

# Consolidated Financial Results for the Nine Months Ended November 30, 2017 [Japanese GAAP]

January 10, 2018

Company name: PAL GROUP Holdings CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 2726

URL: <http://www.palgroup.holdings>

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Scheduled date of commencing dividend payments: —

Availability of supplementary briefing material on quarterly financial results: Not available

Schedule of quarterly financial results briefing session: Not scheduled

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

## 1. Consolidated Financial Results for the Nine Months Ended November 30, 2017 (March 1, 2017 to November 30, 2017)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

|                                     | Net sales   |     | Operating income |      | Ordinary income |       | Profit attributable to owners of parent |       |
|-------------------------------------|-------------|-----|------------------|------|-----------------|-------|-----------------------------------------|-------|
|                                     | million yen | %   | million yen      | %    | million yen     | %     | million yen                             | %     |
| Nine months ended November 30, 2017 | 91,459      | 5.4 | 6,224            | 23.3 | 6,144           | 24.0  | 3,310                                   | 20.2  |
| Nine months ended November 30, 2016 | 86,810      | 2.8 | 5,046            | 0.2  | 4,953           | (0.4) | 2,755                                   | (4.9) |

(Note) Comprehensive income: Nine Months ended November 30, 2017: ¥3,402 million [24.9%]

Nine Months ended November 30, 2016: ¥2,723 million [(4.7)%]

|                                     | Basic earnings per share | Diluted earnings per share |
|-------------------------------------|--------------------------|----------------------------|
|                                     | yen                      | yen                        |
| Nine months ended November 30, 2017 | 150.49                   | —                          |
| Nine months ended November 30, 2016 | 125.25                   | —                          |

## (2) Consolidated Financial Position

|                         | Total assets | Net assets  | Equity ratio |
|-------------------------|--------------|-------------|--------------|
|                         | million yen  | million yen | %            |
| As of November 30, 2017 | 86,068       | 39,274      | 45.6         |
| As of February 28, 2017 | 77,083       | 37,590      | 48.8         |

(Reference) Equity: As of November 30, 2017: ¥39,274 million

As of February 28, 2017: ¥37,590 million

## 2. Dividends

|                                                 | Annual dividends |                 |                 |          |       |
|-------------------------------------------------|------------------|-----------------|-----------------|----------|-------|
|                                                 | 1st quarter-end  | 2nd quarter-end | 3rd quarter-end | Year-end | Total |
|                                                 | yen              | yen             | yen             | yen      | yen   |
| Fiscal year ended February 28, 2017             | —                | 0.00            | —               | 70.00    | 70.00 |
| Fiscal year ending February 28, 2018            | —                | 0.00            | —               |          |       |
| Fiscal year ending February 28, 2018 (Forecast) |                  |                 |                 | 70.00    | 70.00 |

(Note) Revision of dividend forecast: No

## 3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2018 (March 1, 2017 to February 28, 2018)

(% indicates changes from the previous corresponding period.)

|           | Net sales   |     | Operating income |      | Ordinary income |      | Profit attributable to owners of parent | Basic earnings per share |
|-----------|-------------|-----|------------------|------|-----------------|------|-----------------------------------------|--------------------------|
|           | million yen | %   | million yen      | %    | million yen     | %    | million yen                             | yen                      |
| Full year | 123,880     | 6.4 | 8,020            | 30.1 | 7,850           | 29.9 | 4,060                                   | 32.2                     |
|           |             |     |                  |      |                 |      |                                         | 184.55                   |

(Note) Revision of consolidated financial results forecast: No

### \* Notes

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Adoption of special accounting methods for preparing quarterly consolidated financial statement: No

(3) Changes in accounting policies, changes in accounting estimates and corrections of errors

1) Changes in accounting policies due to the revision of accounting standards: No

2) Any changes other than 1) above: No

3) Changes in accounting estimates: No

4) Corrections of errors: No

(4) Total number of issued shares (common shares)

