Consolidated Financial Results for the Year Ended February 28, 2019 [Japanese GAAP]

April 9, 2019

Company name: PAL GROUP Holdings CO., LTD.
Stock exchange listing: Tokyo Stock Exchange
Code number: 2726
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Scheduled date of ordinary general meeting of shareholders: May 29, 2019
Scheduled date of commencing dividend payments: May 30, 2019
Scheduled date of filing securities report: May 31, 2019
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, 2019 (March 1, 2018 to February 28, 2019)

(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, 2019	130,474	5.9	7,933	12.6	7,832	12.4	4,760	91.2
Fiscal year ended February 28, 2018	123,241	5.8	7,042	14.3	6,967	15.3	2,489	(18.9)

(Note) Comprehensive income: Fiscal year ended February 28, 2019: ¥4,814 million [85.0%]
Fiscal year ended February 28, 2018: ¥2,602 million [15.4%]

	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, 2019	216.40	—	11.9	9.2	6.1
Fiscal year ended February 28, 2018	113.16	—	6.5	8.7	5.7

(Reference) Equity in earnings of affiliates: Fiscal year ended February 28, 2019: ¥(13) million
Fiscal year ended February 28, 2018: ¥5 million

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	yen
As of February 28, 2019	87,735	41,639	47.5	1,892.80
As of February 28, 2018	82,890	38,475	46.4	1,748.96

(Reference) Equity: As of February 28, 2019: ¥41,639 million
As of February 28, 2018: ¥38,475 million

(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, 2019	10,378	(1,182)	(4,291)	45,633
Fiscal year ended February 28, 2018	5,236	(1,717)	1,322	40,728

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 28, 2018	—	0.00	—	75.00	75.00	1,649	66.3	4.3
Fiscal year ended February 28, 2019	—	0.00	—	85.00	85.00	1,869	39.3	4.7
Fiscal year ending February 29, 2020 (Forecast)	—	0.00	—	85.00	85.00		33.8	

(Note) Revision of dividend forecast: Yes

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 29, 2020 (March 1, 2019 to February 29, 2020)

(% 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	68,500	6.1	4,500	15.5	4,410	15.0	2,700	22.7	122.73
Full year	137,700	5.5	9,190	15.8	9,000	14.9	5,530	16.2	251.38

*** 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: Yes
3) Changes in accounting estimates: No
4) Corrections of errors: No
For details, please refer to "3. Consolidated Financial Statements (5) Notes to Consolidated Financial Statements (Changes in Accounting Policies)" on page 12 of the Appendix to this report.

(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, 2019	23,136,000 shares
As of February 28, 2018	23,136,000 shares

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

As of February 28, 2019	1,137,257 shares
As of February 28, 2018	1,137,119 shares

3) Average number of shares during the period:

Fiscal year ended February 28, 2019	21,998,812 shares
Fiscal year ended February 28, 2018	21,999,009 shares

* 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. 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 "(4) Outlook for Fiscal 2019" on page 4 of the Appendix to this report.

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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, 2019

During the fiscal year February 28, 2019 (March 1, 2018 to February 28, 2019), 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 establishing its business mode 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 flexible introduction of items in stores. As a result, net sales increased by 7.4% year on year to ¥96,139 million. In the Miscellaneous Goods/Accessories Business, net sales increased by 1.9% year on year to ¥34,231 million.

As a result of the above, net sales for the fiscal year ended February 28, 2019 increased by 5.9% year on year to ¥130,474 million. In terms of profit, the gross profit margin decreased by 0.1 percentage point year on year to 55.7%, despite the further reform of merchandising (MD), etc. Operating profit increased by ¥890 million year on year to ¥7,933 million, ordinary profit increased by ¥865 million year on year to ¥7,832 million, and profit attributable to owners of parent increased by ¥2,271 million year on year to ¥4,760 million.

1) Sales Results by Segment for the Fiscal Year Ended February 28, 2019

Segment	Amount (million yen)	Changes from the previous fiscal year (%)
Apparel Business	96,139	107.4
Miscellaneous Goods/Accessories Business	34,231	101.9
Other	103	85.9
Total	130,474	105.9

2) Status of Stores for the Fiscal Year Ended February 28, 2019 (March 1, 2018 to February 28, 2019)

Number of stores as of February 28, 2018	935 stores
Number of new stores	61 stores
Number of closed stores	70 stores
Number of stores as of February 28, 2019	926 stores

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

(Assets)

Current assets increased by ¥5,319 million compared with the end of the previous fiscal year, due mainly to increases in cash and deposits by ¥4,904 million and merchandise and finished goods by ¥491 million.

