

Consolidated Financial Results
for the Three Months Ended May 31, 2020
[Japanese GAAP]

July 14, 2020

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 filing quarterly securities report: July 14, 2020

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 Three Months Ended May 31, 2020 (March 1, 2020 to May 31, 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	%
Three months ended May 31, 2020	15,834	(53.6)	(3,088)	—	(3,224)	—	(2,200)	—
Three months ended May 31, 2019	34,138	6.1	3,665	35.8	3,635	36.2	2,398	54.2

(Note) Comprehensive income: Three months ended May 31, 2020: ¥(2,260) million [—%]

Three months ended May 31, 2019: ¥2,375 million [50.1%]

	Basic earnings per share	Diluted earnings per share
	yen	yen
Three months ended May 31, 2020	(50.08)	—
Three months ended May 31, 2019	54.51	—

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
	million yen	million yen	%
As of May 31, 2020	95,464	42,083	44.1
As of February 29, 2020	94,954	46,627	49.1

(Reference) Equity: As of May 31, 2020: ¥42,083 million

As of February 29, 2020: ¥46,627 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 29, 2020	—	0.00	—	100.00	100.00
Fiscal year ending February 28, 2021	—				
Fiscal year ending February 28, 2021 (Forecast)		0.00	—	—	—

(Note) Revision of dividend forecast: No

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)

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: 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 May 31, 2020	46,272,000 shares
As of February 29, 2020	46,272,000 shares

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

As of May 31, 2020	2,345,944 shares
As of February 29, 2020	2,274,644 shares

3) Average number of shares during the period:

Three months ended May 31, 2020	43,937,939 shares
Three months ended May 31, 2019	43,997,482 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 quarterly consolidated financial results are not covered by the quarterly review conducted by certified public accountants or audit corporations.

* 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.

Appendix

1. Qualitative Information on Consolidated Financial Results for the Period under Review	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	2
(3) Explanation of Consolidated Financial Results Forecast and Other Future Projections	2
2. Consolidated Financial Statements	4
(1) Consolidated Balance Sheets	4
(2) Consolidated Statements of Income and Comprehensive Income	6
3. Additional Information	8
(1) Sales Results by Segment (Consolidated)	8
(2) Status of Stores (Consolidated)	8

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

(1) Explanation of Operating Results

During the three months ended May 31, 2020 (March 1, 2020 to May 31, 2020), the Japanese economy deteriorated rapidly with significant decline in consumption and production due to the spread of the coronavirus disease (COVID-19) infection. As it was difficult to tell when the spread of COVID-19 would be contained, the outlook remained extremely uncertain.

Most of the Company's stores, which operate nationwide, had to be temporarily closed for an extended period of time in April and May due to the stay-home requests made by the government and local municipalities and the state of emergency declared by the government on April 7. All of the Company's stores resumed business operations with the lifting of the state of emergency declaration on May 25, but some stores continued to operate at reduced operating hours.

Under such a business environment, the Company made every effort to expand EC sales by focusing on introducing its products in various digital media such as Instagram and taking measures including awarding extra points and offering limited-time sales. As a result, EC sales increased by almost 20% year on year. However, the impact of the temporary closure and reduced operating hours of the stores was extremely large. Consequently, in the Apparel Business, net sales were ¥11,783 million, or 45.9% of the previous year's level, and in the Miscellaneous Goods/Accessories Business, net sales were ¥4,038 million, or 47.7% of the previous year's level.

As a result of the above, as for operating results for the three months ended May 31, 2020, net sales were ¥15,834 million (53.6% decrease year on year), operating loss was ¥3,088 million (operating profit of ¥3,665 million for the previous corresponding period), ordinary loss was ¥3,224 million (ordinary profit of ¥3,635 million for the previous corresponding period), and loss attributable to owners of parent was ¥2,200 million (profit attributable to owners of parent of ¥2,398 million for the previous corresponding period).

(2) Explanation of Financial Position

(Assets)

Current assets decreased by ¥723 million compared with the end of the previous fiscal year, due mainly to decreases in cash and deposits by ¥3,062 million and notes and accounts receivable - trade by ¥1,776 million, despite an increase in merchandise and finished goods by ¥3,473 million.

Non-current assets increased by ¥1,233 million compared with the end of the previous fiscal year, due primarily to increases in buildings and structures by ¥498 million and deferred tax assets by ¥1,055 million.

(Liabilities)

Current liabilities increased by ¥4,005 million compared with the end of the previous fiscal year, due mainly to an increase in short-term borrowings by ¥10,000 million, despite decreases in notes and accounts payable - trade by ¥4,055 million and accrued consumption taxes by ¥1,217 million.

