January 13, 2023

Summary of Consolidated Financial Results for the Nine Months Ended November 30, 2022 (Based on Japanese GAAP)

Company name:	NARUMIYA INTERNATIONAL Co., Ltd		
Stock exchange listing:	Tokyo		
Stock code:	9275 URL https://www.narumiya-net.co.jp/ir/		
Representative:	President, Representative Director and Chief Executive Officer	Toshiaki Ishii	
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Scheduled date to file Quarterly Securities Report:		January 16, 2023	
Scheduled date to commence dividend payments:		–	
Preparation of supplementary material on financial results:		None	
Holding of quarterly financial results meeting:		None	

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the nine months ended November 30, 2022 (from March 1, 2022 to November 30, 2022)

(1) Consolidated operating results (cumulative)

Percentages indicate year-on-year changes.

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended November 30, 2022	24,653	13.9	1,040	45.8	963	44.8	579	55.7
Nine months ended November 30, 2021	21,642	7.0	713	180.1	665	171.7	372	–

Note: Comprehensive income Nine months ended November 30, 2022: 568 million yen (60.3%)
Nine months ended November 30, 2021: 354 million yen (–%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended November 30, 2022	57.26	–
Nine months ended November 30, 2021	36.76	–

Note: Diluted earnings per share is not stated, as there are no dilutive shares.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of November 30, 2022	15,011	5,139	34.2
As of February 28, 2022	14,521	4,901	33.8

Reference: Shareholders' equity As of November 30, 2022: 5,139 million yen As of February 28, 2022: 4,901 million yen

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended February 28, 2022	–	0.00	–	31.00	31.00
Year ending February 28, 2023	–	0.00	–		
Year ending February 28, 2023 (Forecast)				31.00	31.00

Note: Revisions to the most recently announced dividend forecast: None

3. Forecast of consolidated financial results for the fiscal year ending February 28, 2023 (from March 1, 2022 to February 28, 2023)

Percentages indicate year-on-year changes.

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	34,500	11.3	1,450	3.4	1,404	5.3	830	1.2	82.06

Note: Revision to the most recently announced consolidated forecast: None

4. Notes

(1) Changes in significant subsidiaries during the nine months ended November 30, 2022 (changes in specified subsidiaries resulting in the change in scope of consolidation): No

(2) Application of special accounting methods for preparing quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

Changes in accounting policies due to other reasons: No

Changes in accounting estimates: No

Restatement of prior period financial statements: No

(4) Number of issued shares (common shares)

Total number of issued shares at the end of the period (including treasury shares)

As of November 30, 2022	10,122,830 shares	As of February 28, 2022	10,122,830 shares

Number of treasury shares at the end of the period

As of November 30, 2022	122 shares	As of February 28, 2022	122 shares

Average number of shares during the period (cumulative from the beginning of the fiscal year)

Nine months ended November 30, 2022	10,122,708 shares	Nine months ended November 30, 2021	10,122,752 shares

Note 1: The current quarterly financial report is not subject to quarterly review procedures by certified public accountants or an auditing firm.

Note 2: Explanation and other special notes concerning the appropriate use of business performance forecasts
The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable, and are not promise by the Company regarding their achievement. Actual results may differ materially from the forecast depending on a range of factors. For the assumptions that form the basis of the earnings forecasts and notes on the use of the earnings forecasts, refer to “1. Qualitative Information on Quarterly Consolidated Financial Performance (3) Explanation of consolidated earnings forecasts and other forward-looking information” on page 3 of the attached material.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter "Revenue Recognition Accounting Standard"), etc. from the beginning of the first quarter of the current fiscal year. As a result, the accounting method for revenue differs between the first nine months of the previous fiscal year and the period under review. For this reason, in the description of operating results below, the amount and percentage of year-on-year change are not included.
Forward-looking statements in this document are based on our views as of the end of the third quarter of the current fiscal year.