Non-current assets decreased by ¥473 million compared with the end of the previous fiscal year, due primarily to decreases in land by ¥232 million and guarantee deposits by ¥416 million.

(Liabilities)

Current liabilities increased by ¥3,266 million compared with the end of the previous fiscal year, due mainly to increases in notes and accounts payable - trade by ¥2,193 million and income taxes payable by ¥1,196 million, despite a decrease in short-term loans payable by ¥982 million.
Non-current liabilities decreased by ¥1,585 million compared with the end of the previous fiscal year, due primarily to a decrease in long-term loans payable by ¥1,174 million.
(Net assets)
Net assets increased by ¥3,164 million compared with the end of the previous fiscal year, due mainly to an increase in retained earnings by ¥3,110 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, 2019 increased by ¥4,904 million compared with the end of the previous fiscal year to ¥45,633 million, due mainly to cash provided by operating activities in the amount of ¥10,378 million.
Cash flows for the fiscal year ended February 28, 2019 are as follows.
(Net cash provided by (used in) operating activities)
While cash provided by operating activities was ¥5,236 million for the previous fiscal year, cash provided by operating activities amounted to ¥10,378 million for the fiscal year ended February 28, 2019, due mainly to an increase in notes and accounts payable - trade by ¥2,234 million and profit before income taxes in the amount of ¥7,701 million, despite an increase in inventories by ¥502 million.
(Net cash provided by (used in) investing activities)
While cash used in investing activities was ¥1,717 million for the previous fiscal year, cash used in investing activities amounted to ¥1,182 million for the fiscal year ended February 28, 2019, due mainly to purchase of property, plant and equipment of ¥1,622 million.
(Net cash provided by (used in) financing activities)
While cash provided by financing activities was ¥1,322 million for the previous fiscal year, cash used in financing activities amounted to ¥4,291 million for the fiscal year ended February 28, 2019, due mainly to a decrease in short-term loans payable of ¥982 million, cash dividends paid of ¥1,649 million and repayments of installment payables of ¥727 million.
(Reference) Cash flow-related indicators

	Fiscal year ended February 28, 2015	Fiscal year ended February 29, 2016	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
Equity ratio (%)	41.8	46.9	48.8	46.4	47.5
Equity ratio based on market value (%)	87.2	73.0	78.1	84.3	83.2
Interest-bearing debt to cash flows ratio (%)	85.1	—	251.7	382.2	175.7
Interest-coverage ratio (times)	102.0	—	38.7	43.1	83.1

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

(Note) For the fiscal year ended February 29, 2016, the description of interest-bearing debt to cash flows ratio and interest-coverage ratio has been omitted as the operating cash flows were negative.

(4) Outlook for Fiscal 2019

As for the outlook for Fiscal 2019, the Company predicts increases in both sales and profits, expecting net sales to increase by 5.5% year on year to ¥137,700 million, operating profit to increase by 15.8% year on year to ¥9,190 million, ordinary profit to increase by 14.9% year on year to ¥9,000 million and profit attributable to owners of parent to increase 16.2% year on year to ¥5,530 million.

2. Rationale behind the Choice of Accounting Standards

To sustain comparability of consolidated financial statements between periods as well as between companies, the Company prepares consolidated financial statements under the Japanese GAAP.

We will appropriately respond to the application of the International Financial Reporting Standards (IFRS) considering various circumstances in Japan and overseas.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of February 28, 2018	As of February 28, 2019
Assets		
Current assets		
Cash and deposits	40,728	45,633
Notes and accounts receivable - trade	5,194	5,623
Merchandise and finished goods	9,920	10,412
Raw materials and supplies	15	26
Deferred tax assets	729	943
Other	1,602	871
Allowance for doubtful accounts	(0)	(0)
Total current assets	58,190	63,509
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,264	6,234
Machinery, equipment and vehicles, net	1	4
Land	779	546
Leased assets, net	810	1,138
Other, net	377	229
Total property, plant and equipment	8,233	8,153
Intangible assets	637	808
Investments and other assets		
Investment securities	895	962
Guarantee deposits	13,505	13,088
Deferred tax assets	879	760
Other	622	524
Allowance for doubtful accounts	(73)	(73)
Total investments and other assets	15,828	15,263
Total non-current assets	24,699	24,225
Total assets	82,890	87,735

