

Consolidated Financial Results for the Fiscal Year Ended February 29, 2020 [Japanese GAAP]

April 14, 2020

Company name: PAL GROUP Holdings CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 2726

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Scheduled date of ordinary general meeting of shareholders: May 27, 2020

Scheduled date of commencing dividend payments: May 28, 2020

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Availability of supplementary briefing material on financial results: Not available

Schedule of financial results briefing session: Scheduled (for analysts and institutional investors)

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

1. Consolidated Financial Results for the Fiscal Year Ended February 29, 2020 (March 1, 2019 to February 29, 2020)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Fiscal year ended February 29, 2020	132,163	1.3	9,067	14.3	9,168	17.1	7,028	47.6
Fiscal year ended February 28, 2019	130,474	5.9	7,933	12.6	7,832	12.4	4,760	91.2

(Note) Comprehensive income: Fiscal year ended February 29, 2020: ¥6,858 million [42.5%]

Fiscal year ended February 28, 2019: ¥4,814 million [85.0%]

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary profit to total assets	Operating profit to net sales
	yen	yen	%	%	%
Fiscal year ended February 29, 2020	159.74	—	15.9	10.0	6.9
Fiscal year ended February 28, 2019	108.20	—	11.9	9.2	6.1

(Reference) Equity in earnings of affiliates: Fiscal year ended February 29, 2020: ¥158 million

Fiscal year ended February 28, 2019: ¥(13) million

The Company conducted a stock split as of March 1, 2020, at a ratio of 2 shares for each common share. Therefore, basic earnings per share is calculated on the assumption that this stock split was conducted at the beginning of the previous fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	yen
As of February 29, 2020	94,954	46,627	49.1	1,059.78
As of February 28, 2019	87,726	41,639	47.5	946.40

(Reference) Equity: As of February 29, 2020: ¥46,627 million

As of February 28, 2019: ¥41,639 million

The Company conducted a stock split as of March 1, 2020, at a ratio of 2 shares for each common share. Therefore, net assets per share is calculated on the assumption that this stock split was conducted at the beginning of the previous fiscal year.

(3) Consolidated Cash Flows

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	million yen	million yen	million yen	million yen
Fiscal year ended February 29, 2020	14,705	(3,543)	(4,068)	52,727
Fiscal year ended February 28, 2019	10,378	(1,182)	(4,291)	45,633

2. Dividends

	Annual dividends					Total dividends paid (annual)	Payout ratio (consolidated)	Dividends to net assets (consolidated)
	1st quarter -end	2nd quarter -end	3rd quarter -end	Year- end	Total			
	yen	yen	yen	yen	yen	million yen	%	%
Fiscal year ended February 28, 2019	—	0.00	—	85.00	85.00	1,869	39.3	4.7
Fiscal year ended February 29, 2020	—	0.00	—	100.00	100.00	2,199	31.3	5.0
Fiscal year ending February 28, 2021 (Forecast)	—	0.00	—	—	—		—	

(Note) Year-end dividend forecast for the fiscal year ending February 28, 2021 is undetermined.

The Company conducted a stock split as of March 1, 2020, at a ratio of 2 shares for each common share.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2021 (March 1, 2020 to February 28, 2021)

Consolidated financial results forecast for the fiscal year ending February 28, 2021 is not disclosed, as it is difficult to calculate it properly and reasonably at this time.

*** Notes**

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

(2) 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

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

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

As of February 29, 2020	46,272,000 shares
As of February 28, 2019	46,272,000 shares

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

As of February 29, 2020	2,274,644 shares
As of February 28, 2019	2,274,514 shares

3) Average number of shares during the period:

Fiscal year ended February 29, 2020	43,997,450 shares
Fiscal year ended February 28, 2019	43,997,623 shares

The Company conducted a stock split as of March 1, 2020, at a ratio of 2 shares for each common share. Therefore, the total number of issued shares at the end of the period, the total number of treasury shares at the end of the period, and the average number of shares during the period are calculated on the assumption that this stock split was conducted at the beginning of the previous fiscal year.

* These consolidated financial results are not covered by the audit procedure conducted by a certified public accountant or audit corporation.