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

|                         |                   |
|-------------------------|-------------------|
| As of November 30, 2017 | 23,136,000 shares |
| As of February 28, 2017 | 23,136,000 shares |

2) Total number of treasury shares at the end of the period:

|                         |                  |
|-------------------------|------------------|
| As of November 30, 2017 | 1,137,057 shares |
| As of February 28, 2017 | 1,136,865 shares |

3) Average number of shares during the period:

|                                     |                   |
|-------------------------------------|-------------------|
| Nine months ended November 30, 2017 | 21,999,043 shares |
| Nine months ended November 30, 2016 | 21,999,191 shares |

\* These quarterly consolidated financial results are not covered by the quarterly review.

\* Explanation of the proper use of financial results forecast and other notes

The statements regarding financial results forecast in this report are based on the information that is available, as well as estimates, assumptions and projections that are believed to be reasonable at the time of publication. Therefore, there might be cases in which actual results differ from forecast values. For the premises of financial results forecast and the notes concerning the use of financial results forecast, please refer to “Explanation of Consolidated Financial Results Forecast and Other Future Projections” on page 2 of the Appendix to this report.

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## 1. Qualitative Information on Consolidated Financial Results for the Period under Review

### (1) Explanation of Operating Results

During the nine months ended November 30, 2017 (March 1, 2017 to November 30, 2017), the Japanese economy remained on a gradual recovery trend driven mainly by improved corporate profit and the employment environment.

Under such a business environment, the Corporate Group made every effort to expand its operations and improve management efficiency by proactively keeping its business conditions entrenched and promoting the opening of new stores, while at the same time revitalizing existing stores by switching businesses and withdrawing unprofitable stores.

In the Apparel Business, the Group conducted proactive brand promotions while further pressing ahead with the reform of merchandising (MD) and improving the freshness of merchandise through agile introduction of items in stores. As a result, net sales increased by 4.5% year on year to ¥65,789 million. In the Miscellaneous Goods/Accessories Business, we opened 28 new stores in response to robust demand for opening stores reflecting our rising visibility. As a result, net sales increased by 7.9 % year on year to ¥25,591 million.

As a result of the above, net sales for the nine months ended November 30, 2017 increased by 5.4% year on year to ¥91,459 million.

In terms of profit, the gross profit margin increased by 0.3 points year on year to 57.0% through the further reform of merchandising (MD), etc. Operating income increased by ¥1,177 million year on year to ¥6,224 million, ordinary income increased by ¥1,190 million year on year to ¥6,144 million, and profit before income taxes increased by ¥869 million year on year to ¥5,547 million. Profit attributable to owners of parent increased by ¥555 million year on year to ¥3,310 million.

### (2) Explanation of Financial Position

#### (Assets)

Current assets increased by ¥9,093 million compared with the end of the previous fiscal year, due mainly to increases in cash and deposits by ¥2,412 million, notes and accounts receivable - trade by ¥2,751 million and merchandise and finished goods by ¥2,725 million.

Non-current assets decreased by ¥108 million compared with the end of the previous fiscal year, due primarily to a decrease in property, plant and equipment by ¥438 million, despite an increase in intangible assets by ¥345 million.

#### (Liabilities)

Current liabilities increased by ¥4,332 million compared with the end of the previous fiscal year, due mainly to an increase in notes and accounts payable - trade by ¥3,727 million, despite a decrease in income taxes payable by ¥1,425 million.

Non-current liabilities increased by ¥2,968 million compared with the end of the previous fiscal year, due primarily to an increase in long-term loans payable by ¥3,591 million.

#### (Net assets)

Net assets increased by ¥1,683 million compared with the end of the previous fiscal year, due mainly to an increase in retained earnings by ¥1,593 million.

### (3) Explanation of Consolidated Financial Results Forecast and Other Future Projections

There is no change to the consolidated financial results forecast announced on April 11, 2017.

