Consolidated Financial Results for the Three Months Ended May 31, 2014 [Japanese GAAP]

July 8, 2014

Company name: PAL CO., LTD.
Stock exchange listing: Tokyo Stock Exchange
Code number: 2726
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Scheduled date of filing quarterly securities report: July 14, 2014
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, 2014 (March 1, 2014 to May 31, 2014)

(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	%
Three months ended May 31, 2014	26,034	9.2	2,475	29.5	2,472	29.6	1,354	17.7
Three months ended May 31, 2013	23,839	10.9	1,912	(5.1)	1,908	(5.8)	1,151	4.4

(Note) Comprehensive income: Three months ended May 31, 2014: ¥1,397 million [15.0%]
Three months ended May 31, 2013: ¥1,215 million [11.7%]

	Net income per share	Diluted net income per share
	yen	yen
Three months ended May 31, 2014	61.58	—
Three months ended May 31, 2013	52.34	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
As of May 31, 2014	73,199	33,513	43.1
As of February 28, 2014	66,180	33,231	47.2

(Reference) Equity: As of May 31, 2014: ¥31,532 million
As of February 28, 2014: ¥31,247 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, 2014	—	0.00	—	50.00	50.00
Fiscal year ending February 28, 2015	—				
Fiscal year ending February 28, 2015 (Forecast)		0.00	—	50.00	50.00

(Note) Revision of dividend forecasts: No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2015 (March 1, 2014 to February 28, 2015)

(% 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
First half	52,380	8.0	3,070	12.4	3,010	8.8	1,440	3.4	65.47
Full year	106,300	6.3	6,520	9.2	6,480	7.8	3,050	4.8	138.66

(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 statements: 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, 2014	23,136,000 shares
As of February 28, 2014	23,136,000 shares

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

As of May 31, 2014	1,139,984 shares
As of February 28, 2014	1,139,898 shares

3) Average number of shares during the period:

Three months ended May 31, 2014	21,996,059 shares
Three months ended May 31, 2013	21,996,584 shares

* Presentation regarding the implementation status of the quarterly review process

These consolidated financial results for the three months ended May 31, 2014 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, and do not mean that the Company promises the achievement of these figures. 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.

(Reference)

1. Non-consolidated Financial Results for the Three Months Ended May 31, 2014 (March 1, 2014 to May 31, 2014)

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

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
Three months ended May 31, 2014	21,889	12.5	2,393	22.6	2,413	20.0	1,364	17.7
Three months ended May 31, 2013	19,449	13.9	1,952	2.8	2,010	2.4	1,159	6.0

2. Non-consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2015 (March 1, 2014 to February 28, 2015)

(% indicates changes from the previous corresponding periods.)

	Net sales		Ordinary income		Net income		Net income per share
	million yen	%	million yen	%	million yen	%	yen
First half	43,700	10.0	3,280	6.1	1,740	2.3	79.10
Full year	88,400	7.4	6,780	5.4	3,520	4.5	160.03

(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 three months ended May 31, 2014 (March 1, 2014 to May 31, 2014), the Japanese economy made a gradual recovery driven partially by the economic stimulus measures implemented by the government, with consumer spending also showing signs of strength.

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 44 new stores. As a result, net sales increased by 9.3% year on year to ¥20,261 million. Additionally, in the Miscellaneous Goods/Accessories Business, we opened 10 new stores in response to robust demand for opening stores reflecting our rising visibility. As a result, net sales increased by 9.5% year on year to ¥5,737 million.

As a result of the above, net sales for the three months ended May 31, 2014 increased by 9.2% year on year to ¥26,034 million.

In terms of profit, the gross profit margin increased by 1.2 points year on year to 59.0% due to the further reform of merchandising (MD), etc. Operating income increased by ¥563 million year on year to ¥2,475 million, and ordinary income increased by ¥563 million year on year to ¥2,472 million. Net income increased by ¥203 million year on year to ¥1,354 million.

(2) Explanation of Financial Position

(Assets)

Current assets increased by ¥5,967 million compared with the end of the previous fiscal year, due mainly to increases in cash and deposits by ¥1,423 million, in notes and accounts receivable - trade by ¥2,712 million and in merchandise by ¥1,495 million.

Non-current assets increased by ¥1,051 million compared with the end of the previous fiscal year, due primarily to an increase in buildings and structures by ¥822 million.

(Liabilities)

Current liabilities increased by ¥5,646 million compared with the end of the previous fiscal year, due mainly to an increase in notes and accounts payable - trade by ¥4,431 million, despite a decrease in current portion of long-term loans payable by ¥664 million.

