

Consolidated Financial Results for the Fiscal Year Ended February 29, 2024 [Japanese GAAP]

April 9, 2024

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: Yasuyuki Konishi, Executive Officer and General Manager of Finance and Accounting Division

Phone: +81-6-6227-0308

Scheduled date of ordinary general meeting of shareholders: May 29, 2024

Scheduled date of commencing dividend payments: May 30, 2024

Scheduled date of filing securities report: May 30, 2024

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, 2024 (March 1, 2023 to February 29, 2024)

(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, 2024	192,544	17.1	18,605	17.6	18,839	17.3	12,845	29.0
Fiscal year ended February 28, 2023	164,482	—	15,822	110.4	16,061	109.7	9,955	148.8

(Note) Comprehensive income: Fiscal year ended February 29, 2024: ¥13.045 million [30.5%]

Fiscal year ended February 28, 2023: ¥10,000 million [147.6%]

	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, 2024	147.30	—	21.7	15.7	9.7
Fiscal year ended February 28, 2023	113.32	—	19.4	15.6	9.6

(Reference) Equity in earnings of affiliates: Fiscal year ended February 29, 2024: ¥296 million

Fiscal year ended February 28, 2023: ¥148 million

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the previous fiscal year.

Therefore, changes in the net sales for the fiscal year ended February 28, 2023 from the previous corresponding period are not presented.

(Note) The Company conducted a stock split on September 1, 2023 at a ratio of two shares for one share of common stock. Accordingly, basic earnings per share are calculated assuming that the stock split took place at the beginning of the fiscal year ended February 28, 2023.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	yen
As of February 29, 2024	126,922	63,444	50.0	730.74
As of February 28, 2023	112,510	55,191	49.0	628.15

(Reference) Equity: As of February 29, 2024: ¥63,444 million

As of February 28, 2023: ¥55,182 million

(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, 2024	13,460	(4,404)	(5,672)	67,228
Fiscal year ended February 28, 2023	17,029	(2,599)	(2,835)	63,845

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, 2023	—	0.00	—	75.00	75.00	3,294	33.1	6.4
Fiscal year ended February 29, 2024	—	0.00	—	50.00	50.00	—	33.9	7.4
Fiscal year ending February 28, 2025 (Forecast)	—	0.00	—	50.00	50.00		33.7	

(Note) Breakdown of year-end dividend for the fiscal year ended February 29, 2024:

Ordinary dividend: ¥50.00

(Note) The Company conducted a stock split on September 1, 2023 at a ratio of two shares for one share of common stock. The actual dividend amount before the stock split is stated for the fiscal year ended February 28, 2023. The year-end dividend for the fiscal year ended February 29, 2024 reflects the stock split.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2025 (March 1, 2024 to February 28, 2025)

(% 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
First half	99,210	5.4	9,180	(10.9)	9,280	(10.6)	5,880	(16.0)	67.72
Full year	203,500	5.7	20,120	8.1	20,370	8.1	12,940	0.7	149.04

*** 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, 2024	92,544,000 shares
As of February 28, 2023	92,544,000 shares

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

As of February 29, 2024	5,720,704 shares
As of February 28, 2023	4,693,828 shares

3) Average number of shares during the period:

Fiscal year ended February 29, 2024	87,208,317 shares
Fiscal year ended February 28, 2023	87,850,771 shares

(Note) The Company conducted a stock split on September 1, 2023 at a ratio of two shares for one share of common stock. Accordingly, “total number of issued shares at the end of the period,” “total number of treasury shares at the end of the period,” and “average number of shares during the period” are calculated assuming that the stock split took place at the beginning of the fiscal year ended February 28, 2023.

* 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

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.

