Financial Report for the First Six Months of the Fiscal Year Ending February 28, 2019
(Japanese Accounting Standards) (Consolidated)

October 10, 2018

Company name	Treasure Factory Co., Ltd.	Listings	The First Section of the Tokyo Stock Exchange
Securities code	3093	URL	http://www.treasurefactory.co.jp/
Representative	President & CEO, Eigo Nosaka		
Contact	Director, General Manager of Administration Department, Eiji Kobayashi		
Telephone	+81-3-3880-8822		

Scheduled dates:

Submission of statutory quarterly financial report	October 10, 2018
Commencement of dividend payments	November 1, 2018
Supplementary documents for quarterly results	Yes
Quarterly results briefing	Yes (for institutional investors and analysts)

(Amounts in millions of yen rounded down to the nearest million yen)

1. Results for the first six months of the fiscal year ending February 28, 2019 (March 1, 2018 to August 31, 2018)

(1) Operating results (Percentage figures represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Six months ended Aug. 31, 2018	8,307	7.7	243	54.6	261	38.7	164	36.8
Six months ended Aug. 31, 2017	7,716	28.5	157	-54.5	188	-47.2	120	-47.1

(Note) Comprehensive income: First half ended August 31, 2018: 166 million yen (37.6%) First half ended August 31, 2017: 121 million yen (-46.4%)

	Net income per share	Diluted profit per share
	yen	yen
Six months ended Aug. 31, 2018	14.49	–
Six months ended Aug. 31, 2017	10.86	10.68

(2) Financial position

	Total assets	Net assets	Equity capital ratio
	million yen	million yen	%
As of Aug. 31, 2018	8,225	4,029	48.8
As of Feb. 28, 2018	7,865	3,945	49.9

(Reference) Shareholders' equity: As of August 31, 2018: 4,011 million yen
As of February 28, 2018: 3,926 million yen

2. Dividends

	Dividend per share				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Fiscal year end	Total
	yen	yen	yen	yen	yen
Year ended Feb. 28, 2018	–	8.00	–	8.00	16.00
Year ending Feb. 28, 2019	–	8.00			
Year ending Feb. 28, 2019 (forecast)			–	8.00	16.00

(Note) Revisions to dividend projection published most recently: None

3. Results forecast for the fiscal year ending February 28, 2019 (March 1, 2018 to February 28, 2019)

(Percentage figures represent changes from the corresponding period of the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	17,799	8.3	818	31.6	841	25.7	554	60.2	48.76

(Note) Revisions to results forecast published most recently: None

* Notes

(1) Changes in important subsidiaries during the first six months under review (changes in specified subsidiaries that caused changes in the scope of consolidation): None
Number of new companies (their names): Number of excluded companies (their names):

(2) Adoption of accounting unique to the preparation of quarterly consolidated financial statements: None

(3) Changes to accounting policies, changes of accounting estimates, and revisions and restatements
[1] Changes in accounting policies in accordance with changes in accounting principles: Yes
[2] Changes in accounting policies other than the above: None
[3] Changes in accounting estimates: None
[4] Revisions and restatements: None

(4) Number of shares issued and outstanding (common stock)
[1] Number of shares issued at period-end (including treasury shares)

As of Aug. 31, 2018:	11,598,800 shares	As of Feb. 28, 2018:	11,516,800 shares

[2] Treasury stock at period-end

As of Aug. 31, 2018:	237,731 shares	As of Feb. 28, 2018:	237,731 shares

[3] Average number of shares issued

As of Aug. 31, 2018:	11,335,125 shares	As of Aug. 31, 2017:	11,052,892 shares

* This Financial Report is not subject to audit procedures performed by a certified public accountant or audit corporation.

* Explanation on the proper use of the results forecast and additional information
Information on forecasts stated in this material was based on information available at the time of publication of this financial summary. Actual results may differ materially from the forecast due to a range of factors. For further information on the results forecast, please refer to (3) Explanation of Future Prospects Including Consolidated Results Forecasts in 1. Qualitative Information on the Financial Results for the First Six Months of the Fiscal Year Ending February 28, 2019 on page 3 of the accompanying materials.

Accompanying Materials ― Contents

1. Qualitative Information on the Financial Results for the First Six Months of the Fiscal Year Ending February 28, 2019 2
(1) Description of Operating Results 2
(2) Description of Financial Position 2
(3) Explanation of Future Prospects Including Consolidated Results Forecasts 3
2. Quarterly Consolidated Financial Statements and Primary Notes 4
(1) Quarterly Consolidated Balance Sheet 4
(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income 6
(3) Quarterly Consolidated Statement of Cash Flows 8
(4) Notes on Quarterly Consolidated Financial Statements 9
(Notes on the going concern assumption) 9
(Notes if there is a significant change in the amount of shareholders' equity) 9
(Change in accounting policy) 9
(Segment information) 9
(Significant subsequent events) 9

1. Qualitative Information on the Financial Results for the First Six Months of the Fiscal Year Ending February 28, 2019

(1) Description of Operating Results

The second-hand goods retail market continues to expand given developments such as the spread of flea market apps, in addition to the multi-store development of reuse store chains and the business expansion of online reuse business operators.