(1) Explanation of results of operations

Looking at Japan's economy during the first nine months of the current fiscal year, while the normalization of economic and social activities progressed due to relaxation of various regulations, etc. associated with new coronavirus (COVID-19) infection, the outlook has remained uncertain with a rapid rise in new cases of the mutant omicron variant of COVID-19 in and after July, Russia's prolonged invasion of Ukraine, and yen's sharp fall, among others.
In the apparel industry to which the Group belongs, although various regulations were eased with a decrease in the number of infections of COVID-19, the business environment has remained harsh largely due to a downturn in consumer confidence stemming from rising prices as well as increases in purchase prices and heating and lighting expenses resulting from soaring crude oil and raw material prices. In the market for children's clothing, sales of products for the fall season got off to a slow start and we also faced an uphill battle as temperature remained high from the latter part of October to November in an impact from global warming.
In the shopping center channel, our mainstay "petit main" brand could release a hit product through product development based on customers' voices. In the next fiscal year, we will further proceed with systemization to enhance the product development and promotion. On another front, product families whose prices are kept unchanged have become popular amid soaring raw material prices. In and after the next fiscal year, we will continue to implement this measure as part of the price strategy while considering the overall balance. On the other hand, the "Lovetoxic" junior brand also experienced difficulty in November, the most recent month, but has been on a recovery trend on the basis of the first nine months of the fiscal year. We will make efforts to reach the pre-COVID-19 pandemic level early. In the department store channel, various occasion-specific demands have recovered as restrictions on people's actions placed due to COVID-19 until last year were lifted. The Company has also continued to see steady sales, following a large increase in profit in the first half. Among others, sales of licensed brands such as "kate spade NEW YORK" and "Paul Smith JUNIOR" are strong.
Sales through the e-commerce channel did not grow considerably as multiple shopping channels became available to customers with normal operation of physical stores. Still, we completed the work to transfer operation to new logistic bases in the latter half of the sixth term (the previous fiscal year) and have significantly increased operational efficiency. These measures, which were carried out to substantially reduce the number of days required for us to ship products after we receive orders from customers, are gradually beginning to bear fruit.
The photo studio business maintained relatively solid results in the first nine months of the current fiscal year, as the period fell in the *shichi-go-san* rite of passage and festival season.
Looking at the status of store openings and closings during the first nine months of the current fiscal year, we opened five stores in department stores, and one store in a shopping center, and closed nine stores in department stores. (Note)
As a result of the above, in the first nine months of the current fiscal year we recorded net sales of 24,653 million yen (21,642 million yen in the same period of the previous fiscal year), operating profit of 1,040 million yen (713 million yen in the same period of the previous fiscal year), ordinary profit of 963 million yen (665 million yen in the same period of the previous fiscal year), and profit attributable to owners of parent of 579 million yen (372 million yen in the same period of the previous fiscal year).
(Note) Because the number of stores at department stores is calculated by multiplying the number of places where things are sold by the number of brands, the number of stores opened and closed tends to increase.

(2) Explanation of financial position

Assets
Assets at the end of the third quarter increased by 489 million yen from the end of the previous fiscal year to 15,011 million yen. This was mainly due to a decrease of 1,187 million yen in cash and deposits, increases of 446 million yen in notes and accounts receivable-trade and 1,619 million yen in merchandise, as well as a decrease of 172 million yen in goodwill.

Liabilities

Liabilities at the end of the third quarter increased by 251 million yen from the end of the previous fiscal year to 9,871 million yen. This was mainly due to an increase of 1,126 million yen in accounts payable-trade, decreases of 3,048 million yen in current portion of long-term borrowings, 287 million yen in income taxes payable and 218 million yen in accrued consumption taxes, as well as an increase of 2,680 million yen in long-term borrowings.

Net assets

Total net assets at the end of the third quarter increased by 237 million yen from the end of the previous fiscal year to 5,139 million yen. This was mainly due to the recording of 579 million yen in profit attributable to owners of parent and the payment of 313 million yen in dividends.

(3) Explanation of consolidated earnings forecasts and other forward-looking information

In the full-year consolidated earnings forecast, there is no change to the earnings forecast announced on April 12, 2022.

The above forecasts were prepared based on information available as of the date of publication of this document and on certain assumptions deemed to be reasonable. Actual results, etc. may differ significantly from these forecasts due to a variety of factors.

