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

January 11, 2019

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 Corporate Planning Department, Eiji Kobayashi		
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Scheduled dates:

Submission of statutory quarterly financial report	January 11, 2019
Commencement of dividend payments	–
Supplementary documents for quarterly results	Yes
Quarterly results briefing	None

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

1. Results for the first nine months of the fiscal year ending February 28, 2019 (March 1, 2018 to November 30, 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	%
Nine months ended Nov. 30, 2018	13,012	7.8	644	39.9	672	34.1	442	32.2
Nine months ended Nov. 30, 2017	12,075	29.4	460	-21.7	501	-17.0	334	-12.6

(Note) Comprehensive income: Nine months ended November 30, 2018: 445 million yen (32.3%)
Nine months ended November 30, 2017: 336 million yen (-12.0%)

	Profit per share	Diluted profit per share
	yen	yen
Nine months ended Nov. 30, 2018	39.01	–
Nine months ended Nov. 30, 2017	30.22	29.69

(2) Financial position

	Total assets	Net assets	Equity capital ratio
	million yen	million yen	%
As of Nov. 30, 2018	8,558	4,216	49.1
As of Feb. 28, 2018	7,865	3,945	49.9

(Reference) Shareholders' equity: As of November 30, 2018: 4,199 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		Profit 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 nine 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 Nov. 30, 2018:	11,598,800 shares	As of Feb. 28, 2018:	11,516,800 shares

[2] Treasury stock at period-end

As of Nov. 30, 2018:	237,731 shares	As of Feb. 28, 2018:	237,731 shares

[3] Average number of shares issued

As of Nov. 30, 2018:	11,343,710 shares	As of Nov. 30, 2017:	11,081,717 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 Nine Months of the Fiscal Year Ending February 28, 2019 on page 2 of the accompanying materials.

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1. Qualitative Information on the Financial Results for the First Nine 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 in the first nine months under review, including purchases at our used goods stores, purchases of large-sized items on our visits to customers' homes, and online purchases. The store opening made steady progress, with the Company opening 12 directly-managed stores mainly in the Tokyo area. The earnings of Kindal, a consolidated subsidiary, improved from a year ago thanks to an improvement in the gross profit ratio and a reduction of SG&A expenses.

Consolidated net sales for the first nine months under review remained firm, rising 7.8% year on year, while non-consolidated net sales increased 7.6%. By product category, net sales of apparel and household items rose 13.3% and 4.3% respectively, while hobby goods showed strong growth of 27.7%, partly due to the contributions from the Sports and Outdoor Reuse Stores. The cost of purchased items showed strong growth, increasing 10.2% year on year. Net sales at the Company's existing stores (stores that had opened before February 28, 2017; the same applies hereinafter) rose 0.2% year on year, and the gross profit ratio improved 0.5% on a year-on-year basis. Purchases also remained firm, increasing 3.1%.

As part of its store-opening measures, the Company opened 11 directly managed Treasure Factory Style stores as Fashion Reuse Stores and opened one Treasure Factory Sports store as a Sports and Outdoor Reuse Store. Treasure Factory Sports Makuhari Store was opened at the same facility as the relocation destination of Treasure Factory Makuhari Store, which is a General Reuse Store, and these stores were opened as complex stores for the first time for the Company. As a result, the Company operated a total of 122 stores as of November 30, 2018, consisting of 118 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, 50 Treasure Factory Style stores as Fashion Reuse Stores, two Brand Collect stores as Brand-name Fashion Reuse Stores, four 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. Including stores of subsidiaries such as two stores of Treasure Factory (Thailand), 40 stores of Kindal and 21 stores of GOLF Kids, the total number of stores in the Group stood at 185 as of November 30, 2018.

Looking at profits, the consolidated gross profit ratio was 62.5%, up 0.3% year on year, the non-consolidated gross profit ratio was 64.4%, rising 0.1%.

The selling, general, and administration expenses ratio stood at 57.5%, decreasing 0.9% 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 5.0%, up 1.2% from a year earlier, and the consolidated ordinary profit ratio came to 5.2%, rising 1.0%.

As a result, consolidated net sales rose 7.8% year on year, to 13,012,867 thousand yen, consolidated operating profit rose 39.9%, to 644,363 thousand yen, consolidated ordinary profit rose 34.1%, to 672,828 thousand yen, and consolidated profit attributable to owners of parent increased 32.2%, to 442,545 thousand yen.

(2) Description of Financial Position

Total assets at the end of the third quarter under review came to 8,558,154 thousand yen, an increase of 692,320 thousand yen from the end of the previous consolidated fiscal year, mainly reflecting a 508,316 thousand yen increase in merchandise, a 147,484 thousand yen increase in buildings and structures (net), a 143,253 thousand yen increase in accounts receivable - trade and a 99,534 thousand yen increase in goodwill, partly offset by a 242,286 thousand yen decrease in cash and deposits.

