Consolidated Financial Results for the Six Months Ended August 31, 2014 [Japanese GAAP]

October 14, 2014

Company name: PAL CO., LTD.
Stock exchange listing: Tokyo Stock Exchange
Code number: 2726
URL: http://palgroup.co.jp
Representative: Ryuta Inoue, President and Representative Director
Contact: Yukio Utsunomiya, Managing Officer and General Manager of Administrative Department
Phone: +81-6-6227-0308
Scheduled date of filing quarterly securities report: October 15, 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: 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, 2014 (March 1, 2014 to August 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	%
Six months ended August 31, 2014	51,703	6.6	3,814	39.6	3,789	37.0	2,033	45.9
Six months ended August 31, 2013	48,493	10.9	2,732	(17.2)	2,766	(17.2)	1,393	(21.7)

(Note) Comprehensive income: Six months ended August 31, 2014: ¥1,992 million [57.1%]
Six months ended August 31, 2013: ¥1,268 million [(28.3)%]

	Net income per share	Diluted net income per share
	yen	yen
Six months ended August 31, 2014	92.45	—
Six months ended August 31, 2013	63.37	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
As of August 31, 2014	75,258	34,108	42.8
As of February 28, 2014	66,180	33,231	47.2

(Reference) Equity: As of August 31, 2014: ¥32,175 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	—	0.00			
Fiscal year ending February 28, 2015 (Forecast)			—	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
Full year	106,300	6.3	7,270	21.8	7,260	20.7	3,650	25.4	165.94

(Note) Revision of consolidated financial results forecast: Yes

*** 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 August 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 August 31, 2014	1,140,194 shares
As of February 28, 2014	1,139,898 shares

3) Average number of shares during the period:

Six months ended August 31, 2014	21,995,993 shares
Six months ended August 31, 2013	21,996,445 shares

* Presentation regarding the implementation status of the quarterly review process

These consolidated financial results for the six months ended August 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 Six Months Ended August 31, 2014 (March 1, 2014 to August 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	%
Six months ended August 31, 2014	43,380	9.2	3,918	30.1	3,912	26.5	2,218	30.4
Six months ended August 31, 2013	39,728	14.0	3,012	(7.1)	3,092	(6.3)	1,701	2.5

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
Full year	88,400	7.4	7,420	15.3	3,990	18.5	181.40

(Note) Revision of non-consolidated financial results forecast: Yes

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 2
2. Matters Related to Summary Information (Notes) 3
(1) Changes in Significant Subsidiaries during the Period under Review 3
(2) Adoption of Special Accounting Methods for Preparing Quarterly Consolidated Financial Statements 3
(3) Changes in Accounting Policies, Changes in Accounting Estimates and Corrections of Errors 3
3. Significant Events Relating to Going Concern Assumption 3
4. Consolidated Financial Statements 4
(1) Consolidated Balance Sheets 4
(2) Consolidated Statements of Income and Comprehensive Income 6
(3) Notes to Consolidated Financial Statements 8
(Notes on Going Concern Assumption) 8
(Notes in Case of Significant Changes in Shareholders' Equity) 8
5. Additional Information 8
(1) Sales Results by Segment (Consolidated) 8
(2) Status of Stores (Consolidated) 8

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

(1) Explanation of Operating Results

During the six months ended August 31, 2014 (March 1, 2014 to August 31, 2014), the Japanese economy made a gradual recovery driven partially by the economic stimulus policies by the government. However, the future prospects for consumer spending remains uncertain due to an increase in consumption tax rate.

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 51 new stores. As a result, net sales increased by 5.6% year on year to ¥40,138 million. Additionally, in the Miscellaneous Goods/Accessories Business, we opened 16 new stores in response to robust demand for opening stores reflecting our rising visibility. As a result, net sales increased by 10.7% year on year to ¥11,499 million.

As a result of the above, net sales for the six months ended August 31, 2014 increased by 6.6% year on year to ¥51,703 million. In terms of profit, the gross profit margin increased by 2.3 points year on year to 57.2% due to the further reform of merchandising (MD), etc. Operating income increased by ¥1,082 million year on year to ¥3,814 million, and ordinary income increased by ¥1,022 million year on year to ¥3,789 million. Net income increased by ¥639 million year on year to ¥2,033 million.

(2) Explanation of Financial Position

(Assets)

Current assets increased by ¥7,535 million compared with the end of the previous fiscal year, due mainly to increases in cash and deposits by ¥4,304 million, in notes and accounts receivable - trade by ¥1,943 million and in merchandise by ¥1,201 million.

Non-current assets increased by ¥1,542 million compared with the end of the previous fiscal year, due primarily to increases in buildings and structures by ¥667 million and in guarantee deposits by ¥608 million.