2. Quarterly Consolidated Financial Statements and Significant Notes

(1) Consolidated balance sheets

(Thousands of yen)

	As of February 28, 2022	As of November 30, 2022
Assets		
Current assets		
Cash and deposits	2,724,291	1,536,403
Notes and accounts receivable - trade	2,377,200	2,823,806
Merchandise	2,945,951	4,565,914
Prepaid expenses	114,165	125,873
Other	44,303	66,375
Allowance for doubtful accounts	(8,848)	(8,837)
Total current assets	8,197,063	9,109,536
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,367,900	1,412,237
Accumulated depreciation	(1,131,264)	(1,197,995)
Buildings and structures, net	236,636	214,242
Tools, furniture and fixtures	107,681	109,332
Accumulated depreciation	(70,984)	(80,771)
Tools, furniture and fixtures, net	36,697	28,561
Land	5,940	5,940
Leased assets	2,856,236	2,979,584
Accumulated depreciation	(2,094,277)	(2,301,785)
Leased assets, net	761,958	677,799
Total property, plant and equipment	1,041,232	926,543
Intangible assets		
Goodwill	2,961,840	2,788,915
Software	221,556	193,208
Leased assets	70,526	40,843
Other	526	466
Total intangible assets	3,254,450	3,023,433
Investments and other assets		
Investment securities	12,489	12,489
Distressed receivables	102,865	101,741
Long-term prepaid expenses	9,974	11,001
Guarantee deposits	1,232,002	1,163,053
Deferred tax assets	484,810	441,790
Other	289,955	323,533
Allowance for doubtful accounts	(102,865)	(101,741)
Total investments and other assets	2,029,232	1,951,868
Total non-current assets	6,324,915	5,901,845
Total assets	14,521,978	15,011,381

(Thousands of yen)

	As of February 28, 2022	As of November 30, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	2,518,351	3,645,231
Current portion of long-term borrowings	3,782,452	733,856
Lease obligations	345,657	299,272
Accounts payable - other	649,529	485,146
Accrued expenses	526,393	605,705
Income taxes payable	397,985	110,600
Accrued consumption taxes	218,953	–
Provision for bonuses	96,893	326,627
Provision for sales returns	129	–
Provision for point card certificates	105,033	11,584
Other	69,924	137,774
Total current liabilities	8,711,303	6,355,799
Non-current liabilities		
Long-term borrowings	35,981	2,716,488
Lease obligations	586,447	503,159
Retirement benefit liability	278,688	291,230
Other	7,755	5,155
Total non-current liabilities	908,872	3,516,032
Total liabilities	9,620,176	9,871,832
Net assets		
Shareholders' equity		
Share capital	255,099	255,099
Capital surplus	1,860,774	1,860,774
Retained earnings	2,766,903	3,016,004
Treasury shares	(132)	(132)
Total shareholders' equity	4,882,645	5,131,745
Accumulated other comprehensive income		
Remeasurements of defined benefit plans	19,157	7,804
Total accumulated other comprehensive income	19,157	7,804
Total net assets	4,901,802	5,139,549
Total liabilities and net assets	14,521,978	15,011,381

(2) Consolidated statements of income (cumulative) and consolidated statements of comprehensive income (cumulative)

Consolidated statements of income (cumulative)

(Thousands of yen)

	Nine months ended November 30, 2021	Nine months ended November 30, 2022
Net sales	21,642,694	24,653,447
Cost of sales	9,321,616	9,944,909
Gross profit	12,321,077	14,708,538
Selling, general and administrative expenses	11,607,421	13,668,031
Operating profit	713,656	1,040,506
Non-operating income		
Interest and dividend income	4	5
Surrender value of insurance policies	7,523	7,658
Purchase discounts	1,419	1,944
Rental income	16,992	11,991
Subsidy income	–	4,210
Miscellaneous income	4,264	7,003
Total non-operating income	30,204	32,814
Non-operating expenses		
Interest expenses	45,874	41,454
Foreign exchange losses	11,194	8,230
Commission expenses	–	10,000
Finance Fee	–	36,443
Rental expenses	14,365	9,726
Miscellaneous losses	6,930	3,781
Total non-operating expenses	78,364	109,637
Ordinary profit	665,496	963,683
Extraordinary income		
Grant income	103,834	23,504
Gain on sale of investment securities	1,961	–
Total extraordinary income	105,795	23,504
Extraordinary losses		
Loss on retirement of non-current assets	3,337	2,484
Impairment losses	999	4,699
Temporary closure loss	61,026	–
Warehouse transfer expenses	44,588	–
Total extraordinary losses	109,953	7,184
Profit before income taxes	661,338	980,003
Income taxes - current	287,406	344,956
Income taxes - deferred	1,738	55,449
Total income taxes	289,145	400,406
Profit	372,192	579,596
Profit attributable to owners of parent	372,192	579,596