(Millions of yen)

	As of February 28, 2018	As of February 28, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	14,673	16,867
Short-term loans payable	4,632	3,650
Current portion of long-term loans payable	3,040	3,945
Accrued expenses	2,126	2,124
Income taxes payable	395	1,592
Provision for bonuses	1,522	1,807
Provision for directors' bonuses	103	326
Provision for sales returns	0	0
Provision for point card certificates	17	75
Other	3,579	2,969
Total current liabilities	30,091	33,358
Non-current liabilities		
Long-term loans payable	9,860	8,685
Net defined benefit liability	843	901
Provision for directors' retirement benefits	126	131
Provision for loss on guarantees	160	174
Long-term accounts payable - other	717	98
Lease obligations	794	960
Asset retirement obligations	1,735	1,690
Deferred tax liabilities	34	28
Other	52	66
Total non-current liabilities	14,323	12,737
Total liabilities	44,415	46,096
Net assets		
Shareholders’ equity		
Capital stock	3,181	3,181
Capital surplus	4,469	4,469
Retained earnings	32,700	35,811
Treasury shares	(2,088)	(2,088)
Total shareholders’ equity	38,263	41,373
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	267	308
Foreign currency translation adjustment	(5)	(19)
Remeasurements of defined benefit plans	(50)	(23)
Total accumulated other comprehensive income	211	265
Total net assets	38,475	41,639
Total liabilities and net assets	82,890	87,735

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
Net sales	123,241	130,474
Cost of sales	54,490	57,774
Gross profit	68,751	72,700
Provision for sales returns	(0)	(0)
Gross profit - net	68,751	72,700
Selling, general and administrative expenses		
Advertising and promotion expenses	2,648	2,828
Provision for point card certificates	17	75
Transportation and warehousing expenses	3,609	4,160
Provision of allowance for doubtful accounts	(1)	(0)
Salaries, allowances and bonuses	18,514	18,628
Provision for bonuses	1,522	1,807
Provision for directors' bonuses	103	326
Retirement benefit expenses	120	142
Provision for directors' retirement benefits	3	5
Welfare expenses	3,354	3,391
Rent expenses	19,958	20,087
Lease expenses	156	118
Other	11,699	13,195
Total selling, general and administrative expenses	61,708	64,766
Operating profit	7,042	7,933
Non-operating income		
Interest income	1	1
Rent income	12	12
Share of profit of entities accounted for using equity method	5	—
Other	64	80
Total non-operating income	84	94
Non-operating expenses		
Interest expenses	120	125
Provision for loss on guarantees	20	14
Share of loss of entities accounted for using equity method	—	13
Other	19	42
Total non-operating expenses	159	195
Ordinary profit	6,967	7,832
Extraordinary income		
Gain on sales of non-current assets	—	310
Compensation income	—	198
Compensation for transfer	—	242
Total extraordinary income	—	751

(Millions of yen)

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
Extraordinary losses		
Loss on retirement of non-current assets	262	266
Loss on cancellation of leases	8	3
Impairment loss	1,766	475
Loss on disaster	—	136
Total extraordinary losses	2,038	882
Profit before income taxes	4,929	7,701
Income taxes - current	2,576	3,070
Income taxes - deferred	(137)	(129)
Total income taxes	2,439	2,941
Profit	2,489	4,760
Profit attributable to owners of parent	2,489	4,760

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
Profit	2,489	4,760
Other comprehensive income		
Valuation difference on available-for-sale securities	125	40
Foreign currency translation adjustment	(1)	(8)
Remeasurements of defined benefit plans, net of tax	(12)	27
Share of other comprehensive income of entities accounted for using equity method	1	(5)
Total other comprehensive income	112	53
Comprehensive income	2,602	4,814
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,602	4,814
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated Statements of Changes in Net Assets

Fiscal year ended February 28, 2018

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	3,181	4,469	31,927	(2,087)	37,491
Changes of items during period					
Dividends of surplus			(1,539)		(1,539)
Profit attributable to owners of parent			2,489		2,489
Purchase of treasury shares				(0)	(0)
Effect resulting from change of accounting period of consolidated subsidiaries			(176)		(176)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	772	(0)	772
Balance at end of current period	3,181	4,469	32,700	(2,088)	38,263

