

Consolidated Financial Results
for the Three Months Ended May 31, 2017
[Japanese GAAP]

July 11, 2017

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, 2017

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, 2017 (March 1, 2017 to May 31, 2017)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Three months ended May 31, 2017	30,359	6.2	2,589	55.6	2,570	58.2	1,557	86.4
Three months ended May 31, 2016	28,578	3.3	1,663	(19.9)	1,624	(20.2)	835	(10.7)

(Note) Comprehensive income: Three Months ended May 31, 2017: ¥1,588 million [93.1%]

Three Months ended May 31, 2016: ¥822 million [(20.8)%]

	Basic earnings per share	Diluted earnings per share
	yen	yen
Three months ended May 31, 2017	70.79	—
Three months ended May 31, 2016	37.98	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
As of May 31, 2017	79,448	37,464	47.2
As of February 28, 2017	77,083	37,590	48.8

(Reference) Equity: As of May 31, 2017: ¥ 37,464 million

As of February 28, 2017: ¥ 37,590 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, 2017	—	0.00	—	70.00	70.00
Fiscal year ending February 28, 2018	—				
Fiscal year ending February 28, 2018 (Forecast)		0.00	—	70.00	70.00

(Note) Revision of dividend forecast: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2018 (March 1, 2017 to February 28, 2018)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
First half	60,650	6.2	3,480	33.0	3,390	32.4	1,520	15.1	69.09
Full year	123,880	6.4	8,020	30.1	7,850	29.9	4,060	32.2	184.55

(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: 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, 2017	23,136,000 shares
As of February 28, 2017	23,136,000 shares

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

As of May 31, 2017	1,136,945 shares
As of February 28, 2017	1,136,865 shares

3) Average number of shares during the period:

Three months ended May 31, 2017	21,999,095 shares
Three months ended May 31, 2016	22,999,223 shares

* These quarterly consolidated financial results are not covered by the quarterly review.

* 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 2 of the Appendix to this report.

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

(1) Explanation of Operating Results

During the three months ended May 31, 2017 (March 1, 2017 to May 31, 2017), the Japanese economy remained on a gradual recovery trend driven mainly by improved corporate profit and the employment environment.

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 10 new stores. As a result, net sales increased by 5.7% year on year to ¥21,987 million. In the Miscellaneous Goods/Accessories Business, we opened 15 new stores in response to robust demand for opening stores reflecting our rising visibility. As a result, net sales increased by 7.7 % year on year to ¥8,346 million.

As a result of the above, net sales for the three months ended May 31, 2017 increased by 6.2% year on year to ¥30,359 million.

In terms of profit, the gross profit margin increased by 1.4 points year on year to 59.0% through the further reform of merchandising (MD), etc. Operating income increased by ¥925 million year on year to ¥2,589 million, ordinary income increased by ¥945 million year on year to ¥2,570 million, and profit before income taxes increased by ¥913 million year on year to ¥2,453 million. Profit attributable to owners of parent increased by ¥721 million year on year to ¥1,557 million.

(2) Explanation of Financial Position

(Assets)

Current assets increased by ¥2,559 million compared with the end of the previous fiscal year, due mainly to increases in notes and accounts receivable - trade by ¥2,086 million and merchandise and finished goods by ¥2,004 million, despite a decrease in cash and deposits by ¥1,502 million.

Non-current assets decreased by ¥193 million compared with the end of the previous fiscal year, due primarily to a decrease in property, plant and equipment by ¥131 million.

(Liabilities)

Current liabilities increased by ¥2,454 million compared with the end of the previous fiscal year, due mainly to increases in notes and accounts payable - trade by ¥2,494 million and provision for bonuses by ¥696 million, despite a decrease in income taxes payable by ¥1,121 million.

Non-current liabilities increased by ¥37 million compared with the end of the previous fiscal year, due primarily to an increase in long-term loans - payable by ¥302 million.

(Net assets)

Net assets decreased by ¥126 million compared with the end of the previous fiscal year, due mainly to a decrease in retained earnings by ¥157 million.

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

There is no change to the consolidated financial results forecast announced on April 11, 2017.

2. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	As of February 28, 2017	As of May 31, 2017
Assets		
Current assets		
Cash and deposits	35,959	34,456
Notes and accounts receivable - trade	5,178	7,264
Merchandise and finished goods	8,592	10,596
Other	1,560	1,531
Allowance for doubtful accounts	(2)	(1)
Total current assets	51,288	53,847
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,496	7,597
Other, net	2,406	2,173
Total property, plant and equipment	9,903	9,771
Intangible assets	398	400
Investments and other assets		
Guarantee deposits	13,414	13,284
Other	2,153	2,219
Allowance for doubtful accounts	(74)	(74)
Total investments and other assets	15,492	15,429
Total non-current assets	25,794	25,600
Total assets	77,083	79,448
Liabilities		
Current liabilities		
Notes and accounts payable - trade	12,610	15,104
Short-term loans payable	3,287	3,693
Current portion of long-term loans payable	2,917	2,705
Income taxes payable	1,543	421
Provision for bonuses	1,255	1,952
Provision	167	99
Other	5,902	6,162
Total current liabilities	27,685	30,139
Non-current liabilities		
Long-term loans payable	6,786	7,089
Net defined benefit liability	756	764
Provision	262	268
Asset retirement obligations	1,702	1,725
Other	2,299	1,997
Total non-current liabilities	11,807	11,845
Total liabilities	39,492	41,984

(Millions of yen)

	As of February 28, 2017	As of May 31, 2017
Net assets		
Shareholders' equity		
Capital stock	3,181	3,181
Capital surplus	4,469	4,469
Retained earnings	31,927	31,770
Treasury shares	(2,087)	(2,087)
Total shareholders' equity	37,491	37,333
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	142	179
Foreign currency translation adjustment	(5)	(9)
Remeasurements of defined benefit plans	(38)	(39)
Total accumulated other comprehensive income	99	130
Total net assets	37,590	37,464
Total liabilities and net assets	77,083	79,448

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Three months ended May 31, 2016	Three months ended May 31, 2017
Net sales	28,578	30,359
Cost of sales	12,092	12,433
Gross profit	16,485	17,926
Selling, general and administrative expenses	14,822	15,336
Operating income	1,663	2,589
Non-operating income		
Interest income	0	0
Gain on adjustment of account payable	5	–
Royalty income	6	5
Other	11	13
Total non-operating income	23	19
Non-operating expenses		
Interest expenses	34	30
Share of loss of entities accounted for using equity method	0	1
Provision for loss on guarantees	23	5
Other	5	1
Total non-operating expenses	63	38
Ordinary income	1,624	2,570
Extraordinary losses		
Loss on retirement of non-current assets	22	42
Impairment loss	63	74
Total extraordinary losses	85	117
Profit before income taxes	1,539	2,453
Income taxes - current	838	1,068
Income taxes - deferred	(134)	(172)
Total income taxes	703	895
Profit	835	1,557
Profit attributable to owners of parent	835	1,557

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Three months ended May 31, 2016	Three months ended May 31, 2017
Profit	835	1,557
Other comprehensive income		
Valuation difference on available-for-sale securities	2	36
Foreign currency translation adjustment	(0)	(2)
Remeasurements of defined benefit plans, net of tax	(10)	(1)
Share of other comprehensive income of entities accounted for using equity method	(4)	(1)
Total other comprehensive income	(12)	31
Comprehensive income	822	1,588
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	822	1,588

(3) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

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

Not applicable.

3. Additional Information

(1) Sales Results by Segment (Consolidated)

	Three months ended May 31, 2016	Three months ended May 31, 2017	Changes from the previous corresponding period
	million yen	million yen	%
Apparel Business	20,794	21,987	105.7
Miscellaneous Goods/ Accessories Business	7,750	8,346	107.7
Other	33	25	76.3
Total	28,578	30,359	106.2

(2) Status of Stores (Consolidated)

	Three months ended May 31, 2017
Number of stores as of February 28, 2017	923 stores
Number of new stores	25 stores
Number of closed stores	14 stores
Number of stores as of May 31, 2017	934 stores