Non-current liabilities increased by ¥1,090 million compared with the end of the previous fiscal year, due primarily to an increase in long-term loans payable by ¥906 million.

(Net assets)

Net assets increased by ¥281 million compared with the end of the previous fiscal year, due mainly to increases in retained earnings and in valuation difference on securities.

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

There was no change to the financial results forecast announced on April 8, 2014.

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

Not applicable.

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, 2014	As of May 31, 2014
Assets		
Current assets		
Cash and deposits	33,044	34,467
Notes and accounts receivable - trade	4,146	6,859
Merchandise	5,955	7,451
Other	1,241	1,545
Allowance for doubtful accounts	(46)	(15)
Total current assets	44,340	50,307
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,116	6,939
Other, net	1,936	1,916
Total property, plant and equipment	8,053	8,856
Intangible assets	61	78
Investments and other assets		
Guarantee deposits	11,801	11,846
Other	2,041	2,255
Allowance for doubtful accounts	(118)	(145)
Total investments and other assets	13,724	13,956
Total non-current assets	21,839	22,891
Total assets	66,180	73,199
Liabilities		
Current liabilities		
Notes and accounts payable - trade	11,455	15,887
Short-term loans payable	782	675
Current position of long-term loans payable	2,849	2,185
Income taxes payable	1,008	1,243
Provision for bonuses	955	1,491
Provision	233	114
Other	4,576	5,910
Total current liabilities	21,861	27,508
Non-current liabilities		
Long-term loans payable	5,628	6,534
Provision	742	737
Asset retirement obligations	1,264	1,376
Other	3,451	3,527
Total non-current liabilities	11,087	12,177
Total liabilities	32,949	39,685

(Millions of yen)

	As of February 28, 2014	As of May 31, 2014
Net assets		
Shareholders' equity		
Capital stock	3,181	3,181
Capital surplus	3,379	3,379
Retained earnings	25,571	25,826
Treasury shares	(1,145)	(1,145)
Total shareholders' equity	30,986	31,241
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	254	285
Foreign currency translation adjustment	5	5
Total accumulated other comprehensive income	260	291
Minority interests	1,984	1,980
Total net assets	33,231	33,513
Total liabilities and net assets	66,180	73,199

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Three months ended May 31, 2013	Three months ended May 31, 2014
Net sales	23,839	26,034
Cost of sales	10,052	10,684
Gross profit	13,786	15,349
Selling, general and administrative expenses	11,874	12,874
Operating income	1,912	2,475
Non-operating income		
Interest income	2	3
Foreign exchange gains	15	2
Amortization of negative goodwill	8	4
Share of profit of entities accounted for using equity method	—	1
Other	19	19
Total non-operating income	45	31
Non-operating expenses		
Interest expenses	25	30
Share of loss of entities accounted for using equity method	20	—
Other	2	4
Total non-operating expenses	49	34
Ordinary income	1,908	2,472
Extraordinary income		
Gain on sales of non-current assets	—	15
Total extraordinary income	—	15
Extraordinary losses		
Loss on retirement of non-current assets	26	21
Impairment loss	5	54
Other	—	8
Total extraordinary losses	31	84
Income before income taxes and minority interests	1,876	2,403
Income taxes - current	868	1,193
Income taxes - deferred	(85)	(155)
Total income taxes	783	1,038
Income before minority interests	1,093	1,364
Minority interests in income (loss)	(57)	10
Net income	1,151	1,354

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Three months ended May 31, 2013	Three months ended May 31, 2014
Income before minority interests	1,093	1,364
Other comprehensive income		
Valuation difference on available-for-sale securities	109	32
Deferred gains or losses on hedges	13	—
Share of other comprehensive income of entities accounted for using equity method	(0)	(0)
Total other comprehensive income	122	32
Comprehensive income	1,215	1,397
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	1,264	1,385
Comprehensive income attributable to minority interests	(49)	11

(3) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

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

Not applicable.

5. Additional Information

(1) Sales Results by Segment (Consolidated)

	Three months ended May 31, 2013	Three months ended May 31, 2014	Changes from the previous corresponding period
	million yen	million yen	%
Apparel Business	18,543	20,261	109.3
Miscellaneous Goods/ Accessories Business	5,239	5,737	109.5
Other	55	34	61.9
Total	23,839	26,034	109.2

(2) Status of Stores (Consolidated)

	Three months ended May 31, 2014
Number of stores as of February 28, 2014	764 stores
Number of new stores	54 stores
Number of closed stores	8 stores
Number of stores as of May 31, 2014	810 stores