Consolidated statements of comprehensive income (cumulative)

(Thousands of yen)

	Nine months ended November 30, 2021	Nine months ended November 30, 2022
Profit	372,192	579,596
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,666)	–
Remeasurements of defined benefit plans, net of tax	(14,034)	(11,353)
Total other comprehensive income	(17,700)	(11,353)
Comprehensive income	354,492	568,243
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	354,492	568,243
Comprehensive income attributable to non-controlling interests	–	–

(3) Notes concerning quarterly consolidated financial statements

(Going concern assumptions)
Not applicable.

(Notes regarding significant changes in the amount of shareholders' equity)
Not applicable.

(Changes in accounting policies)

1. Application of Accounting Standard for Revenue Recognition, Etc.

We have applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter "Revenue Recognition Accounting Standard"), etc. from the beginning of the first quarter of the current fiscal year, and recognize revenue at the time the control of promised goods or services is transferred to the customer at the amount expected to be received upon exchange of said goods or services. The main changes due to the application of the Revenue Recognition Accounting Standard, etc. are as follows.

(1) Revenue recognition related to in-house point program

Regarding points awarded based on purchase amount by members under our in-house point program, in the past, revenue was recognized at the time of sale, the amount of awarded points that were expected to be used in the future were recorded as a provision for point card certificates, and the provision for point card certificates was recorded as selling, general and administrative expenses. However, we have changed to a method by which awarded points are recognized as performance obligations, and allocation of transaction prices is performed based on independent sales prices calculated with consideration of prospects for future expiration of points, etc.

(2) Revenue recognition related to transactions of entity acting as principal

In the past, for internal consumption transactions targeting department stores, revenue was recognized as the net amount of consideration received from customers minus an amount equivalent to the commissions of dealers. However, for transactions in which the role of the Group in the provision of goods and services to customers is deemed to correspond to an entity acting as a principal, we have changed to a method of recognizing the total amount as income.

The application of the Revenue Recognition Accounting Standard, etc. is subject to the transitional treatment provided for in the proviso to paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the first quarter of the current fiscal year, was added to or deducted from the opening balance of retained earnings of the first quarter of the current fiscal year, and the new accounting policy was applied based on said opening balance. However, the new accounting policy was not retrospectively applied to contracts for which nearly all the revenue amounts had been recognized according to the previous treatment in periods prior to the beginning of the first quarter of the current fiscal year, by applying the method provided for in paragraph 86 of the Revenue Recognition Accounting Standard.

As a result, net sales and gross profit for the first nine months of the current fiscal year each increased by 1,732,490,000 yen, and selling, general and administrative expenses increased by 1,729,591,000 yen. Operating profit, ordinary profit, and profit before income taxes each increased by 2,898,000 yen, and profit attributable to owners of parent decreased by 4,520,000 yen. The balance of retained earnings at the beginning of the period decreased by 16,692,000 yen.

Furthermore, information on disaggregation of revenue from contracts with customers during the first nine months of the previous fiscal year has not been disclosed, as allowed by the transitional treatment provided for in paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020).

2. Application of Accounting Standard for Fair Value Measurement, Etc.

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019) and relevant ASBJ regulations from the beginning of the first quarter of the current fiscal year, and has applied the new accounting policy provided for by the Accounting Standard for Fair Value Measurement, etc. prospectively in accordance with the transitional measures provided for in paragraph 19 of the “Accounting Standard For Fair Value Measurement” and paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). There is no impact on the quarterly consolidated financial statements.