(Liabilities)

Current liabilities increased by ¥6,788 million compared with the end of the previous fiscal year, due mainly to increases in notes and accounts payable - trade by ¥5,292 million and in income taxes payable by ¥801 million, despite a decrease in current portion of long-term loans payable by ¥518 million.

Non-current liabilities increased by ¥1,412 million compared with the end of the previous fiscal year, due primarily to an increase in long-term loans payable by ¥838 million.

(Net assets)

Net assets increased by ¥876 million compared with the end of the previous fiscal year, due mainly to increases in retained earnings, etc.

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

On October 14, 2014, the Company revised the Consolidated Financial Results Forecast earlier made public on April 8, 2014. As for the reasons for the changes, please refer to “Notice Concerning the Changes in Financial Results Forecast for the Full Year Ending February 28, 2015” announced on October 14, 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 August 31, 2014
Assets		
Current assets		
Cash and deposits	33,044	37,349
Notes and accounts receivable - trade	4,146	6,089
Merchandise	5,955	7,157
Other	1,241	1,285
Allowance for doubtful accounts	(46)	(4)
Total current assets	44,340	51,876
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,116	6,784
Other, net	1,936	2,090
Total property, plant and equipment	8,053	8,874
Intangible assets	61	75
Investments and other assets		
Guarantee deposits	11,801	12,409
Other	2,041	2,189
Allowance for doubtful accounts	(118)	(166)
Total investments and other assets	13,724	14,432
Total non-current assets	21,839	23,382
Total assets	66,180	75,258
Liabilities		
Current liabilities		
Notes and accounts payable - trade	11,455	16,748
Short-term loans payable	782	550
Current position of long-term loans payable	2,849	2,331
Income taxes payable	1,008	1,810
Provision for bonuses	955	1,033
Provision	233	150
Other	4,576	6,026
Total current liabilities	21,861	28,650
Non-current liabilities		
Long-term loans payable	5,628	6,466
Provision	742	741
Asset retirement obligations	1,264	1,369
Other	3,451	3,922
Total non-current liabilities	11,087	12,499
Total liabilities	32,949	41,150

(Millions of yen)

	As of February 28, 2014	As of August 31, 2014
Net assets		
Shareholders' equity		
Capital stock	3,181	3,181
Capital surplus	3,379	3,379
Retained earnings	25,571	26,505
Treasury shares	(1,145)	(1,146)
Total shareholders' equity	30,986	31,919
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	254	250
Foreign currency translation adjustment	5	5
Total valuation and translation adjustments	260	256
Minority interests	1,984	1,932
Total net assets	33,231	34,108
Total liabilities and net assets	66,180	75,258

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Six months ended August 31, 2013	Six months ended August 31, 2014
Net sales	48,493	51,703
Cost of sales	21,878	22,129
Gross profit	26,614	29,574
Selling, general and administrative expenses	23,882	25,759
Operating income	2,732	3,814
Non-operating income		
Interest income	4	7
Share of profit of entities accounted for using equity method	-	13
Amortization of negative goodwill	16	9
Rent income	9	5
Foreign exchange gains	47	1
Other	25	26
Total non-operating income	104	63
Non-operating expenses		
Interest expenses	52	60
Other	17	28
Total non-operating expenses	69	89
Ordinary income	2,766	3,789
Extraordinary income		
Gain on sales of non-current assets	-	15
Total extraordinary income	-	15
Extraordinary losses		
Loss on retirement of non-current assets	140	42
Impairment loss	137	125
Other	-	8
Total extraordinary losses	277	177
Income before income taxes	2,488	3,627
Income taxes - current	1,149	1,688
Income taxes - deferred	71	(56)
Total income taxes	1,221	1,631
Income before minority interests	1,267	1,995
Minority interests in loss	(126)	(37)
Net income	1,393	2,033

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Six months ended August 31, 2013	Six months ended August 31, 2014
Income before minority interests	1,267	1,995
Other comprehensive income		
Valuation difference on available-for-sale securities	8	(1)
Deferred gains or losses on hedges	(10)	-
Share of other comprehensive income of entities accounted for using equity method	2	(0)
Total other comprehensive income	1	(2)
Comprehensive income	1,268	1,992
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,389	2,029
Comprehensive income attributable to minority interests	(121)	(36)

(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)

	Six months ended August 31, 2013	Six months ended August 31, 2014	Changes from the previous corresponding period
	million yen	million yen	%
Apparel Business	38,021	40,138	105.6
Miscellaneous Goods/ Accessories Business	10,383	11,499	110.7
Other	88	66	74.8
Total	48,493	51,703	106.6

(2) Status of Stores (Consolidated)

	Six months ended August 31, 2014
Number of stores as of February 28, 2014	764 stores
Number of new stores	67 stores
Number of closed stores	26 stores
Number of stores as of August 31, 2014	805 stores