(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 current period	142	(5)	(38)	99	37,590
Changes of items during period					
Dividends of surplus					(1,539)
Profit attributable to owners of parent					2,489
Purchase of treasury shares					(0)
Effect resulting from change of accounting period of consolidated subsidiaries					(176)
Net changes of items other than shareholders' equity	125	0	(12)	112	112
Total changes of items during period	125	0	(12)	112	884
Balance at end of current period	267	(5)	(50)	211	38,475

Fiscal year ended February 28, 2019

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	3,181	4,469	32,700	(2,088)	38,263
Changes of items during period					
Dividends of surplus			(1,649)		(1,649)
Profit attributable to owners of parent			4,760		4,760
Purchase of treasury shares				(0)	(0)
Effect resulting from change of accounting period of consolidated subsidiaries					
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	3,110	(0)	3,110
Balance at end of current period	3,181	4,469	35,811	(2,088)	41,373

(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 current period	267	(5)	(50)	211	38,475
Changes of items during period					
Dividends of surplus					(1,649)
Profit attributable to owners of parent					4,760
Purchase of treasury shares					(0)
Effect resulting from change of accounting period of consolidated subsidiaries					
Net changes of items other than shareholders' equity	40	(13)	27	53	53
Total changes of items during period	40	(13)	27	53	3,164
Balance at end of current period	308	(19)	(23)	265	41,639

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
Cash flows from operating activities		
Profit before income taxes	4,929	7,701
Depreciation	1,909	1,837
Impairment loss	1,766	475
Increase (decrease) in allowance for doubtful accounts	(2)	(0)
Interest and dividend income	(7)	(7)
Interest expenses	120	125
Compensation income	–	(198)
Compensation for removal	–	(242)
Share of loss (profit) of entities accounted for using equity method	(5)	13
Decrease (increase) in notes and accounts receivable - trade	79	(428)
Decrease (increase) in inventories	(1,191)	(502)
Increase (decrease) in notes and accounts payable - trade	1,625	2,234
Increase (decrease) in provision for bonuses	169	284
Increase (decrease) in provision for directors' retirement benefits	3	5
Increase (decrease) in provision for directors' bonuses	(61)	223
Increase (decrease) in net defined benefit liability	75	96
Increase (decrease) in provision for sales returns	(0)	(0)
Increase (decrease) in provision for loss on guarantees	20	14
Increase (decrease) in provision for point card certificates	13	58
Loss on retirement of property, plant and equipment	271	270
Loss (gain) on sales of non-current assets	–	(310)
Increase (decrease) in accrued consumption taxes	(364)	97
Other, net	(387)	449
Subtotal	8,964	12,195
Interest and dividend income received	11	7
Interest expenses paid	(121)	(124)
Proceeds from compensation	–	198
Income taxes (paid) refund	(3,618)	(1,897)
Net cash provided by (used in) operating activities	5,236	10,378

(Millions of yen)

	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2019
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,184)	(1,622)
Proceeds from sales of property, plant and equipment	–	552
Payments of loans receivable	(39)	(55)
Collection of loans receivable	6	–
Purchase of intangible assets	(373)	(224)
Payments for guarantee deposits	(717)	(912)
Proceeds from collection of guarantee deposits	892	1,330
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(99)	–
Purchase of shares of subsidiaries and associates	(3)	–
Payments for asset retirement obligations	(199)	(210)
Other, net	(0)	(40)
Net cash provided by (used in) investing activities	(1,717)	(1,182)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,354	(982)
Proceeds from long-term loans payable	4,549	1,068
Repayments of long-term loans payable	(1,453)	(1,338)
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(1,540)	(1,649)
Repayments of installment payables	(1,012)	(727)
Repayments of finance lease obligations	(574)	(661)
Net cash provided by (used in) financing activities	1,322	(4,291)
Net increase (decrease) in cash and cash equivalents	4,835	4,904
Cash and cash equivalents at beginning of period	35,959	40,728
Increase (decrease) in cash and equivalents resulting from change of accounting period of consolidated subsidiaries	(66)	–
Cash and cash equivalents at end of period	40,728	45,633