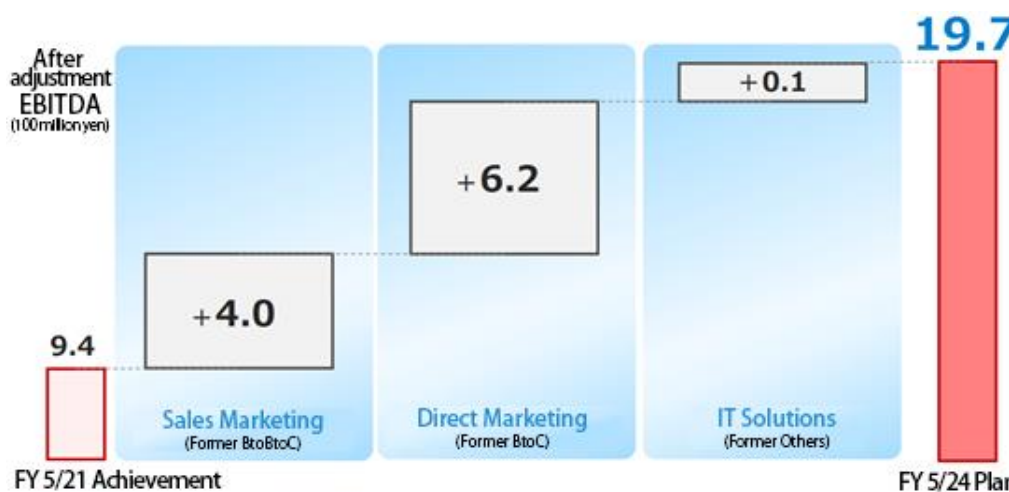
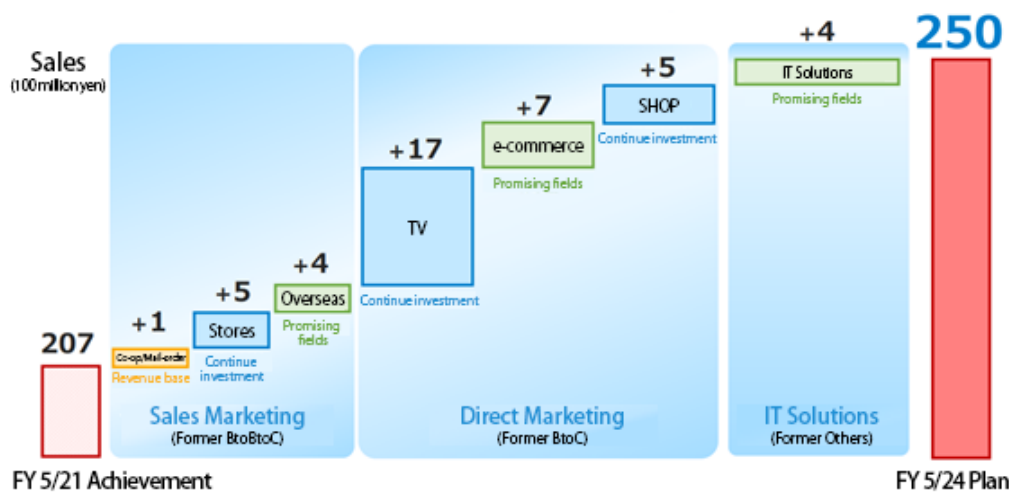
The company will invest 3 billion yen for the next three years mainly through the aforementioned priority measures ① to ③.



(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.

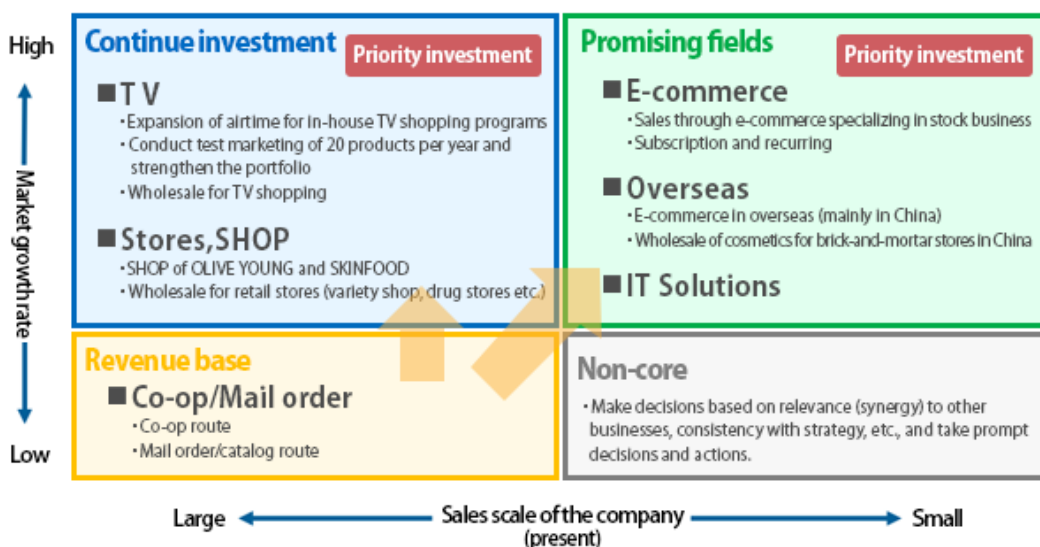
BRIDGE REPORT



(Source: The company)

(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

A succession of the second and third waves of Covid-19 caused the government to issue the fourth state of emergency mainly in urban areas, making it impossible to predict when things return to normal. Under these circumstances, the key to further prosperity is how efficiently the company can take in the demand from home-bound consumers, which is a driving force for the immediate business performance. We would like to expect the company to create synergy between the capabilities to produce hot-selling products by itself as a marketing manufacturer and the marketing abilities to precisely promote products through TV shopping and other similar sales channels.

We would also like to pay attention to how speedily the proportion of the company's products developed in-house will grow from the current percentage of 65% to 100% while the company aims to stand at the pinnacle of a business model of a one-of-a-kind marketing manufacturer in the world.

<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, 2020

<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.</p> <p>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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