

Consolidated Financial Results
for the Fiscal Year Ended February 28, 2021
[Japanese GAAP]

April 13, 2021

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 ordinary general meeting of shareholders: May 26, 2021

Scheduled date of commencing dividend payments: May 27, 2021

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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 28, 2021 (March 1, 2020 to February 28, 2021)

(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 28, 2021	108,522	(17.9)	1,383	(84.7)	1,052	(88.5)	270	(96.1)
Fiscal year ended February 29, 2020	132,163	1.3	9,067	14.3	9,168	17.1	7,028	47.6

(Note) Comprehensive income: Fiscal year ended February 28, 2021: ¥7 million [(99.9)%]

Fiscal year ended February 29, 2020: ¥6,858 million [42.5%]

	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 28, 2021	6.16	—	0.6	1.0	1.3
Fiscal year ended February 29, 2020	159.74	—	15.9	10.0	6.9

(Reference) Equity in earnings of affiliates: Fiscal year ended February 28, 2021: ¥(287) million

Fiscal year ended February 29, 2020: ¥158 million

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	Net assets per share
	million yen	million yen	%	yen
As of February 28, 2021	108,186	44,351	41.0	1,009.69
As of February 29, 2020	94,954	46,627	49.1	1,059.78

(Reference) Equity: As of February 28, 2021: ¥44,351 million

As of February 29, 2020: ¥46,627 million

The Company conducted a stock split as of March 1, 2020, at a ratio of 2 shares for each common share. Therefore, net assets per share is calculated on the assumption that this stock split was conducted at the beginning of the previous fiscal year.

(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 28, 2021	1,450	(1,188)	10,098	63,088
Fiscal year ended February 29, 2020	14,705	(3,543)	(4,068)	52,727

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 29, 2020*	—	0.00	—	100.00	100.00	2,199	31.3	5.0
Fiscal year ended February 28, 2021	—	0.00	—	25.00	25.00	1,098	405.8	2.4
Fiscal year ending February 28, 2022 (Forecast)	—	0.00	—	50.00	50.00		56.3	

*The Company conducted a stock split as of March 1, 2020, at a ratio of 2 shares for each common share. Therefore, “100.00 yen” presented above as the year-end dividend for the fiscal year ended February 29, 2020 amounts to 50.00 yen per share under the condition after the stock split.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2022 (March 1, 2021 to February 28, 2022)

(% 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	63,000	39.5	1,850	—	1,700	—	800	—	18.21
Full year	134,000	23.5	7,400	434.8	7,100	574.3	3,900	1,340.4	88.79

*** 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 28, 2021	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 February 28, 2021	2,346,134 shares
As of February 29, 2020	2,274,644 shares

3) Average number of shares during the period:

Fiscal year ended February 28, 2021	43,928,952 shares
Fiscal year ended February 29, 2020	43,997,450 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 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.

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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 28, 2021

During the fiscal year ended February 28, 2021 (March 1, 2020 to February 28, 2021), the Japanese economy deteriorated rapidly with significant decline in consumption and production due to the spread of the coronavirus disease (COVID-19) infection. Economic activity resumed gradually after the first state of emergency was lifted, with signs of a moderate recovery, due partly to government policies designed to stimulate demand. However, a second state of emergency was declared in January 2021, and the outlook is uncertain as of April, with the Stricter Measure to Prevent the Spread of the Virus measures introduced.

Under such a business environment, the Company made every effort to strengthen EC sales to make up for the decline in customer traffic, while securing the health and safety of its employees. The Company focused on introducing its products in various digital media such as Instagram and took measures including awarding extra points and offering limited time sales. As a result, EC sales increased by more than 35% year on year. However, the impact of the temporary closure from April to May in 2020 and the reduction in store operating hours that continued subsequently was extremely significant. Consequently, in the Apparel Business, net sales decreased by 22.2% year on year to ¥75,540 million, and in the Miscellaneous Goods/Accessories Business, net sales decreased by 5.9% to ¥32,904 million.

As a result of the above, net sales for the fiscal year ended February 28, 2021 decreased by 17.9% year on year to ¥108,522 million. In terms of profit, the gross profit margin decreased by 1.7 percentage point year on year to 54.6%. Operating profit decreased by ¥7,683 million year on year to ¥1,383 million, ordinary profit decreased by ¥8,115 million year on year to ¥1,052 million, and profit attributable to owners of parent decreased by ¥6,757 million year on year to ¥270 million.