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

Consolidated financial results forecast for the fiscal year ending February 28, 2021 is not disclosed, as it is difficult to calculate it properly and reasonably due to the impact of the coronavirus disease (COVID-19) on the Company's business activities and operating results. The Company will disclose it immediately once it becomes possible to calculate it properly and reasonably.

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1. Overview of Consolidated Operating Results

(1) Overview of Consolidated Operating Results for the Period under Review

1) Overview for the Fiscal Year Ended February 29, 2020

During the fiscal year ended February 29, 2020 (March 1, 2019 to February 29, 2020), the Japanese economy remained on a gradual recovery trend driven mainly by improved corporate profit and the employment environment. However, the outlook remained uncertain due to factors such as intensifying trade friction between the U.S. and China, economic slowdown in China, as well as the spread of the coronavirus disease (COVID-19) infection on a global scale. Under such a business environment, the Corporate Group made every effort to expand its operations and improve management efficiency by proactively establishing its business mode 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 flexible introduction of items in stores. As a result, net sales increased by 1.0% year on year to ¥97,102 million. In the Miscellaneous Goods/Accessories Business, net sales increased by 2.2% year on year to ¥34,968 million. As a result of the above, net sales for the fiscal year ended February 29, 2020 increased by 1.3% year on year to ¥132,163 million. In terms of profit, the gross profit margin increased by 0.6 percentage point year on year to 56.3%. Operating profit increased by ¥1,133 million year on year to ¥9,067 million, ordinary profit increased by ¥1,336 million year on year to ¥9,168 million, and profit attributable to owners of parent increased by ¥2,267 million year on year to ¥7,028 million.

2) Sales Results by Segment for the Fiscal Year Ended February 29, 2020

Segment	Amount (million yen)	Changes from the previous fiscal year (%)
Apparel Business	97,102	101.0
Miscellaneous Goods/Accessories Business	34,968	102.2
Other	92	89.9
Total	132,163	101.3

3) Status of Stores for the Fiscal Year Ended February 29, 2020 (March 1, 2019 to February 29, 2020)

Number of stores as of February 28, 2019	926 stores
Number of new stores	48 stores
Number of closed stores	48 stores
Number of stores as of February 29, 2020	926 stores

(2) Overview of Consolidated Financial Position for the Period under Review

(Assets)

Current assets increased by ¥5,275 million compared with the end of the previous fiscal year, due mainly to increases in cash and deposits by ¥7,094 million and notes and accounts receivable - trade by ¥812 million, despite a decrease in merchandise and finished goods by ¥2,582 million. Non-current assets increased by ¥1,952 million compared with the end of the previous fiscal year, due primarily to increases in investment

securities by ¥1,806 million and deferred tax assets by ¥613 million, despite a decrease in buildings and structures by ¥211 million.

(Liabilities)

Current liabilities increased by ¥2,645 million compared with the end of the previous fiscal year, due mainly to increases in notes and accounts payable - trade by ¥3,947 million, current portion of long-term loans payable by ¥753 million and accrued consumption taxes by ¥848 million, despite decreases in short-term loans payable by ¥1,856 million and income taxes payable by ¥1,315 million. Non-current liabilities decreased by ¥405 million compared with the end of the previous fiscal year, due primarily to decreases in long-term loans payable by ¥170 million, provision for loss on guarantees by ¥174 million and lease obligations by ¥198 million, despite an increase in retirement benefit liability by ¥145 million.

(Net assets)

Net assets increased by ¥4,988 million compared with the end of the previous fiscal year, due mainly to an increase in retained earnings by ¥5,158 million.

(3) Overview of Consolidated Cash Flows for the Period under Review

Cash and cash equivalents (hereinafter “cash”) at the end of the fiscal year ended February 29, 2020 increased by ¥7,094 million compared with the end of the previous fiscal year to ¥52,727 million, due mainly to cash provided by operating activities in the amount of ¥14,705 million. Cash flows for the fiscal year ended February 29, 2020 are as follows.

(Net cash provided by (used in) operating activities)

While cash provided by operating activities was ¥10,378 million for the previous fiscal year, cash provided by operating activities amounted to ¥14,705 million for the fiscal year ended February 29, 2020, due mainly to a decrease in inventories by ¥2,590 million, an increase in notes and accounts payable - trade by ¥3,859 million and profit before income taxes in the amount of ¥8,604 million.