In this environment, the Company took active steps to improve net gross profit margin and reduce SG&A expenses, which has helped to achieve a significant improvement in both operating and ordinary profit. Our purchasing business remained successful, including purchases at our used goods stores, purchases of large-sized items on our visits to customers' homes, and online purchases. During the summer, in particular, we saw brisk sales of home electrical appliances to beat the summer heat. The Company also took steps to reduce SG&A expenses through measures such as improving staffing efficiency at stores and cutting staff recruiting expenses. It opened new stores focusing on Treasure Factory Style as Fashion Reuse Stores in Tokyo and the Kansai area. The earnings of Kindal, a consolidated subsidiary, improved with growth in sales and a reduction of SG&A expenses on a year-on-year basis.

Consolidated net sales for the first six months under review remained firm, rising 7.7% year on year, while non-consolidated net sales increased 7.0%. By product category, net sales of apparel and household items rose 12.7% and 4.9% respectively, while hobby goods showed strong growth of 26.8%, partly due to the contributions from the Sports and Outdoor Reuse Stores. The cost of purchased items increased 9.6%. Although net sales at the Company's existing stores (stores that had opened before February 28, 2017; the same applies hereinafter) fell 0.8% year on year, the gross profit ratio improved 0.6 percentage points and gross profit was higher on a year on year basis. Purchases also remained firm, increasing 0.5%.

As part of its store-opening measures, the Company opened nine directly managed Treasure Factory Style stores as Fashion Reuse Stores. As a result, the Company operated a total of 119 stores as of August 31, 2018, consisting of 115 directly managed stores and four franchise stores. The number of stores by form of business included directly managed stores comprising 57 Treasure Factory stores as General Reuse Stores, 48 Treasure Factory Style stores as Fashion Reuse Stores, two Brand Collect stores as Brand-name Fashion Reuse Stores, three Treasure Factory Sports stores as Sports and Outdoor Reuse Stores, four UseLet stores as Fashion Outlet Reuse Stores, and one Treasure Factory Market as a Suburban Large-scale Reuse Store, and franchise stores consisting of four Treasure Factory Stores as General Reuse Stores. As a result, the Group operated a total of 181 stores as of August 31, 2018.

Looking at profits, the consolidated gross profit ratio was 62.6%, up 0.2 percentage points year on year, the non-consolidated gross profit ratio was 64.7%, rising 0.3 percentage points.

The selling, general, and administration expenses ratio stood at 59.7 %, decreasing 0.6 % year on year, reflecting the implementation of a review of other expenses in addition to improvement in staffing efficiency. The consolidated operating profit ratio came to 2.9 %, up 0.9 % from a year earlier, and the consolidated ordinary profit ratio came to 3.1 %, rising 0.7 %.

As a result, consolidated net sales rose 7.7 % year on year, to 8,307,663 thousand yen, consolidated operating income rose 54.6 %, to 243,774 thousand yen, consolidated ordinary income rose 38.7 %, to 261,006 thousand yen, and consolidated profit attributable to owners of parent increased 36.8 %, to 164,230 thousand yen.

(2) Description of Financial Position

Total assets as of the end of the first six months under review increased 359,723 thousand yen over a year ago, to 8,225,556 thousand yen, mainly reflecting a 289,405 thousand yen increase in merchandise, a 134,759 thousand yen increase in buildings and structures (net) and a 103,708 thousand yen increase in goodwill, partially offset by a 211,499 thousand yen decrease in cash and deposits.

Total liabilities as of the end of the first six months under review stood at 4,196,097 thousand yen, an increase of 275,566 thousand yen from a year earlier, largely due to a 222,311 thousand yen increase in long-term loans payable.

Net assets as of the end of the first six months under review rose 84,157 thousand yen year on year, to 4,029,459 thousand yen, primarily due to the recording of profit attributable to owners of parent of 164,230 thousand yen.

(Analysis of cash flows)

Cash and cash equivalents as of the end of the first six months under review amounted to 1,124,240 thousand yen, a decrease of 211,449 thousand yen from the end of the previous consolidated fiscal year. The circumstances and factors for each category of cash flows for the first six months under review are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities during the first six months under review stood at 62,773 thousand yen (net

cash provided by operating activities in the same period of the previous fiscal year was 224,972 thousand yen). This chiefly reflects profit before income taxes of 270,685 thousand yen and depreciation of 136,799 thousand yen, which more than offset an increase in inventories of 251,953 thousand yen.