## 2. Consolidated Financial Statements and Primary Notes

### (1) Consolidated Balance Sheets

(Millions of yen)

|                                            | As of February 28, 2017 | As of November 30, 2017 |
|--------------------------------------------|-------------------------|-------------------------|
| <b>Assets</b>                              |                         |                         |
| Current assets                             |                         |                         |
| Cash and deposits                          | 35,959                  | 38,371                  |
| Notes and accounts receivable - trade      | 5,178                   | 7,930                   |
| Merchandise and finished goods             | 8,592                   | 11,317                  |
| Other                                      | 1,560                   | 2,764                   |
| Allowance for doubtful accounts            | (2)                     | (1)                     |
| Total current assets                       | 51,288                  | 60,382                  |
| Non-current assets                         |                         |                         |
| Property, plant and equipment              |                         |                         |
| Buildings and structures, net              | 7,496                   | 7,316                   |
| Other, net                                 | 2,406                   | 2,148                   |
| Total property, plant and equipment        | 9,903                   | 9,464                   |
| Intangible assets                          | 398                     | 743                     |
| Investments and other assets               |                         |                         |
| Guarantee deposits                         | 13,414                  | 13,169                  |
| Other                                      | 2,153                   | 2,381                   |
| Allowance for doubtful accounts            | (74)                    | (73)                    |
| Total investments and other assets         | 15,492                  | 15,477                  |
| Total non-current assets                   | 25,794                  | 25,685                  |
| Total assets                               | 77,083                  | 86,068                  |
| <b>Liabilities</b>                         |                         |                         |
| Current liabilities                        |                         |                         |
| Notes and accounts payable - trade         | 12,610                  | 16,337                  |
| Short-term loans payable                   | 3,287                   | 4,591                   |
| Current portion of long-term loans payable | 2,917                   | 2,495                   |
| Income taxes payable                       | 1,543                   | 117                     |
| Provision for bonuses                      | 1,255                   | 835                     |
| Provision                                  | 167                     | 200                     |
| Other                                      | 5,902                   | 7,438                   |
| Total current liabilities                  | 27,685                  | 32,017                  |
| Non-current liabilities                    |                         |                         |
| Long-term loans payable                    | 6,786                   | 10,378                  |
| Net defined benefit liability              | 756                     | 804                     |
| Provision                                  | 262                     | 282                     |
| Asset retirement obligations               | 1,702                   | 1,719                   |
| Other                                      | 2,299                   | 1,592                   |
| Total non-current liabilities              | 11,807                  | 14,776                  |
| Total liabilities                          | 39,492                  | 46,793                  |

(Millions of yen)

|                                                       | As of February 28, 2017 | As of November 30, 2017 |
|-------------------------------------------------------|-------------------------|-------------------------|
| Net assets                                            |                         |                         |
| Shareholders' equity                                  |                         |                         |
| Capital stock                                         | 3,181                   | 3,181                   |
| Capital surplus                                       | 4,469                   | 4,469                   |
| Retained earnings                                     | 31,927                  | 33,520                  |
| Treasury shares                                       | (2,087)                 | (2,088)                 |
| Total shareholders' equity                            | 37,491                  | 39,083                  |
| Accumulated other comprehensive income                |                         |                         |
| Valuation difference on available-for-sale securities | 142                     | 235                     |
| Foreign currency translation adjustment               | (5)                     | (4)                     |
| Remeasurements of defined benefit plans               | (38)                    | (40)                    |
| Total accumulated other comprehensive income          | 99                      | 190                     |
| Total net assets                                      | 37,590                  | 39,274                  |
| Total liabilities and net assets                      | 77,083                  | 86,068                  |

