

Consolidated Financial Results
for the Six Months Ended August 31, 2020
[Japanese GAAP]

October 13, 2020

Company name: PAL GROUP Holdings CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 2726

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

Representative: Ryuta Inoue, President and Representative Director

Contact: Toshio Fujii, Executive Officer and General Manager of Finance and Accounting Department

Phone: +81-6-6227-0308

Scheduled date of filing quarterly securities report: October 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: Scheduled (for analysts and institutional investors)

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

1. Consolidated Financial Results for the Six Months Ended August 31, 2020 (March 1, 2020 to August 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	%
Six months ended August 31, 2020	45,165	(32.5)	(1,761)	—	(1,983)	—	(1,518)	—
Six months ended August 31, 2019	66,958	3.7	5,524	41.7	5,488	43.1	3,468	57.5

(Note) Comprehensive income: Six months ended August 31, 2020: ¥(1,567) million [-%]
Six months ended August 31, 2019: ¥3,440 million [57.3%]

	Basic earnings per share	Diluted earnings per share
	yen	yen
Six months ended August 31, 2020	(34.57)	—
Six months ended August 31, 2019	78.84	—

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 August 31, 2020	93,653	42,776	45.7
As of February 29, 2020	94,954	46,627	49.1

(Reference) Equity: As of August 31, 2020: ¥42,776 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	—	0.00			
Fiscal year ending February 28, 2021 (Forecast)			—	—	—

(Note) Revision of dividend forecast: No

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)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share	
	million yen	%	million yen	%	million yen	%	million yen	%	yen	
Full year	104,780	(20.7)	(610)	—	(940)	—	(1,220)	—	(27.77)	

(Note) Revision of consolidated financial results forecast: Yes

* 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 August 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 August 31, 2020	2,345,966 shares
As of February 29, 2020	2,274,644 shares

- 3) Average number of shares during the period:

Six months ended August 31, 2020	43,931,996 shares
Six months ended August 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

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, and do not guarantee the achievement of the projections. 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 3 of the Appendix to this report.

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	3
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 six months ended August 31, 2020 (March 1, 2020 to August 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 COVID-19 would be contained, the outlook remained 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. As a result of the temporary closure, customer traffic fell significantly. All of the Company's stores then resumed business operations on June 3 with the lifting of the state of emergency declaration on May 25. Customer traffic is gradually increasing, but it has not recovered to the level of the previous year.

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 more than 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 ¥32,061 million, or 65.8% of the previous year's level, and in the Miscellaneous Goods/Accessories Business, net sales were ¥13,080 million, or 71.9% of the previous year's level.

As a result of the above, as for operating results for the six months ended August 31, 2020, the Company recorded net sales of ¥45,165 million (32.5% decrease year on year), operating loss of ¥1,761 million (operating profit of ¥5,524 million for the previous corresponding period), ordinary loss of ¥1,983 million (ordinary profit of ¥5,488 million for the previous corresponding period), and loss attributable to owners of parent of ¥1,518 million (profit attributable to owners of parent of ¥3,468 million for the previous corresponding period).

(2) Explanation of Financial Position

(Assets)

Current assets decreased by ¥2,270 million compared with the end of the previous fiscal year, due mainly to decreases in cash and deposits by ¥1,789 million and notes and accounts receivable - trade by ¥688 million. Non-current assets increased by ¥969 million compared with the end of the previous fiscal year, due primarily to increases in buildings and structures by ¥255 million and deferred tax assets by ¥872 million, despite a decrease in investment securities by ¥256 million.

(Liabilities)

Current liabilities increased by ¥1,580 million compared with the end of the previous fiscal year, due mainly to an increase in short-term borrowings by ¥13,206 million, despite decreases in notes and accounts payable - trade by ¥8,071 million, accrued consumption taxes by ¥1,213 million, provision for bonuses by ¥934 million and current portion of long-term borrowings by ¥293 million.

Non-current liabilities increased by ¥969 million compared with the end of the previous fiscal year, due primarily to increases in long-term borrowings by ¥756 million and asset retirement obligations by ¥86 million.

(Net assets)

Net assets decreased by ¥3,850 million compared with the end of the previous fiscal year, due mainly to a decrease in retained earnings by ¥3,718 million.

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

The consolidated financial results forecast for the fiscal year ending February 28, 2021 were undetermined as it was difficult to tell when the spread of COVID-19 would be contained or to reasonably calculate its impact on business operations. However, the financial results forecast has been calculated based on the information and projections that are available at this point.