(Cash flows from investing activities)
Net cash used in investing activities during the first six months under review stood at 479,256 thousand yen (net cash used in investing activities in the same period of the previous fiscal year was 244,715 thousand yen). This was primarily due to the purchase of property, plant and equipment of 222,503 thousand yen associated with new store openings and the use of 153,919 thousand yen for the acquisition of shares in a subsidiary resulting in a change to the scope of consolidation.

(Cash flows from financing activities)
Net cash provided by financing activities during the first six months under review was 204,004 thousand yen (net cash used in financing activities in the same period of the previous fiscal year was 231,739 thousand yen). The main factors included proceeds from long-term loans payable of 445,008 thousand yen, which more than offset expenditure of 134,249 thousand yen in repayments of long-term loans payable.

(3) Explanation of Future Prospects Including Consolidated Results Forecasts
During the first six months under review, parent company sales grew by 7% year on year producing higher operating profit, helped by an improvement in the gross profit margin and successful initiatives to reduce SG&A expenses. The main lines of business including General Reuse Stores remained strong in general and other business areas including Sports and Outdoor Reuse Stores also performed well. In addition to the strong business performance, new stores opened in the preceding period also contributed to the profit. Kindal, a consolidated subsidiary, saw an increase in both sales and operating profit, reflecting successful initiatives to reduce SG&A expenses just as experienced by the parent company. Consequently, operating profit and ordinary profit were both substantially higher than the forecasts.
Forecasts for the consolidated results for the fiscal year ending February 28, 2019, remain unchanged from the forecasts announced on April 11, 2018.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Thousand yen)

	Previous consolidated fiscal year (February 28, 2018)	First six months under review (August 31, 2018)
Assets		
Current assets		
Cash and deposits	1,344,096	1,132,646
Accounts receivable - trade	372,662	348,266
Merchandise	2,696,362	2,985,768
Other	467,351	475,951
Total current assets	4,880,473	4,942,632
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	983,655	1,118,415
Land	141,555	141,555
Other, net	304,231	284,850
Total property, plant and equipment	1,429,442	1,544,821
Intangible assets		
Goodwill	48,041	151,750
Other	45,907	55,593
Total intangible assets	93,948	207,343
Investments and other assets		
Lease and guarantee deposits	1,294,146	1,353,737
Other	167,822	177,021
Total investments and other assets	1,461,968	1,530,758
Total non-current assets	2,985,360	3,282,924
Total assets	7,865,833	8,225,556

(Thousand yen)

	Previous consolidated fiscal year (February 28, 2018)	First six months under review (August 31, 2018)
Liabilities		
Current liabilities		
Accounts payable - trade	37,264	28,150
Short-term loans payable	904,900	881,002
Current portion of long-term loans payable	306,983	396,783
Income taxes payable	163,889	144,596
Provision for bonuses	214,914	245,998
Provision for sales returns	21,125	24,069
Provision for point card certificates	33,866	33,808
Other	806,898	743,634
Total current liabilities	2,489,840	2,498,042
Non-current liabilities		
Long-term loans payable	916,947	1,139,258
Asset retirement obligations	445,811	464,670
Other	67,931	94,125
Total non-current liabilities	1,430,689	1,698,054
Total liabilities	3,920,530	4,196,097
Net assets		
Shareholders' equity		
Capital stock	476,224	521,183
Capital surplus	411,224	456,183
Retained earnings	3,276,234	3,251,627
Treasury shares	-235,209	-217,173
Total shareholders' equity	3,928,473	4,011,821
Accumulated other comprehensive income		
Foreign currency translation adjustment	-2,362	141
Total accumulated other comprehensive income	-2,362	141
Subscription rights to shares	9,174	7,480
Non-controlling interests	10,016	10,016
Total net assets	3,945,302	4,029,459
Total liabilities and net assets	7,865,833	8,225,556

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

Quarterly Consolidated Statement of Income

(Thousand yen)