Appendix

1. Overview of Consolidated Operating Results	2
(1) Overview of Consolidated Operating Results for the Period under Review	2
(2) Overview of Consolidated Financial Position for the Period under Review	3
(3) Overview of Consolidated Cash Flows for the Period under Review	3
(4) Outlook for Fiscal 2025	4
2. Consolidated Financial Statements	6
(1) Consolidated Balance Sheets	6
(2) Consolidated Statements of Income and Comprehensive Income	8
(3) Consolidated Statements of Changes in Net Assets	11
(4) Consolidated Statements of Cash Flows	13

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, 2024

During the fiscal year ended February 29, 2024 (March 1, 2023 to February 29, 2024), the Japanese economy showed recovery in the economic environment as a result of the removal of various restrictions on economic activities, such as the lifting of infection-related quarantine measures, behavioral restrictions, including requests to refrain from leaving the house which also involved persons in close contact, and work restrictions following the reclassification of COVID-19 as a Class V Infectious Disease effective May 8, 2023. However, despite two years having passed since Russia's invasion of Ukraine, there is still no end to the situation, and the economic outlook remains uncertain primarily owing to the surge in prices of energy and raw materials and the rapid depreciation of the Japanese yen.

Under such a business environment, the Company made efforts to strengthen EC sales and online promotions ever since COVID-19 began spreading. We continued to actively disseminate information from individual staff accounts of social networking services, including Instagram accounts, with a total of approximately 15 million followers. We focused more intensely on products that received a good response to make promotions more effective. These measures played a major role in increasing not only EC sales but also sales at physical stores.

In addition, the number of opportunities to be featured in TV infotainment shows and variety shows increased, and we expanded store sizes through the acceleration of new store openings and the increased floor space of existing stores, with a particular focus on 3COINS, whose name recognition has increased dramatically. The easing of behavioral restrictions led to an increase in foot traffic and a turnaround in commercial facilities attracting customers. As a result, net sales in the Apparel Business increased by ¥13,986 million year on year to ¥119,767 million and net sales in the Miscellaneous Goods/Accessories Business increased by ¥14,018 million year on year to ¥72,577 million.

As a result of the above, net sales for the fiscal year ended February 29, 2024 increased by ¥28,062 million year on year to ¥192,544 million. In terms of profit, operating profit increased by ¥2,782 million year on year to ¥18,605 million, ordinary profit increased by ¥2,778 million year on year to ¥18,839 million, and profit attributable to owners of parent increased by ¥2,889 million year on year to ¥12,845 million.

2) Sales Results by Segment for the Fiscal Year Ended February 29, 2024

Segment	Amount (million yen)	Changes from the previous fiscal year (%)
Apparel Business	119,767	113.2
Miscellaneous Goods/Accessories Business	72,577	123.9
Other	198	140.3
Total	192,544	117.1

3) Status of Stores for the Fiscal Year Ended February 29, 2024 (March 1, 2023 to February 29, 2024)

Number of stores as of February 28, 2023	927 stores
Number of new stores	80 stores
Number of closed stores	58 stores
Number of stores as of February 29, 2024	949 stores

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

(Assets)

Current assets increased by ¥11,195 million compared with the end of the previous fiscal year, due mainly to increases in cash and deposits by ¥3,383 million, notes and accounts receivable - trade by ¥1,819 million, and merchandise and finished goods by ¥3,986 million. Non-current assets increased by ¥3,215 million compared with the end of the previous fiscal year, due primarily to increases in buildings and structures by ¥1,446 million, leased assets by ¥97 million, guarantee deposits by ¥540 million, and deferred tax assets by ¥443 million.

(Liabilities)

Current liabilities increased by ¥1,786 million compared with the end of the previous fiscal year, due mainly to increases in notes and accounts payable - trade by ¥4,509 million, accrued expenses by ¥453 million, and provision for bonuses by ¥712 million, despite decreases in current portion of long-term borrowings by ¥3,064 million and income taxes payable by ¥1,347 million. Non-current liabilities increased by ¥4,371 million compared with the end of the previous fiscal year, due primarily to increases in long-term borrowings by ¥2,844 million, provision for retirement benefits for directors (and other officers) by ¥1,073 million, and asset retirement obligations by ¥474 million.

(Net assets)

Net assets increased by ¥8,253 million compared with the end of the previous fiscal year, due mainly to an increase in retained earnings by ¥9,551 million, offset by ¥1,497 million purchase of treasury shares.