(Net cash provided by (used in) investing activities)

While cash used in investing activities was ¥1,182 million for the previous fiscal year, cash used in investing activities amounted to ¥3,543 million for the fiscal year ended February 29, 2020, due mainly to purchase of property, plant and equipment of ¥1,148 million and purchase of shares of subsidiaries and associates of ¥1,829 million.

(Net cash provided by (used in) financing activities)

While cash used in financing activities was ¥4,291 million for the previous fiscal year, cash used in financing activities amounted to ¥4,068 million for the fiscal year ended February 29, 2020, due mainly to a decrease in short-term loans payable of ¥1,856 million and cash dividends paid of ¥1,869 million.

(Reference) Cash flow-related indicators

	Fiscal year ended February 29, 2016	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019	Fiscal year ended February 29, 2020
Equity ratio (%)	46.9	48.8	46.4	47.5	49.1
Equity ratio based on market value (%)	73.0	78.1	84.3	83.2	70.6
Interest-bearing debt to cash flows ratio (%)	—	251.7	382.2	175.7	111.2
Interest-coverage ratio (times)	—	38.7	43.1	83.1	129.1

Equity ratio: Equity / Total assets

Equity ratio based on market value: Market capitalization of shares / Total assets

Interest-bearing debt to cash flows ratio: Interest-bearing debt / Operating cash flows

Interest-coverage ratio: Operating cash flows / Interest payments

(Note) For the fiscal year ended February 29, 2016, the description of interest-bearing debt to cash flows ratio and interest-coverage ratio has been omitted as the operating cash flows were negative.

(4) Outlook for Fiscal 2021

The economic climate in Japan will remain uncertain due to the global economic disturbance caused by the global spread of the coronavirus disease (COVID-19) infection, and the domestic economy may stagnate throughout the year. Overall consumer spending is shrinking due to shelter-in-place orders as spread prevention measures issued by local municipalities. Furthermore, a decline in store traffic has become evident due mainly to the Company's efforts to counter the spread such as reducing operating hours at stores. These factors are projected to greatly affect the Company's performance in the coming fiscal year. However, it is difficult to forecast at this point until when the infection spread will be depressing consumption, and how long the spread prevention measures will be sustained. We therefore judged that it is not possible to predict their impacts on the Company's performance at this time. Accordingly, the outlook for the fiscal year ending February 28, 2021 remains undetermined at this point. It will be disclosed promptly once there is a certain prospect of containing the spread of the coronavirus disease (COVID-19) infection and it becomes possible to make a proper and reasonable calculation.

2. Rationale behind the Choice of Accounting Standards

To sustain comparability of consolidated financial statements between periods as well as between companies, the Company prepares consolidated financial statements under the Japanese GAAP.

We will appropriately respond to the application of the International Financial Reporting Standards (IFRS) considering various circumstances in Japan and overseas.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of February 28, 2019	As of February 29, 2020
Assets		
Current assets		
Cash and deposits	45,633	52,727
Notes and accounts receivable - trade	5,623	6,435
Merchandise and finished goods	10,412	7,829
Raw materials and supplies	26	18
Other	871	830
Allowance for doubtful accounts	(0)	—
Total current assets	62,566	67,842
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,234	6,022
Machinery, equipment and vehicles, net	4	3
Land	546	546
Leased assets, net	1,138	972
Other, net	229	234
Total property, plant and equipment	8,153	7,780
Intangible assets	808	690
Investments and other assets		
Investment securities	962	2,769
Guarantee deposits	13,088	13,017
Deferred tax assets	1,694	2,308
Other	524	794
Allowance for doubtful accounts	(73)	(247)
Total investments and other assets	16,197	18,641
Total non-current assets	25,159	27,112
Total assets	87,726	94,954

(Millions of yen)

