

Consolidated Financial Results
for the Nine Months Ended November 30, 2015
[Japanese GAAP]

January 12, 2016

Company name: PAL CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 2726

URL: <http://palgroup.co.jp>

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Scheduled date of filing quarterly securities report: January 13, 2016

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 Nine Months Ended November 30, 2015 (March 1, 2015 to November 30, 2015)

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

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Nine months ended November 30, 2015	84,409	6.6	5,036	(23.3)	4,974	(23.7)	2,896	(18.9)
Nine months ended November 30, 2014	79,195	8.7	6,566	44.0	6,516	42.0	3,570	50.9

(Note) Comprehensive income: Nine months ended November 30, 2015: ¥2,858 million [(20.2)%]
 Nine months ended November 30, 2014: ¥3,579 million [51.1%]

	Net income per share	Diluted net income per share
	yen	yen
Nine months ended November 30, 2015	131.28	—
Nine months ended November 30, 2014	162.32	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
As of November 30, 2015	80,426	35,854	44.6
As of February 28, 2015	82,023	36,316	41.8

(Reference) Equity: As of November 30, 2015: ¥35,841 million
 As of February 28, 2015: ¥34,302 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 28, 2015	—	0.00	—	65.00	65.00
Fiscal year ending February 29, 2016	—	0.00	—		
Fiscal year ending February 29, 2016 (Forecast)				65.00	65.00

(Note) Revision of dividend forecast: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 29, 2016 (March 1, 2015 to February 29, 2016)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	117,510	8.7	8,080	0.2	7,860	(1.3)	4,390	7.3	199.55

(Note) Revision of consolidated financial results forecast: No

* Notes

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): 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: Yes

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 November 30, 2015	23,136,000 shares
As of February 28, 2015	23,136,000 shares

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

As of November 30, 2015	1,136,711 shares
As of February 28, 2015	1,140,318 shares

3) Average number of shares during the period:

Nine months ended November 30, 2015	22,064,623 shares
Nine months ended November 30, 2014	21,995,918 shares

* Presentation regarding the implementation status of the quarterly review process

These consolidated financial results for the nine months ended November 30, 2015 are not covered by the quarterly review procedure stipulated in the Financial Instruments and Exchange Act. At the time of the publication of these financial results, the review procedure for quarterly consolidated financial statements is in progress.

* 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. 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.

(Reference)

1. Non-consolidated Financial Results for the Nine Months Ended November 30, 2015 (March 1, 2015 to November 30, 2015)

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Nine months ended November 30, 2015	70,295	5.9	5,151	(19.7)	5,110	(19.9)	2,771	(22.8)
Nine months ended November 30, 2014	66,385	10.7	6,416	32.7	6,384	29.5	3,589	32.9

2. Non-consolidated Financial Results Forecast for the Fiscal Year Ending February 29, 2016 (March 1, 2015 to February 29, 2016)

(% indicates changes from the previous corresponding period.)

	Net sales		Ordinary income		Net income		Net income per share	
	million yen	%	million yen	%	million yen	%	yen	
Full year	97,580	8.2	7,870	1.5	4,250	2.5	193.19	

(Note) Revision of non-consolidated financial results forecast: No

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

(1) Explanation of Operating Results

During the nine months ended November 30, 2015 (March 1, 2015 to November 30, 2015), the Japanese economy continued on a gradual recovery track driven partially by the economic stimulus policies of the government. However, the outlook of the economy remained uncertain, mainly due to higher costs associated with yen depreciation, and stagnant consumer spending.

Under such a business environment, the Corporate Group made every effort to expand its operations and improve management efficiency by proactively keeping its business conditions entrenched 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 agile introduction of items in stores, as well as the opening of 72 new stores. As a result, net sales increased by 4.3% year on year to ¥63,589 million. Additionally, in the Miscellaneous Goods/Accessories Business, we opened 32 new stores in response to robust demand for opening stores reflecting our rising visibility. As a result, net sales increased by 14.3% year on year to ¥20,722 million.

As a result of the above, net sales for the nine months ended November 30, 2015 increased by 6.6% year on year to ¥84,409 million.