(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, 2024 increased by ¥3,383 million compared with the end of the previous fiscal year to ¥67,228 million, due mainly to cash provided by operating activities in the amount of ¥13,460 million, despite cash used in financing activities in the amount of ¥5,672 million.

Cash flows for the fiscal year ended February 29, 2024 are as follows.

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

While cash provided by operating activities was ¥17,029 million for the previous fiscal year, cash provided by operating activities amounted to ¥13,460 million for the fiscal year ended February 29, 2024, due mainly to profit before income taxes of ¥18,239 million, an increase in inventories by ¥3,981 million, and income taxes paid of ¥8,623 million.

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

While cash used in investing activities was ¥2,599 million for the previous fiscal year, cash used in investing activities amounted to ¥4,404 million for the fiscal year ended February 29, 2024, due mainly to purchase of property, plant and equipment of ¥2,969 million, proceeds from refund of guarantee deposits of ¥614 million, payments of guarantee deposits of ¥1,155 million, and payments for asset retirement obligations of ¥338 million.

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

While cash provided by financing activities was ¥2,835 million for the previous fiscal year, cash used in financing activities amounted to ¥5,672 million for the fiscal year ended February 29, 2024, due mainly to dividends paid of ¥3,295 million and purchase of treasury shares at ¥1,528 million.

(Reference) Cash flow-related indicators

	Fiscal year ended February 28, 2021	Fiscal year ended February 28, 2022	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Equity ratio (%)	41.0	50.5	49.0	50.0
Equity ratio based on market value (%)	69.4	78.8	114.4	165.6
Interest-bearing debt to cash flows ratio (%)	2,004.3	162.5	76.2	95.4
Interest-coverage ratio (times)	12.2	75.9	190.8	155.0

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

(4) Outlook for Fiscal 2025

The economic outlook continues to be impacted by further price increases due to the surge in prices of energy and raw materials and the depreciation of the Japanese yen, despite the Japanese economy showing a gradual pickup with signs of recovery in areas such as personal consumption and the employment situation due to the relaxation of various regulations. The negative interest rate policy was lifted on March 19, and there are concerns over the impact on interest payments. Furthermore, wage costs and logistics and delivery costs are rising resulting from labor shortages, creating what is expected to be a difficult operating environment for retailers that operate stores.

The Company will strive to achieve a balance between store operations and social networking service (SNS) operations, and will focus on strengthening advertising and promotion activities mainly through individual staff accounts of social networking services including Instagram. Through product collaborations that transcend brands and brand development within brands, we will reduce the cost rate by consolidating production lots, increase our name recognition by developing diverse brands, promote the expansion of stores and brands, and establish our brand identity. We will promote efficient operations by arranging lean personnel shifts, review store operations unique to large-scale stores, which are increasing in number, and endeavor to enhance staff development and education. In addition, we will strive to reduce surplus inventory and final waste products by refining sales forecasts and improving the final consumption rate through 4-week merchandizing.

For the fiscal year ending February 28, 2025, we forecast net sales to increase by 5.7% year on year to ¥203,500 million, operating profit to increase by 8.1% to ¥20,120 million, ordinary profit to increase by 8.1% to ¥20,370 million, and profit attributable to owners of parent to increase by 0.7% to ¥12,940 million.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Assets		
Current assets		
Cash and deposits	63,845	67,228
Notes and accounts receivable - trade	8,554	10,374
Merchandise and finished goods	12,518	16,505
Raw materials and supplies	23	18
Other	554	2,565
Total current assets	85,496	96,692
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,940	8,387
Machinery, equipment and vehicles, net	2	3
Land	397	397
Leased assets, net	1,236	1,333
Other, net	543	783
Total property, plant and equipment	9,120	10,905
Intangible assets	333	393
Investments and other assets		
Investment securities	2,002	2,341
Guarantee deposits	11,774	12,315
Deferred tax assets	3,314	3,757
Other	523	571
Allowance for doubtful accounts	(54)	(54)
Total investments and other assets	17,560	18,931
Total non-current assets	27,014	30,230
Total assets	112,510	126,922

