

Consolidated Financial Results for the Six Months Ended August 31, 2024 [Japanese GAAP]

October 15, 2024

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 semi-annual securities report: October 15, 2024

Scheduled date of commencing dividend payments: —

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 Six Months Ended August 31, 2024 (March 1, 2024 to August 31, 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	%
Six months ended August 31, 2024	101,259	7.6	11,806	14.6	11,956	15.1	7,668	9.5
Six months ended August 31, 2023	94,145	20.4	10,299	35.8	10,384	34.7	7,001	45.6

(Note) Comprehensive income: Six months ended August 31, 2024: ¥7,681 million [9.7%]

Six months ended August 31, 2023: ¥7,004 million [46.0%]

	Basic earnings per share	Diluted earnings per share
	yen	yen
Six months ended August 31, 2024	88.33	—
Six months ended August 31, 2023	79.93	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
As of August 31, 2024	139,894	66,785	47.7
As of February 29, 2024	126,922	63,444	50.0

(Reference) Equity: As of August 31, 2024: ¥66,785 million

As of February 29, 2024: ¥63,444 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, 2024	—	0.00	—	50.00	50.00
Fiscal year ending February 28, 2025	—	0.00			
Fiscal year ending February 28, 2025 (Forecast)			—	50.00	50.00

(Note) Revision of dividend forecast: No

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
Full year	209,220	8.7	22,960	23.4	23,260	23.5	14,820	15.4	170.69

(Note) Revision of consolidated financial results forecast: Yes

*** Notes**

- (1) Significant changes in the scope of consolidation during the period under review: No
- (2) Adoption of special accounting methods for preparing semi-annual 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, 2024	92,544,000 shares
As of February 29, 2024	92,544,000 shares

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

As of August 31, 2024	5,720,740 shares
As of February 29, 2024	5,720,704 shares

3) Average number of shares during the period:

Six months ended August 31, 2024	86,823,287 shares
Six months ended August 31, 2023	87,593,338 shares

* These semi-annual consolidated financial results are not covered by the 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.

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. Semi-annual Consolidated Financial Statements	4
(1) Semi-annual Consolidated Balance Sheets	4
(2) Semi-annual Consolidated Statements of Income and Comprehensive Income	6
(3) Semi-annual Consolidated Statements of Cash Flows	8
3. Additional Information	9
(1) Sales Results by Segment (Consolidated)	9
(2) Status of Stores (Consolidated)	9

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

(1) Explanation of Operating Results

During the six months ended August 31, 2024 (March 1, 2024 to August 31, 2024), the Japanese economy remained in a state of restrained buying from early spring until around June, when real wage increases were not felt due to soaring energy costs and raw material prices. However, consumer sentiment improved around July, when salaries and bonuses began to rise in response to the government's strong demand for higher wages, and the apparel consumption environment also took a quick turn for the better.

Under such a business environment, the Company, as in the previous year, have worked on building a strong business less exposed to forex volatility. As for the Miscellaneous Goods/Accessories Business, the Company continued to increase store sizes in the 3COINS+plus format and aggressively introduced a lineup of products priced over 300 yen. We believe we have made a good start toward a profitable recovery in the period under review. In an environment where the trend of yen depreciation is changing, we expect that the benefits of yen appreciation to our business performance will become apparent from the fourth quarter onward. We believe that future trends in the foreign exchange market will also be a tailwind for our Miscellaneous Goods/Accessories Business.

Through these measures, net sales in the Apparel Business increased by ¥2,184 million year on year to ¥59,857 million and net sales in the Miscellaneous Goods/Accessories Business increased by ¥4,869 million year on year to ¥41,244 million.

As a result of the above, net sales for the six months ended August 31, 2024 increased by 7.6% year on year to ¥101,259 million. In terms of profit, operating profit increased by 14.6% year on year to ¥11,806 million, ordinary profit increased by 15.1% year on year to ¥11,956 million, and profit attributable to owners of parent increased by 9.5% year on year to ¥7,668 million.

On June 16, 2024, some of the Company's servers were illegally accessed by a third party, resulting in server failure. An internal task force was set up to deal with this incident, and with the advice of outside experts, we have been investigating the extent of the impact and other issues, and have been taking steps to restore the system. As a result of this incident, we were forced to postpone the announcement of first quarter financial results, and we sincerely apologize to our shareholders and all other concerned parties for the inconvenience caused.