	First six months of previous consolidated fiscal year (from March 1, 2017 to August 31, 2017)	First six months under review (from March 1, 2018 to August 31, 2018)
Net sales	7,716,565	8,307,663
Cost of sales	2,904,672	3,104,888
Gross profit	4,811,892	5,202,775
Reversal of provision for sales returns	22,686	21,125
Provision for sales returns	24,799	24,069
Gross profit - net	4,809,779	5,199,830
Selling, general and administrative expenses	4,652,101	4,956,055
Operating profit	157,678	243,774
Non-operating income		
Interest income	166	122
Income from vending machines	8,497	7,806
Foreign exchange gains	1,450	–
Insurance premiums refunded cancellation	8,000	–
Other	14,930	12,947
Total non-operating income	33,045	20,876
Non-operating expenses		
Interest expenses	1,862	1,825
Foreign exchange losses	–	1,476
Other	688	342
Total non-operating expenses	2,551	3,644
Ordinary profit	188,171	261,006
Extraordinary income		
Compensation income	–	15,640
Total extraordinary income	–	15,640
Extraordinary losses		
Loss on retirement of non-current assets	10	461
Loss on cancellation of rental contracts	–	5,500
Total extraordinary losses	10	5,961
Profit before income taxes	188,160	270,685
Income taxes - current	91,157	99,422
Income taxes - deferred	-23,030	7,032
Total income taxes	68,127	106,454
Profit	120,033	164,230
Profit attributable to non-controlling interests	–	–
Profit attributable to owners of parent	120,033	164,230

Quarterly Consolidated Statement of Comprehensive Income

(Thousand yen)

	First six months of previous consolidated fiscal year (from March 1, 2017 to August 31, 2017)	First six months under review (from March 1, 2018 to August 31, 2018)
Profit	120,033	164,230
Other comprehensive income		
Foreign currency translation adjustment	1,125	2,504
Total other comprehensive income	1,125	2,504
Comprehensive income	121,159	166,734
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	121,159	166,734
Comprehensive income attributable to non-controlling interests	–	–

(3) Quarterly Consolidated Statement of Cash Flows

(Thousand yen)

	First six months of previous consolidated fiscal year (from March 1, 2017 to August 31, 2017)	First six months under review (from March 1, 2018 to August 31, 2018)
Cash flows from operating activities		
Profit before income taxes	188,160	270,685
Depreciation	124,293	136,799
Increase (decrease) in provision for bonuses	22,770	30,134
Increase (decrease) in provision for point card certificates	1,517	-57
Increase (decrease) in provision for sales returns	2,113	2,944
Interest and dividend income	-166	-162
Interest expenses	1,862	1,825
Foreign exchange losses (gains)	-1,450	1,476
Compensation income	–	-15,640
Loss on retirement of non-current assets	10	461
Loss on cancellation of rental contracts	–	5,500
Decrease (increase) in notes and accounts receivable - trade	10,367	31,789
Decrease (increase) in inventories	-132,910	-251,953
Increase (decrease) in notes and accounts payable - trade	2,292	-19,356
Other	51,318	-28,412
Subtotal	270,179	166,033
Interest and dividend income received	166	162
Interest expenses paid	-1,815	-1,810
Proceeds from compensation	–	15,660
Income taxes paid	-43,557	-117,271
Cash flows from operating activities	224,972	62,773
Cash flows from investing activities		
Purchase of property, plant and equipment	-191,658	-222,503
Purchase of intangible assets	-3,625	-22,842
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	-153,919
Payments for lease and guarantee deposits	-55,154	-79,694
Proceeds from collection of lease and guarantee deposits	11,249	31,969
Other	-5,526	-32,265
Cash flows from investing activities	-244,715	-479,256
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	-190,000	-24,897
Proceeds from long-term loans payable	200,000	445,008
Repayments of long-term loans payable	-153,596	-134,249
Proceeds from issuance of common shares	97,445	88,350
Purchase of treasury shares	-98,028	-80,568
Cash dividends paid	-88,278	-90,356
Other	717	717
Cash flows from financing activities	-231,739	204,004
Effect of exchange rate change on cash and cash equivalents	2,576	1,027
Net increase (decrease) in cash and cash equivalents	-248,905	-211,449
Cash and cash equivalents at beginning of period	1,336,514	1,335,690
Cash and cash equivalents at end of period	1,087,608	1,124,240

(4) Notes on Quarterly Consolidated Financial Statements

(Notes on the going concern assumption)

Not applicable

(Notes if there is a significant change in the amount of shareholders' equity)

Not applicable

(Change in accounting policy)

(Application of "Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions, etc.")

The Company decided to apply "Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions, etc." (ASBJ Practical Issues Task Force ("PITF") No. 36, issued on January 12, 2018; hereinafter referred to as "PITF No. 36") from April 1, 2018 and to account for transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions in accordance with the "Accounting Standard for Stock Options" (ASBJ Statement No. 8, issued on December 27, 2005) and related guidance.

However, when applying PITF No. 36, the Company complied with the transitional provisions in Paragraph 10, Item (3) of PITF No. 36 and continued to account for transactions that granted employees and others stock acquisition rights, which involve considerations, with vesting conditions prior to the date of application of PITF No. 36 in accordance with the previously adopted accounting procedure.

(Segment information)

Segment Information

The main business of the Company is the reuse business, and the Company does not have any other significant business segments. Segment information is therefore omitted.

(Significant subsequent events)

Not applicable