(Millions of yen)

	As of February 28, 2023	As of February 29, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	24,335	28,845
Short-term borrowings	250	250
Current portion of long-term borrowings	3,064	-
Accrued expenses	2,618	3,071
Income taxes payable	4,828	3,480
Provision for bonuses	2,602	3,315
Provision for bonuses for directors (and other officers)	546	741
Provision for point card certificates	178	212
Other	4,813	5,107
Total current liabilities	43,237	45,023
Non-current liabilities		
Long-term borrowings	8,118	10,962
Retirement benefit liability	1,337	1,255
Provision for retirement benefits for directors (and other officers)	135	1,208
Long-term accounts payable - other	3	1
Lease liabilities	1,039	1,098
Asset retirement obligations	3,402	3,877
Deferred tax liabilities	1	1
Other	44	48
Total non-current liabilities	14,082	18,453
Total liabilities	57,319	63,477
Net assets		
Shareholders' equity		
Share capital	3,181	3,181
Capital surplus	4,478	4,478
Retained earnings	49,703	59,254
Treasury shares	(2,174)	(3,672)
Total shareholders' equity	55,187	63,241
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	4
Foreign currency translation adjustment	(13)	(5)
Remeasurements of defined benefit plans	6	204
Total accumulated other comprehensive income	(5)	203
Non-controlling interests	8	-
Total net assets	55,191	63,444
Total liabilities and net assets	112,510	126,922

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Net sales	164,482	192,544
Cost of sales	74,260	86,261
Gross profit	90,221	106,283
Selling, general and administrative expenses		
Advertising and promotion expenses	2,433	2,615
Provision for point card certificates	51	33
Transportation and storage costs	7,112	8,658
Salaries, allowances and bonuses	19,944	23,247
Provision for bonuses	2,602	3,315
Provision for bonuses for directors (and other officers)	546	741
Retirement benefit expenses	191	205
Provision for retirement benefits for directors (and other officers)	5	1,074
Welfare expenses	3,756	4,156
Rent expenses	19,728	21,961
Lease expenses	41	51
Other	17,984	21,618
Total selling, general and administrative expenses	74,399	87,677
Operating profit	15,822	18,605
Non-operating income		
Interest income	1	1
Royalty income	14	10
Share of profit of entities accounted for using equity method	148	296
Foreign exchange gains	3	0
Subsidy income related to COVID	45	0
Other	143	77
Total non-operating income	356	385
Non-operating expenses		
Interest expenses	89	87
Commission for purchase of treasury shares	-	30
Other	27	34
Total non-operating expenses	117	151
Ordinary profit	16,061	18,839

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Extraordinary losses		
Loss on retirement of non-current assets	30	120
Impairment losses	801	480
Total extraordinary losses	831	600
Profit before income taxes	15,229	18,239
Income taxes - current	6,063	5,907
Income taxes - deferred	(737)	(505)
Total income taxes	5,326	5,402
Profit	9,903	12,836
Loss attributable to non-controlling interests	(51)	(8)
Profit attributable to owners of parent	9,955	12,845

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Profit	9,903	12,836
Other comprehensive income		
Valuation difference on available-for-sale securities	2	2
Foreign currency translation adjustment	2	8
Remeasurements of defined benefit plans, net of tax	74	158
Share of other comprehensive income of entities accounted for using equity method	16	39
Total other comprehensive income	96	208
Comprehensive income	10,000	13,045
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	10,051	13,054
Comprehensive income attributable to non-controlling interests	(51)	(8)

(3) Consolidated Statements of Changes in Net Assets
Fiscal year ended February 28, 2023

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	3,181	4,478	41,943	(2,173)	47,430
Changes during period					
Dividends of surplus			(2,196)		(2,196)
Profit attributable to owners of parent			9,955		9,955
Purchase of treasury shares				(1)	(1)
Net changes in items other than shareholders' equity					
Total changes during period	-	-	7,759	(1)	7,757
Balance at end of period	3,181	4,478	49,703	(2,174)	55,187