For details, please see “Notice concerning Revision of Financial Results Forecast” announced today (October 13, 2020).

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of February 29, 2020	As of August 31, 2020
Assets		
Current assets		
Cash and deposits	52,727	50,938
Notes and accounts receivable – trade	6,435	5,746
Merchandise and finished goods	7,829	7,615
Other	849	1,272
Total current assets	67,842	65,571
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,022	6,278
Other, net	1,757	1,983
Total property, plant and equipment	7,780	8,261
Intangible assets	690	590
Investments and other assets		
Guarantee deposits	13,017	13,002
Other	5,872	6,506
Allowance for doubtful accounts	(247)	(279)
Total investments and other assets	18,641	19,229
Total non-current assets	27,112	28,081
Total assets	94,954	93,653

(Millions of yen)

	As of February 29, 2020	As of August 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable – trade	20,814	12,743
Short-term borrowings	1,794	15,000
Current portion of long-term borrowings	4,698	4,405
Income taxes payable	276	112
Provision for bonuses	1,737	802
Provision for point card certificates	314	337
Provisions	427	0
Other	5,941	4,182
Total current liabilities	36,004	37,584
Non-current liabilities		
Long-term borrowings	8,515	9,272
Retirement benefit liability	1,046	1,096
Provisions	134	124
Asset retirement obligations	1,743	1,830
Other	882	968
Total non-current liabilities	12,323	13,292
Total liabilities	48,327	50,877
Net assets		
Shareholders' equity		
Share capital	3,181	3,181
Capital surplus	4,469	4,469
Retained earnings	40,969	37,250
Treasury shares	(2,088)	(2,172)
Total shareholders' equity	46,531	42,729
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	183	145
Foreign currency translation adjustment	(22)	(24)
Remeasurements of defined benefit plans	(65)	(74)
Total accumulated other comprehensive income	96	47
Total net assets	46,627	42,776
Total liabilities and net assets	94,954	93,653

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Six months ended August 31, 2019	Six months ended August 31, 2020
Net sales	66,958	45,165
Cost of sales	28,748	20,973
Gross profit	38,209	24,191
Selling, general and administrative expenses	32,685	25,953
Operating profit (loss)	5,524	(1,761)
Non-operating income		
Interest income	0	0
Royalty income	5	18
Rental income	6	6
Foreign exchange gains	10	5
Other	23	49
Total non-operating income	46	81
Non-operating expenses		
Interest expenses	57	55
Provision of allowance for doubtful accounts	—	31
Share of loss of entities accounted for using equity method	19	209
Other	5	7
Total non-operating expenses	82	303
Ordinary profit (loss)	5,488	(1,983)
Extraordinary losses		
Loss on retirement of non-current assets	72	49
Impairment loss	80	209
Total extraordinary losses	152	258
Profit (loss) before income taxes	5,336	(2,242)
Income taxes – current	1,920	177
Income taxes – deferred	(52)	(901)
Total income taxes	1,867	(724)
Profit (loss)	3,468	(1,518)
Profit (loss) attributable to owners of parent	3,468	(1,518)

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Six months ended August 31, 2019	Six months ended August 31, 2020
Profit (loss)	3,468	(1,518)
Other comprehensive income		
Valuation difference on available-for-sale securities	(26)	(37)
Foreign currency translation adjustment	(1)	(0)
Remeasurements of defined benefit plans, net of tax	1	4
Share of other comprehensive income of entities accounted for using equity method	(1)	(14)
Total other comprehensive income	(28)	(48)
Comprehensive income	3,440	(1,567)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,440	(1,567)
Comprehensive income attributable to non-controlling interests	—	—

3. Additional Information

(1) Sales Results by Segment (Consolidated)

	Six months ended August 31, 2019	Six months ended August 31, 2020	Changes from the previous corresponding period
	million yen	million yen	%
Apparel Business	48,714	32,061	65.8
Miscellaneous Goods/ Accessories Business	18,194	13,080	71.9
Other	49	23	47.4
Total	66,958	45,165	67.5

(2) Status of Stores (Consolidated)

	Six months ended August 31, 2020
Number of stores as of February 29, 2020	926 stores
Number of new stores	38 stores
Number of closed stores	24 stores
Number of stores as of August 31, 2020	940 stores