	As of February 28, 2019	As of February 29, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	16,867	20,814
Short-term loans payable	3,650	1,794
Current portion of long-term loans payable	3,945	4,698
Accrued expenses	2,124	2,440
Income taxes payable	1,592	276
Provision for bonuses	1,807	1,737
Provision for bonuses for directors (and other officers)	326	427
Provision for sales returns	0	0
Provision for point card certificates	75	314
Other	2,969	3,500
Total current liabilities	33,358	36,004
Non-current liabilities		
Long-term loans payable	8,685	8,515
Retirement benefit liability	901	1,046
Provision for retirement benefits for directors (and other officers)	131	134
Provision for loss on guarantees	174	—
Long-term accounts payable - other	98	49
Lease obligations	960	762
Asset retirement obligations	1,690	1,743
Deferred tax liabilities	19	4
Other	66	65
Total non-current liabilities	12,728	12,323
Total liabilities	46,087	48,327
Net assets		
Shareholders' equity		
Capital stock	3,181	3,181
Capital surplus	4,469	4,469
Retained earnings	35,811	40,969
Treasury shares	(2,088)	(2,088)
Total shareholders' equity	41,373	46,531
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	308	183
Foreign currency translation adjustment	(19)	(22)
Remeasurements of defined benefit plans	(23)	(65)
Total accumulated other comprehensive income	265	96
Total net assets	41,639	46,627
Total liabilities and net assets	87,726	94,954

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Fiscal year ended February 28, 2019	Fiscal year ended February 29, 2020
Net sales	130,474	132,163
Cost of sales	57,774	57,776
Gross profit	72,700	74,386
Provision for sales returns	(0)	(0)
Gross profit - net	72,700	74,386
Selling, general and administrative expenses		
Advertising and promotion expenses	2,828	3,073
Provision for point card certificates	75	314
Transportation and warehousing expenses	4,160	4,142
Provision of allowance for doubtful accounts	(0)	(0)
Salaries, allowances and bonuses	18,628	18,729
Provision for bonuses	1,807	1,737
Provision for bonuses for directors (and other officers)	326	427
Retirement benefit expenses	142	140
Provision for retirement benefits for directors (and other officers)	5	4
Welfare expenses	3,391	3,404
Rent expenses	20,087	19,895
Lease expenses	118	143
Other	13,195	13,307
Total selling, general and administrative expenses	64,766	65,319
Operating profit	7,933	9,067
Non-operating income		
Interest income	1	1
Rent income	12	14
Share of profit of entities accounted for using equity method	—	158
Other	80	75
Total non-operating income	94	249
Non-operating expenses		
Interest expenses	125	112
Provision of allowance for doubtful accounts	—	17
Provision for loss on guarantees	14	—
Share of loss of entities accounted for using equity method	13	—
Other	42	18
Total non-operating expenses	195	148
Ordinary profit	7,832	9,168
Extraordinary income		
Gain on sales of non-current assets	310	—
Compensation income	198	—
Compensation for transfer	242	—
Total extraordinary income	751	—

(Millions of yen)

	Fiscal year ended February 28, 2019	Fiscal year ended February 29, 2020
Extraordinary losses		
Loss on retirement of non-current assets	266	162
Loss on cancellation of leases	3	3
Impairment loss	475	387
Loss on sales of shares of subsidiaries and associates	—	10
Loss on disaster	136	—
Total extraordinary losses	882	564
Profit before income taxes	7,701	8,604
Income taxes - current	3,070	2,134
Income taxes - deferred	(129)	(557)
Total income taxes	2,941	1,576
Profit	4,760	7,028
Profit attributable to owners of parent	4,760	7,028

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal year ended February 28, 2019	Fiscal year ended February 29, 2020
Profit	4,760	7,028
Other comprehensive income		
Valuation difference on available-for-sale securities	40	(124)
Foreign currency translation adjustment	(8)	(1)
Remeasurements of defined benefit plans, net of tax	27	(42)
Share of other comprehensive income of entities accounted for using equity method	(5)	(1)
Total other comprehensive income	53	(169)
Comprehensive income	4,814	6,858
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,814	6,858
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated Statements of Changes in Net Assets
Fiscal year ended February 28, 2019

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	3,181	4,469	32,700	(2,088)	38,263
Changes of items during period					
Dividends of surplus			(1,649)		(1,649)
Profit attributable to owners of parent			4,760		4,760
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares					—
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	3,110	(0)	3,110
Balance at end of current period	3,181	4,469	35,811	(2,088)	41,373

(Millions of yen)