(Millions of yen)

	Accumulated other comprehensive income				Non-controlling interests	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 period	(0)	(16)	(85)	(101)	60	47,389
Changes during period						
Dividends of surplus						(2,196)
Profit attributable to owners of parent						9,955
Purchase of treasury shares						(1)
Net changes in items other than shareholders' equity	2	2	91	96	(51)	44
Total changes during period	2	2	91	96	(51)	7,802
Balance at end of period	1	(13)	6	(5)	8	55,191

Fiscal year ended February 29, 2024

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	3,181	4,478	49,703	(2,174)	55,187
Changes during period					
Dividends of surplus			(3,294)		(3,294)
Profit attributable to owners of parent			12,845		12,845
Purchase of treasury shares				(1,497)	(1,497)
Net changes in items other than shareholders' equity					
Total changes during period	-	-	9,551	(1,497)	8,053
Balance at end of period	3,181	4,478	59,254	(3,672)	63,241

(Millions of yen)

	Accumulated other comprehensive income				Non-controlling interests	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 period	1	(13)	6	(5)	8	55,191
Changes during period						
Dividends of surplus						(3,294)
Profit attributable to owners of parent						12,845
Purchase of treasury shares						(1,497)
Net changes in items other than shareholders' equity	2	8	197	208	(8)	199
Total changes during period	2	8	197	208	(8)	8,253
Balance at end of period	4	(5)	204	203	-	63,444

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Cash flows from operating activities		
Profit before income taxes	15,229	18,239
Depreciation	2,032	2,262
Impairment losses	801	480
Interest and dividend income	(1)	(1)
Interest expenses	89	87
Subsidies for employment adjustment, etc.	(54)	-
Share of loss (profit) of entities accounted for using equity method	(148)	(296)
Loss on retirement of property, plant and equipment	30	120
Decrease (increase) in trade receivables	(2,211)	(1,819)
Decrease (increase) in inventories	(1,775)	(3,981)
Increase (decrease) in trade payables	3,939	4,441
Increase (decrease) in provision for bonuses	824	712
Increase (decrease) in provision for retirement benefits for directors (and other officers)	5	1,073
Increase (decrease) in provision for bonuses for directors (and other officers)	342	194
Increase (decrease) in retirement benefit liability	136	103
Increase (decrease) in provision for point card certificates	(503)	33
Increase (decrease) in consumption taxes receivable payable	284	(457)
Other, net	1,214	977
Subtotal	20,237	22,169
Interest and dividends received	1	1
Interest paid	(89)	(86)
Proceeds from subsidies for employment adjustment, etc.	54	-
Income taxes refund (paid)	(3,174)	(8,623)
Net cash provided by (used in) operating activities	17,029	13,460

(Millions of yen)

	Fiscal year ended February 28, 2023	Fiscal year ended February 29, 2024
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,361)	(2,969)
Proceeds from sale of shares of subsidiaries and associates	16	–
Purchase of intangible assets	(118)	(197)
Purchase of shares of subsidiaries	(1)	–
Purchase of investments in unconsolidated subsidiaries	(60)	–
Decrease (increase) in short-term loans receivable	–	(360)
Payments of guarantee deposits	(1,123)	(1,155)
Proceeds from refund of guarantee deposits	1,424	614
Payments for asset retirement obligations	(374)	(338)
Net cash provided by (used in) investing activities	(2,599)	(4,404)
Cash flows from financing activities		
Proceeds from long-term borrowings	792	11,184
Repayments of long-term borrowings	(787)	(11,404)
Purchase of treasury shares	(1)	(1,528)
Dividends paid	(2,194)	(3,295)
Repayments of installment payables	(20)	(5)
Repayments of finance lease liabilities	(622)	(623)
Net cash provided by (used in) financing activities	(2,835)	(5,672)
Net increase (decrease) in cash and cash equivalents	11,595	3,383
Cash and cash equivalents at beginning of period	52,250	63,845
Cash and cash equivalents at end of period	63,845	67,228