## (2) Consolidated Statements of Income and Comprehensive Income

## Consolidated Statements of Income

(Millions of yen)

|                                                               | Nine months ended<br>November 30, 2016 | Nine months ended<br>November 30, 2017 |
|---------------------------------------------------------------|----------------------------------------|----------------------------------------|
| Net sales                                                     | 86,810                                 | 91,459                                 |
| Cost of sales                                                 | 37,552                                 | 39,297                                 |
| Gross profit                                                  | 49,257                                 | 52,162                                 |
| Selling, general and administrative expenses                  | 44,211                                 | 45,938                                 |
| Operating income                                              | 5,046                                  | 6,224                                  |
| Non-operating income                                          |                                        |                                        |
| Interest income                                               | 1                                      | 1                                      |
| Rent income                                                   | 5                                      | 9                                      |
| Share of profit of entities accounted for using equity method | 0                                      | —                                      |
| Other                                                         | 70                                     | 45                                     |
| Total non-operating income                                    | 77                                     | 56                                     |
| Non-operating expenses                                        |                                        |                                        |
| Interest expenses                                             | 100                                    | 88                                     |
| Provision for loss on guarantees                              | 38                                     | 17                                     |
| Other                                                         | 31                                     | 30                                     |
| Total non-operating expenses                                  | 170                                    | 135                                    |
| Ordinary income                                               | 4,953                                  | 6,144                                  |
| Extraordinary losses                                          |                                        |                                        |
| Loss on retirement of non-current assets                      | 89                                     | 162                                    |
| Impairment loss                                               | 185                                    | 434                                    |
| Total extraordinary losses                                    | 275                                    | 596                                    |
| Profit before income taxes                                    | 4,678                                  | 5,547                                  |
| Income taxes - current                                        | 1,825                                  | 2,093                                  |
| Income taxes - deferred                                       | 97                                     | 143                                    |
| Total income taxes                                            | 1,922                                  | 2,236                                  |
| Profit                                                        | 2,755                                  | 3,310                                  |
| Profit attributable to owners of parent                       | 2,755                                  | 3,310                                  |



# Consolidated Statements of Comprehensive Income

(Millions of yen)

|                                                                                   | Nine months ended<br>November 30, 2016 | Nine months ended<br>November 30, 2017 |
|-----------------------------------------------------------------------------------|----------------------------------------|----------------------------------------|
| Profit                                                                            | 2,755                                  | 3,310                                  |
| Other comprehensive income                                                        |                                        |                                        |
| Valuation difference on available-for-sale securities                             | 13                                     | 93                                     |
| Remeasurements of defined benefit plans, net of tax                               | (28)                                   | (2)                                    |
| Foreign currency translation adjustment                                           | (7)                                    | 0                                      |
| Share of other comprehensive income of entities accounted for using equity method | (8)                                    | 0                                      |
| Total other comprehensive income                                                  | (31)                                   | 91                                     |
| Comprehensive income                                                              | 2,723                                  | 3,402                                  |
| Comprehensive income attributable to                                              |                                        |                                        |
| Comprehensive income attributable to owners of parent                             | 2,723                                  | 3,402                                  |
| Comprehensive income attributable to non-controlling interests                    | —                                      | —                                      |

(3) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes in Case of Significant Changes in Shareholders' Equity)

Not applicable.

### 3. Additional Information

#### (1) Sales Results by Segment (Consolidated)

|                                              | Nine months ended<br>November 30, 2016 | Nine months ended<br>November 30, 2017 | Changes from the previous<br>corresponding period |
|----------------------------------------------|----------------------------------------|----------------------------------------|---------------------------------------------------|
|                                              | million yen                            | million yen                            | %                                                 |
| Apparel Business                             | 62,986                                 | 65,789                                 | 104.5                                             |
| Miscellaneous Goods/<br>Accessories Business | 23,711                                 | 25,591                                 | 107.9                                             |
| Other                                        | 111                                    | 77                                     | 69.6                                              |
| Total                                        | 86,810                                 | 91,459                                 | 105.4                                             |

#### (2) Status of Stores (Consolidated)

|                                          | Nine months ended<br>November 30, 2017 |
|------------------------------------------|----------------------------------------|
| Number of stores as of February 28, 2017 | 923 stores                             |
| Number of new stores                     | 54 stores                              |
| Number of closed stores                  | 51 stores                              |
| Number of stores as of November 30, 2017 | 926 stores                             |