2) Sales Results by Segment for the Fiscal Year Ended February 29, 2020

Segment	Amount (million yen)	Changes from the previous fiscal year (%)
Apparel Business	75,540	77.8
Miscellaneous Goods/Accessories Business	32,904	94.1
Other	77	83.1
Total	108,522	82.1

3) Status of Stores for the Fiscal Year Ended February 29, 2020 (March 1, 2020 to February 28, 2021)

Number of stores as of February 28, 2019	926 stores
Number of new stores	72 stores
Number of closed stores	66 stores
Number of stores as of February 29, 2020	932 stores

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

(Assets)

Current assets increased by ¥14,123 million compared with the end of the previous fiscal year, due mainly to increases in cash and deposits by ¥10,360 million, merchandise and finished goods by ¥1,879 million, and

notes and accounts receivable - trade by ¥875 million. Non-current assets decreased by ¥892 million compared with the end of the previous fiscal year, due primarily to decreases in investment securities by ¥1,040 million, intangible assets by ¥141 million, and leased assets, net by ¥129 million, despite an increase in deferred tax assets by ¥505 million.

(Liabilities)

Current liabilities increased by ¥16,177 million compared with the end of the previous fiscal year, due mainly to increases in short-term borrowings by ¥13,206 million and notes and accounts payable - trade by ¥3,875 million. Non-current liabilities decreased by ¥670 million compared with the end of the previous fiscal year, due primarily to decreases in long-term loans payable by ¥748 million and lease obligations by ¥94 million, despite an increase in retirement benefit liability by ¥203 million.

(Net assets)

Net assets decreased by ¥2,276 million compared with the end of the previous fiscal year, due mainly to decreases in retained earnings by ¥1,929 million and valuation difference on available-for-sale securities by ¥184 million.

(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 28, 2021 increased by ¥10,360 million compared with the end of the previous fiscal year to ¥63,088 million, due mainly to cash provided by financing activities in the amount of ¥10,098 million. Cash flows for the fiscal year ended February 28, 2021 are as follows.

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

While cash provided by operating activities was ¥14,705 million for the previous fiscal year, cash provided by operating activities amounted to ¥1,450 million for the fiscal year ended February 28, 2021, due mainly to an increase in trade payables by ¥3,947 million, a decrease in profit before income taxes by ¥8,099 million to ¥504 million, and an increase in inventories by ¥1,892 million.

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

While cash used in investing activities was ¥3,543 million for the previous fiscal year, cash used in investing activities amounted to ¥1,188 million for the fiscal year ended February 28, 2021, due mainly to proceeds from sales of investment securities of ¥830 million, purchase of property, plant and equipment of ¥1,747 million, and payments for asset retirement obligations of ¥204 million.

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

While cash used in financing activities was ¥4,068 million for the previous fiscal year, cash provided by financing activities amounted to ¥10,098 million for the fiscal year ended February 28, 2021, due mainly to a net increase in short-term borrowings of ¥13,206 million and cash dividends paid of ¥2,199 million.

(Reference) Cash flow-related indicators

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019	Fiscal year ended February 29, 2020	Fiscal year ended February 28, 2021
Equity ratio (%)	48.8	46.4	47.5	49.1	41.0
Equity ratio based on market value (%)	78.1	84.3	83.2	70.6	69.4
Interest-bearing debt to cash flows ratio (%)	251.7	382.2	175.7	111.2	2,004.3
Interest-coverage ratio (times)	38.7	43.1	83.1	129.1	12.2

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 2022

The number of patients with the coronavirus disease (COVID-19) has been increasing again since the lifting of the second declaration of a state of emergency, and this situation is expected to exert a substantial impact during the first half of fiscal 2022. Meanwhile however, vaccinations have begun, and the situation is anticipated to settle down somewhat during the second half of the fiscal year. Accordingly, we forecast net sales to increase by 23.5% year on year to ¥134,000 million, operating profit to increase by 434.8% to ¥7,400 million, ordinary profit to increase by 574.3% to ¥7,100 million, and profit to increase by 1,340.4% to ¥3,900 million.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of February 29, 2020	As of February 28, 2021
Assets		
Current assets		
Cash and deposits	52,727	63,088
Notes and accounts receivable - trade	6,435	7,310
Merchandise and finished goods	7,829	9,709
Raw materials and supplies	18	31
Other	830	1,826
Allowance for doubtful accounts	—	(0)
Total current assets	67,842	81,966
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,022	6,078
Machinery, equipment and vehicles, net	3	2
Land	546	546
Leased assets, net	972	843
Other, net	234	206
Total property, plant and equipment	7,780	7,677
Intangible assets	690	549
Investments and other assets		
Investment securities	2,769	1,728
Guarantee deposits	13,017	12,925
Deferred tax assets	2,308	2,813
Other	794	804
Allowance for doubtful accounts	(247)	(279)
Total investments and other assets	18,641	17,992
Total non-current assets	27,112	26,220
Total assets	94,954	108,186