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of current period	267	(5)	(50)	211	38,475
Changes of items during period					
Dividends of surplus					(1,649)
Profit attributable to owners of parent					4,760
Purchase of treasury shares					(0)
Disposal of treasury shares					—
Net changes of items other than shareholders' equity	40	(13)	27	53	53
Total changes of items during period	40	(13)	27	53	3,164
Balance at end of current period	308	(19)	(23)	265	41,639

Fiscal year ended February 29, 2020

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	3,181	4,469	35,811	(2,088)	41,373
Changes of items during period					
Dividends of surplus			(1,869)		(1,869)
Profit attributable to owners of parent			7,028		7,028
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		0		0	0
Net changes of items other than shareholders' equity					
Total changes of items during period	—	0	5,158	(0)	5,157
Balance at end of current period	3,181	4,469	40,969	(2,088)	46,531

(Millions of yen)

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of current period	308	(19)	(23)	265	41,639
Changes of items during period					
Dividends of surplus					(1,869)
Profit attributable to owners of parent					7,028
Purchase of treasury shares					(0)
Disposal of treasury shares					0
Net changes of items other than shareholders' equity	(124)	(3)	(42)	(169)	(169)
Total changes of items during period	(124)	(3)	(42)	(169)	4,988
Balance at end of current period	183	(22)	(65)	96	46,627

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended February 28, 2019	Fiscal year ended February 29, 2020
Cash flows from operating activities		
Profit before income taxes	7,701	8,604
Depreciation	1,837	1,878
Impairment loss	475	387
Increase (decrease) in allowance for doubtful accounts	(0)	173
Interest and dividend income	(7)	(9)
Interest expenses	125	112
Compensation income	(198)	–
Compensation for removal	(242)	–
Share of loss (profit) of entities accounted for using equity method	13	(158)
Decrease (increase) in notes and accounts receivable - trade	(428)	(812)
Decrease (increase) in inventories	(502)	2,590
Increase (decrease) in notes and accounts payable - trade	2,234	3,859
Increase (decrease) in provision for bonuses	284	(70)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	5	3
Increase (decrease) in provision for bonuses for directors (and other officers)	223	101
Increase (decrease) in retirement benefit liability	96	87
Increase (decrease) in provision for sales returns	(0)	(0)
Increase (decrease) in provision for loss on guarantees	14	(174)
Increase (decrease) in provision for point card certificates	58	238
Loss on retirement of property, plant and equipment	270	166
Loss (gain) on sales of non-current assets	(310)	–
Loss (gain) on sales of shares of subsidiaries and associates	–	10
Increase (decrease) in accrued consumption taxes	97	887
Other, net	449	370
Subtotal	12,195	18,247
Interest and dividend income received	7	8
Interest expenses paid	(124)	(113)
Payments for retirement benefits for directors (and other officers)	–	(2)
Proceeds from compensation	198	242
Income taxes (paid) refund	(1,897)	(3,677)
Net cash provided by (used in) operating activities	10,378	14,705

(Millions of yen)

	Fiscal year ended February 28, 2019	Fiscal year ended February 29, 2020
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,622)	(1,148)
Proceeds from sales of property, plant and equipment	552	–
Payments of loans receivable	(55)	(300)
Collection of loans receivable	–	55
Purchase of intangible assets	(224)	(230)
Payments for guarantee deposits	(912)	(1,081)
Proceeds from collection of guarantee deposits	1,330	1,150
Purchase of shares of subsidiaries and associates	–	(1,829)
Payments for asset retirement obligations	(210)	(158)
Other, net	(40)	(0)
Net cash provided by (used in) investing activities	(1,182)	(3,543)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(982)	(1,856)
Proceeds from long-term loans payable	1,068	1,920
Repayments of long-term loans payable	(1,338)	(1,337)
Purchase of treasury shares	(0)	(0)
Proceeds from sales of treasury shares	–	0
Cash dividends paid	(1,649)	(1,869)
Repayments of installment payables	(727)	(388)
Repayments of finance lease obligations	(661)	(536)
Net cash provided by (used in) financing activities	(4,291)	(4,068)
Net increase (decrease) in cash and cash equivalents	4,904	7,094
Cash and cash equivalents at beginning of period	40,728	45,633
Cash and cash equivalents at end of period	45,633	52,727