Non-current liabilities increased by ¥1,048 million compared with the end of the previous fiscal year, due primarily to an increase in long-term borrowings by ¥1,032 million.

(Net assets)

Net assets decreased by ¥4,544 million compared with the end of the previous fiscal year, due mainly to a decrease in retained earnings by ¥4,400 million.

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

Though the state of emergency declaration in response to COVID-19 was lifted, the economic climate in Japan remains uncertain due to the global economic disturbance caused by the global spread of the infection, and the domestic economy may continue to stagnate. Though all stores of the Company resumed business operations on June 3, it is difficult to forecast the timing of recovery of consumers' purchasing activities, etc. and it is not possible to predict the 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 it becomes possible to make a proper and reasonable calculation.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of February 29, 2020	As of May 31, 2020
Assets		
Current assets		
Cash and deposits	52,727	49,665
Notes and accounts receivable - trade	6,435	4,658
Merchandise and finished goods	7,829	11,303
Other	849	1,491
Total current assets	67,842	67,118
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,022	6,521
Other, net	1,757	1,724
Total property, plant and equipment	7,780	8,245
Intangible assets	690	642
Investments and other assets		
Guarantee deposits	13,017	13,001
Other	5,872	6,722
Allowance for doubtful accounts	(247)	(266)
Total investments and other assets	18,641	19,457
Total non-current assets	27,112	28,345
Total assets	94,954	95,464

(Millions of yen)

	As of February 29, 2020	As of May 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	20,814	16,758
Short-term borrowings	1,794	11,794
Current portion of long-term borrowings	4,698	4,394
Income taxes payable	276	17
Provision for bonuses	1,737	1,884
Provision for point card certificates	314	275
Provisions	427	0
Other	5,941	4,885
Total current liabilities	36,004	40,009
Non-current liabilities		
Long-term borrowings	8,515	9,548
Retirement benefit liability	1,046	1,065
Provisions	134	135
Asset retirement obligations	1,743	1,844
Other	882	778
Total non-current liabilities	12,323	13,371
Total liabilities	48,327	53,381
Net assets		
Shareholders' equity		
Share capital	3,181	3,181
Capital surplus	4,469	4,469
Retained earnings	40,969	36,569
Treasury shares	(2,088)	(2,172)
Total shareholders' equity	46,531	42,047
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	183	122
Foreign currency translation adjustment	(22)	(24)
Remeasurements of defined benefit plans	(65)	(63)
Total accumulated other comprehensive income	96	35
Total net assets	46,627	42,083
Total liabilities and net assets	94,954	95,464

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Three months ended May 31, 2019	Three months ended May 31, 2020
Net sales	34,138	15,834
Cost of sales	13,765	6,968
Gross profit	20,372	8,866
Selling, general and administrative expenses	16,706	11,954
Operating profit (loss)	3,665	(3,088)
Non-operating income		
Interest income	0	0
Royalty income	5	14
Foreign exchange gains	5	3
Other	12	21
Total non-operating income	23	40
Non-operating expenses		
Interest expenses	29	24
Provision of allowance for doubtful accounts	—	19
Share of loss of entities accounted for using equity method	21	128
Other	2	5
Total non-operating expenses	53	177
Ordinary profit (loss)	3,635	(3,224)
Extraordinary losses		
Loss on retirement of non-current assets	0	5
Impairment loss	19	9
Total extraordinary losses	20	15
Profit (loss) before income taxes	3,615	(3,240)
Income taxes - current	1,498	32
Income taxes - deferred	(281)	(1,071)
Total income taxes	1,217	(1,039)
Profit (loss)	2,398	(2,200)
Profit (loss) attributable to owners of parent	2,398	(2,200)

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Three months ended May 31, 2019	Three months ended May 31, 2020
Profit (loss)	2,398	(2,200)
Other comprehensive income		
Valuation difference on available-for-sale securities	(24)	(60)
Foreign currency translation adjustment	0	(0)
Remeasurements of defined benefit plans, net of tax	0	2
Share of other comprehensive income of entities accounted for using equity method	0	(0)
Total other comprehensive income	(22)	(60)
Comprehensive income	2,375	(2,260)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,375	(2,260)

3. Additional Information

(1) Sales Results by Segment (Consolidated)

	Three months ended May 31, 2019	Three months ended May 31, 2020	Changes from the previous corresponding period
	million yen	million yen	%
Apparel Business	25,646	11,783	45.9
Miscellaneous Goods/ Accessories Business	8,463	4,038	47.7
Other	27	12	45.9
Total	34,138	15,834	46.4

(2) Status of Stores (Consolidated)

	Three months ended May 31, 2020
Number of stores as of February 29, 2020	926 stores
Number of new stores	27 stores
Number of closed stores	7 stores
Number of stores as of May 31, 2020	946 stores