(Millions of yen)

	As of February 29, 2020	As of February 28, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	20,814	24,688
Short-term borrowings	1,794	15,000
Current portion of long-term borrowings	4,698	5,198
Accrued expenses	2,440	2,482
Income taxes payable	276	88
Provision for bonuses	1,737	1,642
Provision for bonuses for directors (and other officers)	427	14
Provision for sales returns	0	0
Provision for point card certificates	314	468
Other	3,500	2,599
Total current liabilities	36,004	52,181
Non-current liabilities		
Long-term borrowings	8,515	7,766
Retirement benefit liability	1,046	1,250
Provision for retirement benefits for directors (and other officers)	134	126
Long-term accounts payable - other	49	29
Lease obligations	762	667
Asset retirement obligations	1,743	1,795
Deferred tax liabilities	4	2
Other	65	13
Total non-current liabilities	12,323	11,652
Total liabilities	48,327	63,834
Net assets		
Shareholders' equity		
Share capital	3,181	3,181
Capital surplus	4,469	4,469
Retained earnings	40,969	39,040
Treasury shares	(2,088)	(2,172)
Total shareholders' equity	46,531	44,518
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	183	(0)
Foreign currency translation adjustment	(22)	(21)
Remeasurements of defined benefit plans	(65)	(144)
Total accumulated other comprehensive income	96	(166)
Total net assets	46,627	44,351
Total liabilities and net assets	94,954	108,186

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Fiscal year ended February 29, 2020	Fiscal year ended February 28, 2021
Net sales	132,163	108,522
Cost of sales	57,776	49,284
Gross profit	74,386	59,237
Provision for sales returns	(0)	(0)
Gross profit - net	74,386	59,237
Selling, general and administrative expenses		
Advertising and promotion expenses	3,073	3,537
Provision for point card certificates	314	153
Transportation and storage costs	4,142	4,302
Provision of allowance for doubtful accounts	(0)	0
Salaries, allowances and bonuses	18,729	15,982
Provision for bonuses	1,737	1,642
Provision for bonuses for directors (and other officers)	427	14
Retirement benefit expenses	140	161
Provision for retirement benefits for directors (and other officers)	4	4
Welfare expenses	3,404	3,345
Rent expenses	19,895	15,841
Lease expenses	143	123
Other	13,307	12,745
Total selling, general and administrative expenses	65,319	57,853
Operating profit	9,067	1,383
Non-operating income		
Interest income	1	1
Royalty income	5	25
Rental income	14	12
Share of profit of entities accounted for using equity method	158	—
Subsidy income related to COVID	—	33
Other	69	61
Total non-operating income	249	135
Non-operating expenses		
Interest expenses	112	117
Provision of allowance for doubtful accounts	17	32
Share of loss of entities accounted for using equity method	—	287
Other	18	28
Total non-operating expenses	148	465
Ordinary profit	9,168	1,052
Extraordinary income		
Gain on sales of investment securities	—	333
Total extraordinary income	—	333

(Millions of yen)

	Fiscal year ended February 29, 2020	Fiscal year ended February 28, 2021
Extraordinary losses		
Loss on retirement of non-current assets	162	87
Impairment loss	387	793
Loss on sales of shares of subsidiaries and associates	10	—
Other	3	1
Total extraordinary losses	564	882
Profit before income taxes	8,604	504
Income taxes - current	2,134	682
Income taxes - deferred	(557)	(448)
Total income taxes	1,576	233
Profit	7,028	270
Profit attributable to owners of parent	7,028	270

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal year ended February 29, 2020	Fiscal year ended February 28, 2021
Profit	7,028	270
Other comprehensive income		
Valuation difference on available-for-sale securities	(124)	(184)
Foreign currency translation adjustment	(1)	0
Remeasurements of defined benefit plans, net of tax	(42)	(59)
Share of other comprehensive income of entities accounted for using equity method	(1)	(19)
Total other comprehensive income	(169)	(262)
Comprehensive income	6,858	7
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,858	7
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated Statements of Changes in Net Assets
Fiscal year ended February 29, 2020

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	3,181	4,469	35,811	(2,088)	41,373
Changes during period					
Dividends of surplus			(1,869)		(1,869)
Profit attributable to owners of parent			7,028		7,028
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		0		0	0
Net changes in items other than shareholders' equity					
Total changes during period	—	0	5,158	(0)	5,157
Balance at end of period	3,181	4,469	40,969	(2,088)	46,531