In terms of profit, the gross profit margin decreased by 1.5 points year on year to 56.2% despite the further reform of merchandising (MD), etc. Operating income decreased by ¥1,529 million year on year to ¥5,036 million, and ordinary income decreased by ¥1,541 million year on year to ¥4,974 million. Net income decreased by ¥673 million year on year to ¥2,896 million.

(2) Explanation of Financial Position

(Assets)

Current assets decreased by ¥3,192 million compared with the end of the previous fiscal year, due mainly to a decrease in cash and deposits by ¥8,605 million, despite increases in notes and accounts receivable - trade by ¥1,549 million and in merchandise and finished goods by ¥3,914 million.

Non-current assets increased by ¥1,596 million compared with the end of the previous fiscal year, due primarily to increases in buildings and structures by ¥1,223 million and in guarantee deposits by ¥398 million.

(Liabilities)

Current liabilities decreased by ¥1,488 million compared with the end of the previous fiscal year, due mainly to a decrease in income taxes payable by ¥2,088 million, despite an increase in short-term loans payable by ¥858 million.

Non-current liabilities increased by ¥354 million compared with the end of the previous fiscal year, due primarily to an increase in long-term loans payable by ¥478 million.

(Net assets)

Net assets decreased by ¥462 million compared with the end of the previous fiscal year, due mainly to a decrease in minority interests by ¥2,000 million, despite an increase in capital surplus by ¥1,090 million.

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

There is no change to the consolidated financial results forecast announced on October 13, 2015.

2. Matters Related to Summary Information (Notes)

(1) Changes in Significant Subsidiaries during the Period under Review

Not applicable.

(2) Adoption of Special Accounting Methods for Preparing Quarterly Consolidated Financial Statements

Not applicable.

(3) Changes in Accounting Policies, Changes in Accounting Estimates and Corrections of Errors

(Changes in accounting policies)

(Application of accounting standard for retirement benefits, etc.)

Effective from the first quarter of the fiscal year ending February 29, 2016, the Company adopted the provisions described in the main clause of Paragraph 35 of the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26 of May 17, 2012) and the main clause of Paragraph 67 of the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25 of March 26, 2015). Consequently, the Company reviewed the calculation method of retirement benefit obligations and service costs, changed the method of attributing expected retirement benefits to periods from a straight line basis to a benefit formula basis, and changed the determination method of discount rates from a method based on discount rates approximate to the remaining service periods of employees to a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

In the application of the Accounting Standard for Retirement Benefits, the Company followed the transitional treatment set out in Paragraph 37 of the standard whereby the effects of changes in the calculation method of retirement benefit obligations and service costs are reflected in retained earnings at March 1, 2015.

As a result, net defined benefit liability as of March 1, 2015 increased by ¥42 million and retained earnings and minority interests decreased by ¥26 million and ¥15 million, respectively. The impact of this change on profit or loss in the nine months of the fiscal year under review is negligible.

3. Significant Events Relating to Going Concern Assumption

Not applicable.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of February 28, 2015	As of November 30, 2015
Assets		
Current assets		
Cash and deposits	43,503	34,897
Notes and accounts receivable - trade	5,603	7,153
Merchandise and finished goods	7,701	11,615
Other	1,176	1,123
Allowance for doubtful accounts	(3)	(1)
Total current assets	57,981	54,788
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,986	8,209
Other, net	2,224	2,288
Total property, plant and equipment	9,211	10,498
Intangible assets	201	241
Investments and other assets		
Guarantee deposits	12,750	13,149
Other	1,997	1,857
Allowance for doubtful accounts	(119)	(109)
Total investments and other assets	14,628	14,898
Total non-current assets	24,041	25,638
Total assets	82,023	80,426
Liabilities		
Current liabilities		
Notes and accounts payable - trade	18,207	18,125
Short-term loans payable	1,459	2,318
Current portion of long-term loans payable	2,725	2,212
Income taxes payable	2,363	275
Provision for bonuses	1,122	692
Provision	281	119
Other	6,436	7,364
Total current liabilities	32,596	31,108
Non-current liabilities		
Long-term loans payable	6,954	7,433
Net defined benefit liability	541	616
Provision	186	203
Asset retirement obligations	1,424	1,609
Other	4,003	3,601
Total non-current liabilities	13,110	13,464
Total liabilities	45,706	44,572