Regarding the server failure, we have rebuilt our infrastructure environment and have been able to fully restore it in early August. The direct loss is expected to be within the range of the extraordinary losses that the Company anticipates.

(2) Explanation of Financial Position

(Assets)

Current assets increased by ¥11,263 million compared with the end of the previous fiscal year, due mainly to increases in cash and deposits by ¥11,100 million and notes and accounts receivable - trade by ¥2,182 million, despite a decrease in merchandise and finished goods by ¥820 million.

Non-current assets increased by ¥1,708 million compared with the end of the previous fiscal year, due primarily to increases in buildings and structures by ¥939 million and intangible assets by ¥376 million.

(Liabilities)

Current liabilities increased by ¥8,748 million compared with the end of the previous fiscal year, due mainly to increases in notes and accounts payable - trade by ¥7,448 million and income taxes payable by ¥608 million.

Non-current liabilities increased by ¥882 million compared with the end of the previous fiscal year, due primarily to increases in long-term borrowings by ¥580 million and asset retirement obligations by ¥324 million.

(Net assets)

Net assets increased by ¥3,340 million compared with the end of the previous fiscal year, due mainly to an increase in retained earnings by ¥3,327 million.

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

Given the financial results for the period under review and the “Notice Concerning Change in Equity Method Affiliate (Conversion into Consolidated Subsidiary) (available in the original Japanese version only)” released today, the Company has revised its earlier financial results forecast announced on April 9, 2024 in the “Consolidated Financial Results for the Fiscal Year Ended February 29, 2024.” For details, please refer to the “Notice Concerning Difference between Consolidated Financial Results Forecast and Actual Results for the Six Months Ended August 31, 2024 and Revision to Full-year Consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2025 (available in the original Japanese version only)” released today.

2. Semi-annual Consolidated Financial Statements

(1) Semi-annual Consolidated Balance Sheets

(Millions of yen)

	As of February 29, 2024	As of August 31, 2024
Assets		
Current assets		
Cash and deposits	67,228	78,329
Notes and accounts receivable - trade	10,374	12,556
Merchandise and finished goods	16,505	15,685
Other	2,584	1,384
Total current assets	96,692	107,955
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,387	9,326
Other, net	2,518	2,345
Total property, plant and equipment	10,905	11,672
Intangible assets	393	769
Investments and other assets		
Guarantee deposits	12,315	12,572
Other	6,670	6,978
Allowance for doubtful accounts	(54)	(54)
Total investments and other assets	18,931	19,497
Total non-current assets	30,230	31,939
Total assets	126,922	139,894
Liabilities		
Current liabilities		
Notes and accounts payable - trade	28,845	36,293
Short-term borrowings	250	400
Income taxes payable	3,480	4,089
Provision for bonuses	3,315	3,140
Provision for point card certificates	212	216
Provisions	741	544
Other	8,179	9,089
Total current liabilities	45,023	53,772
Non-current liabilities		
Long-term borrowings	10,962	11,542
Retirement benefit liability	1,255	1,305
Provisions	1,208	1,270
Asset retirement obligations	3,877	4,201
Other	1,149	1,015
Total non-current liabilities	18,453	19,336
Total liabilities	63,477	73,109

(Millions of yen)

	As of February 29, 2024	As of August 31, 2024
Net assets		
Shareholders' equity		
Share capital	3,181	3,181
Capital surplus	4,478	4,478
Retained earnings	59,254	62,581
Treasury shares	(3,672)	(3,672)
Total shareholders' equity	63,241	66,568
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4	5
Foreign currency translation adjustment	(5)	21
Remeasurements of defined benefit plans	204	189
Total accumulated other comprehensive income	203	216
Total net assets	63,444	66,785
Total liabilities and net assets	126,922	139,894

(2) Semi-annual Consolidated Statements of Income and Comprehensive Income

Semi-annual Consolidated Statements of Income

(Millions of yen)

