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To whom all concerned

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Notice regarding changes in accounting estimates related to allowance for doubtful accounts and differences between consolidated financial results forecasts for the fiscal year ending January 2025 and actual results for the fiscal year ended January 2025

As a result of a change in the accounting estimate of the allowance for doubtful accounts related to reimbursement claims, there has been a difference between the consolidated financial results forecast for the fiscal year ending January 2025 announced on September 12, 2024 and the actual results announced today, as detailed below.

Details

1. Changes in accounting estimates

(1) Reasons for changes

Our reimbursement claims arising from guarantees of rent liabilities (hereinafter, “reimbursement claims”) have tended to be larger than those of other rent guarantor companies, and the appropriate adjustment of allowances for doubtful accounts has been an issue.

Conventional accounting methods for estimating allowances for doubtful accounts and their issues

Item	Estimation method	Issues presented
Classification of reimbursement claims	Given that all claims are managed centrally, claims for reimbursement are evaluated uniformly	Considering the characteristics of rent guarantees, wouldn't it be desirable to assess the risk <u>for each debtor</u> in stages?
Bad debt loss	Write off <u>reimbursement claims</u> for which no payment has been confirmed for a certain period of time	Since losses are processed on a credit basis, there is a tendency for both lost and unlost credits to be mixed within a single contract, and as a result of subsequent collection activities, these credits are recorded as non-operating income (gains on written-off credits). It may be advisable to <u>reconsider the unit of risk assessment</u> .
Allowance for doubtful accounts	Calculated based on the assumption that the risk of non-recovery is close to past bad debt performance. <u>Record the risk of non-recovery for future periods in a lump sum in the first year</u>	In addition to the above, wouldn't it be desirable to <u>reflect changes in the domestic and international economic environment in the initially estimated unrecovered risk (reassess the risk)?</u>

We began considering optimizing our accounting estimates of loan loss reserves in the second half of 2023, but as of the beginning of 2024, we found that our previous estimation method was still reasonable given our actual accounts receivable management and system processing, and after discussions with our auditing firm, we decided to continue working on the valuation method.

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With the replacement of our core system in February 2024, we were able to break down and analyze the reimbursement claims data, enabling us to perform precise analysis and management in a seamless manner. In response to this, we have re-identified the nature of the reimbursement claims. **【Reassessment of the attributes of reimbursement claims】**

Effective November 1, 2024, we have reorganized the Customer Management Department, which manages reimbursement claims, into an organization that is in line with our claims management methods and activity policies, and have established a system to further strengthen collection efforts. **【Establishment of a management system according to credit attribute risks】** As a result of this initiative, we are now able to take a more flexible approach to reimbursement claims.

In light of changes in the environment surrounding our receivables management, we have reviewed our accounting estimate method for the allowance for doubtful accounts.

Specifically, in line with the approach to customer management, receivables management, and asset preservation in rent debt guarantees, we have changed risk management from receivable-based risk management to debtor contract-based risk management.

【Change of evaluation unit】

At the same time, we have introduced a system in which we classify receivables and assess them to a certain extent based on the number of months overdue and signs of uncollectibility. **【Strengthening risk assessment】**

As a result, the allowance for doubtful accounts relating to reimbursement claims at the end of the fourth quarter was reduced by JPY 967 million to JPY 2,937 million.

Please note that as the amounts of past provisions recorded were appropriate as estimates at the time, no revisions will be made to the financial figures previously disclosed.

(2) Impact of the change (February 1, 2024 - January 31, 2025)

	Previous method 【A】	New method after change 【B】	Impact of the change 【B】－【A】
Provision for doubtful accounts related to reimbursement claims	JPY 3,904,905,000	JPY 2,937,876,000	JPY △967,028,000 (Decrease in provisions)
Provision for doubtful accounts related to reimbursement claims	JPY 3,253,691,000	JPY 1,866,284,000	JPY △1,387,407,000 (Decrease in cost of sales)

2. Revision of full-year consolidated earnings forecast

(1) Revision of consolidated financial forecasts for the fiscal year ending January 2025 (February 1, 2024 - January 31, 2025)

	Net sales	EBITDA※	Operating profit	Ordinary profit	Net income attributable to shareholders of parent company	Net income per share
Previously announced forecast (A)	JPY million 12,081	JPY million 1,509	JPY million 759	JPY million 935	JPY million 185	JPY 18.23
Actual value (B)	12,157	2,178	1,303	1,564	602	59.78
Amount of increase/decrease (B-A)	75	669	544	629	417	—
Percentage of increase/decrease (%)	+0.6	+44.3	+71.7	+67.3	+225.4	—
(For reference) Results for previous period (FY ended January 2024)	11,224	—	786	965	605	60.35

※EBITDA=Operating profit+Depreciation, etc. + Goodwill amortization + Deferred consumption tax, etc. + Gain on recovery of depreciated debts

(2) Reasons for the revision

As for the performance for the current consolidated cumulative period, the results forecast announced on September 12, 2024, as described in “1. Changes in accounting estimates” above, due to a review of the allowance for doubtful accounts related to receivables, net income attributable to owners of parent exceeded the forecast.

For the reasons above, we have revised our previously announced full-year consolidated financial forecast figures.