(Millions of yen)

	As of February 28, 2015	As of November 30, 2015
Net assets		
Shareholders' equity		
Capital stock	3,181	3,181
Capital surplus	3,379	4,469
Retained earnings	28,563	30,004
Treasury shares	(1,146)	(2,087)
Total shareholders' equity	33,977	35,568
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	261	238
Foreign currency translation adjustment	6	5
Remeasurements of defined benefit plans	56	28
Total accumulated other comprehensive income	324	272
Minority interests	2,014	13
Total net assets	36,316	35,854
Total liabilities and net assets	82,023	80,426

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Nine months ended November 30, 2014	Nine months ended November 30, 2015
Net sales	79,195	84,409
Cost of sales	33,499	36,948
Gross profit	45,695	47,461
Selling, general and administrative expenses	39,129	42,424
Operating income	6,566	5,036
Non-operating income		
Interest income	9	2
Amortization of negative goodwill	9	—
Rent income	8	5
Share of profit of entities accounted for using equity method	17	9
Compensation income	—	17
Other	44	44
Total non-operating income	88	78
Non-operating expenses		
Interest expenses	92	112
Provision for loss on guarantees	—	14
Other	45	13
Total non-operating expenses	138	140
Ordinary income	6,516	4,974
Extraordinary income		
Gain on sales of non-current assets	15	—
Gain on bargain purchase	—	507
Total extraordinary income	15	507
Extraordinary losses		
Loss on retirement of non-current assets	55	186
Impairment loss	241	319
Other	8	6
Total extraordinary losses	305	513
Income before income taxes and minority interests	6,225	4,968
Income taxes - current	2,591	1,738
Income taxes - deferred	64	316
Total income taxes	2,655	2,055
Income before minority interests	3,570	2,913
Minority interests in income (loss)	(0)	16
Net income	3,570	2,896

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Nine months ended November 30, 2014	Nine months ended November 30, 2015
Income before minority interests	3,570	2,913
Other comprehensive income		
Valuation difference on available-for-sale securities	9	(20)
Remeasurements of defined benefit plans, net of tax	—	(33)
Foreign currency translation adjustment	—	(0)
Share of other comprehensive income of entities accounted for using equity method	0	(0)
Total other comprehensive income	9	(54)
Comprehensive income	3,579	2,858
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,576	2,844
Comprehensive income attributable to minority interests	3	13

(3) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes in Case of Significant Changes in Shareholders' Equity)

- 1) Decrease in treasury shares and accrual of gain on disposal of treasury shares following a share exchange

In making NICE CLAUP Co., LTD. a wholly owned subsidiary by way of a share exchange, treasury shares were allotted to the shareholders of NICE CLAUP Co., LTD. on June 1, 2015. As a result of this allotment, treasury shares decreased by ¥343 million and capital surplus (gain on disposal of treasury shares) increased by ¥1,089 million during the nine months ended November 30, 2015.

- 2) Purchase of treasury shares

Based on the resolution at the Board of Directors meeting held on July 14, 2015, the Company purchased treasury shares during the nine months ended November 30, 2015. As a result, treasury shares increased by ¥1,281 million.

(Significant Subsequent Events)

Not applicable.

5. Additional Information

(1) Sales Results by Segment (Consolidated)

	Nine months ended November 30, 2014	Nine months ended November 30, 2015	Changes from the previous corresponding period
	million yen	million yen	%
Apparel Business	60,958	63,589	104.3
Miscellaneous Goods/ Accessories Business	18,136	20,722	114.3
Other	99	97	98.1
Total	79,195	84,409	106.6

(2) Status of Stores (Consolidated)

	Nine months ended November 30, 2015
Number of stores as of February 28, 2015	833 stores
Number of new stores	104 stores
Number of closed stores	36 stores
Number of stores as of November 30, 2015	901 stores