	Six months ended August 31, 2023	Six months ended August 31, 2024
Net sales	94,145	101,259
Cost of sales	41,817	44,586
Gross profit	52,327	56,673
Selling, general and administrative expenses	42,027	44,866
Operating profit	10,299	11,806
Non-operating income		
Interest income	0	1
Share of profit of entities accounted for using equity method	128	158
Royalty income	6	6
Foreign exchange gains	6	19
Other	42	32
Total non-operating income	185	218
Non-operating expenses		
Interest expenses	43	51
Commission for purchase of treasury shares	30	–
Other	26	17
Total non-operating expenses	100	68
Ordinary profit	10,384	11,956
Extraordinary income		
Subsidy income	–	220
Total extraordinary income	–	220
Extraordinary losses		
Loss on retirement of non-current assets	90	45
Impairment losses	143	219
Loss on tax purpose reduction entry of non-current assets	–	220
Total extraordinary losses	233	484
Profit before income taxes	10,150	11,691
Income taxes - current	3,204	4,042
Income taxes - deferred	(46)	(19)
Total income taxes	3,157	4,023
Profit	6,992	7,668
Loss attributable to non-controlling interests	(8)	–
Profit attributable to owners of parent	7,001	7,668

Semi-annual Consolidated Statements of Comprehensive Income

(Millions of yen)

	Six months ended August 31, 2023	Six months ended August 31, 2024
Profit	6,992	7,668
Other comprehensive income		
Valuation difference on available-for-sale securities	0	1
Foreign currency translation adjustment	10	26
Remeasurements of defined benefit plans, net of tax	(0)	(12)
Share of other comprehensive income of entities accounted for using equity method	1	(2)
Total other comprehensive income	12	12
Comprehensive income	7,004	7,681
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,013	7,681
Comprehensive income attributable to non-controlling interests	(8)	—

(3) Semi-annual Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended August 31, 2023	Six months ended August 31, 2024
Cash flows from operating activities		
Profit before income taxes	10,150	11,691
Depreciation	1,092	1,125
Impairment losses	143	219
Share of loss (profit) of entities accounted for using equity method	(128)	(158)
Increase (decrease) in provision for bonuses	170	(174)
Increase (decrease) in provision for point card certificates	20	3
Increase (decrease) in other provisions	(214)	(135)
Interest expenses	43	51
Subsidy income	–	(220)
Loss on retirement of non-current assets	90	45
Loss on tax purpose reduction entry of non-current assets	–	220
Decrease (increase) in trade receivables	(1,773)	(2,182)
Decrease (increase) in inventories	(1,961)	824
Increase (decrease) in trade payables	3,693	7,465
Increase (decrease) in consumption taxes receivable payable	(689)	115
Other, net	800	619
Subtotal	11,438	19,510
Interest paid	(43)	(54)
Subsidies received	–	18
Income taxes refund (paid)	(5,868)	(2,075)
Net cash provided by (used in) operating activities	5,525	17,398
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,635)	(1,516)
Payments for asset retirement obligations	(146)	(173)
Decrease (increase) in short-term loans receivable	(360)	–
Payments of guarantee deposits	(506)	(620)
Proceeds from refund of guarantee deposits	394	368
Purchase of intangible assets	(82)	(443)
Net cash provided by (used in) investing activities	(2,336)	(2,386)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(3,064)	150
Proceeds from long-term borrowings	11,184	11,391
Repayments of long-term borrowings	(8,118)	(10,811)
Purchase of treasury shares	(1,528)	(0)
Repayments of finance lease liabilities	(308)	(300)
Repayments of installment payables	(2)	(1)
Dividends paid	(3,293)	(4,339)
Net cash provided by (used in) financing activities	(5,130)	(3,912)
Net increase (decrease) in cash and cash equivalents	(1,941)	11,100
Cash and cash equivalents at beginning of period	63,845	67,228
Cash and cash equivalents at end of period	61,903	78,329

3. Additional Information

(1) Sales Results by Segment (Consolidated)

	Six months ended August 31, 2023	Six months ended August 31, 2024	Percent change year-on-year
	million yen	million yen	%
Apparel Business	57,673	59,857	103.8
Miscellaneous Goods/ Accessories Business	36,375	41,244	113.4
Other	170	252	148.1
Total	94,218	101,354	107.6

(2) Status of Stores (Consolidated)

	Six months ended August 31, 2024
Number of stores as of February 29, 2024	949 stores
Number of new stores	51 stores
Number of closed stores	22 stores
Number of stores as of August 31, 2024	978 stores