(Millions of yen)

	Accumulated other comprehensive income				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	308	(19)	(23)	265	41,639
Changes during period					
Dividends of surplus					(1,869)
Profit attributable to owners of parent					7,028
Purchase of treasury shares					(0)
Disposal of treasury shares					0
Net changes in items other than shareholders' equity	(124)	(3)	(42)	(169)	(169)
Total changes during period	(124)	(3)	(42)	(169)	4,988
Balance at end of period	183	(22)	(65)	96	46,627

Fiscal year ended February 28, 2021

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	3,181	4,469	40,969	(2,088)	46,531
Changes during period					
Dividends of surplus			(2,199)		(2,199)
Profit attributable to owners of parent			270		270
Purchase of treasury shares				(83)	(83)
Disposal of treasury shares					—
Net changes in items other than shareholders' equity					
Total changes during period	—	—	(1,929)	(83)	(2,013)
Balance at end of period	3,181	4,469	39,040	(2,172)	44,518

(Millions of yen)

	Accumulated other comprehensive income				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	183	(22)	(65)	96	46,627
Changes during period					
Dividends of surplus					(2,199)
Profit attributable to owners of parent					270
Purchase of treasury shares					(83)
Disposal of treasury shares					—
Net changes in items other than shareholders' equity	(184)	1	(79)	(262)	(262)
Total changes during period	(184)	1	(79)	(262)	(2,276)
Balance at end of period	(0)	(21)	(144)	(166)	44,351

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended February 29, 2020	Fiscal year ended February 28, 2021
Cash flows from operating activities		
Profit before income taxes	8,604	504
Depreciation	1,878	1,896
Impairment loss	387	793
Increase (decrease) in allowance for doubtful accounts	173	32
Interest and dividend income	(9)	(10)
Interest expenses	112	117
Subsidies for employment adjustment	–	(1,021)
Share of loss (profit) of entities accounted for using equity method	(158)	287
Decrease (increase) in trade receivables	(812)	(875)
Decrease (increase) in inventories	2,590	(1,892)
Increase (decrease) in trade payables	3,859	3,947
Increase (decrease) in provision for bonuses	(70)	(94)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	3	4
Increase (decrease) in provision for bonuses for directors (and other officers)	101	(413)
Increase (decrease) in provision for sales returns	(0)	(0)
Increase (decrease) in provision for loss on guarantees	(174)	–
Increase (decrease) in provision for point card certificates	238	153
Loss on retirement of property, plant and equipment	166	88
Loss (gain) on sales of investment securities	–	(333)
Loss (gain) on sales of shares of subsidiaries and associates	10	–
Increase (decrease) in consumption taxes receivable payable	887	(1,728)
Increase (decrease) in retirement benefit liability	87	123
Other, net	370	147
Subtotal	18,247	1,726
Interest and dividends received	8	10
Interest paid	(113)	(118)
Proceeds from subsidies for employment adjustment	–	1,021
Payments of retirement benefits for directors (and other officers)	(2)	(12)
Proceeds from compensation	242	–
Income taxes (paid) refund	(3,677)	(1,176)
Net cash provided by (used in) operating activities	14,705	1,450

(Millions of yen)

	Fiscal year ended February 29, 2020	Fiscal year ended February 28, 2021
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,148)	(1,747)
Proceeds from sales of investment securities	–	830
Loan advances	(300)	(50)
Collection of loans receivable	55	–
Purchase of intangible assets	(230)	(84)
Payments of guarantee deposits	(1,081)	(674)
Proceeds from refund of guarantee deposits	1,150	741
Purchase of shares of subsidiaries and associates	(1,829)	–
Payments for asset retirement obligations	(158)	(204)
Other, net	(0)	–
Net cash provided by (used in) investing activities	(3,543)	(1,188)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(1,856)	13,206
Proceeds from long-term borrowings	1,920	1,052
Repayments of long-term borrowings	(1,337)	(1,301)
Purchase of treasury shares	(0)	(83)
Proceeds from sales of treasury shares	0	–
Dividends paid	(1,869)	(2,199)
Repayments of installment payables	(388)	(79)
Repayments of finance lease obligations	(536)	(495)
Net cash provided by (used in) financing activities	(4,068)	10,098
Net increase (decrease) in cash and cash equivalents	7,094	10,360
Cash and cash equivalents at beginning of period	45,633	52,727
Cash and cash equivalents at end of period	52,727	63,088