Total liabilities as of the end of the third quarter under review stood at 4,341,230 thousand yen, an increase of 420,699 thousand yen from the end of the previous consolidated fiscal year, largely due to a 235,101 thousand yen increase in short-term loans payable and a 125,646 thousand yen increase in long-term loans payable.

Net assets as of the end of the third quarter under review totaled 4,216,923 thousand yen, an increase of 271,621 thousand yen from the end of the previous consolidated fiscal year, primarily due to the recording of profit attributable to owners of parent of 442,545 thousand yen.

(3) Explanation of Future Prospects Including Consolidated Results Forecasts

No changes have been made to the consolidated results forecasts for the fiscal year ending February 28, 2019 that were announced on April 11, 2018.

2. Quarterly Consolidated Financial Statements and Primary Notes
(1) Quarterly Consolidated Balance Sheet

(Thousand yen)

	Previous consolidated fiscal year (February 28, 2018)	Third quarter of fiscal year under review (November 30, 2018)
Assets		
Current assets		
Cash and deposits	1,344,096	1,101,809
Accounts receivable - trade	372,662	515,916
Merchandise	2,696,362	3,204,678
Other	467,351	445,224
Total current assets	4,880,473	5,267,629
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	983,655	1,131,139
Land	141,555	141,555
Other, net	304,231	284,802
Total property, plant and equipment	1,429,442	1,557,497
Intangible assets		
Goodwill	48,041	147,576
Other	45,907	52,978
Total intangible assets	93,948	200,555
Investments and other assets		
Lease and guarantee deposits	1,294,146	1,361,349
Other	167,822	171,121
Total investments and other assets	1,461,968	1,532,471
Total non-current assets	2,985,360	3,290,524
Total assets	7,865,833	8,558,154

(Thousand yen)

	Previous consolidated fiscal year (February 28, 2018)	Third quarter of fiscal year under review (November 30, 2018)
Liabilities		
Current liabilities		
Accounts payable - trade	37,264	39,717
Short-term loans payable	904,900	1,140,001
Current portion of long-term loans payable	306,983	392,414
Income taxes payable	163,889	102,791
Provision for bonuses	214,914	125,380
Provision for sales returns	21,125	21,953
Provision for point card certificates	33,866	34,917
Other	806,898	867,402
Total current liabilities	2,489,840	2,724,576
Non-current liabilities		
Long-term loans payable	916,947	1,042,593
Asset retirement obligations	445,811	478,152
Other	67,931	95,907
Total non-current liabilities	1,430,689	1,616,653
Total liabilities	3,920,530	4,341,230
Net assets		
Shareholders' equity		
Capital stock	476,224	521,183
Capital surplus	411,224	456,183
Retained earnings	3,276,234	3,439,054
Treasury shares	-235,209	-217,173
Total shareholders' equity	3,928,473	4,199,248
Accumulated other comprehensive income		
Foreign currency translation adjustment	-2,362	179
Total accumulated other comprehensive income	-2,362	179
Subscription rights to shares	9,174	7,480
Non-controlling interests	10,016	10,016
Total net assets	3,945,302	4,216,923
Total liabilities and net assets	7,865,833	8,558,154

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

Quarterly Consolidated Statement of Income

(Thousand yen)

	First nine months of previous consolidated fiscal year (from March 1, 2017 to November 30, 2017)	First nine months under review (from March 1, 2018 to November 30, 2018)
Net sales	12,075,137	13,012,867
Cost of sales	4,564,854	4,880,467
Gross profit	7,510,282	8,132,400
Reversal of provision for sales returns	22,686	21,125
Provision for sales returns	21,936	21,953
Gross profit - net	7,511,032	8,131,572
Selling, general and administrative expenses	7,050,320	7,487,208
Operating profit	460,711	644,363
Non-operating income		
Interest income	230	197
Income from vending machines	11,141	10,329
Insurance premiums refunded cancellation	8,000	–
Other	25,331	20,997
Total non-operating income	44,703	31,523
Non-operating expenses		
Interest expenses	2,712	2,645
Other	897	413
Total non-operating expenses	3,610	3,059
Ordinary profit	501,805	672,828
Extraordinary income		
Compensation income	–	15,640
Total extraordinary income	–	15,640
Extraordinary losses		
Loss on retirement of non-current assets	5,072	473
Impairment loss	6,312	–
Loss on cancellation of rental contracts	–	5,500
Total extraordinary losses	11,385	5,973
Profit before income taxes	490,419	682,495
Income taxes - current	149,785	187,510
Income taxes - deferred	5,790	52,438
Total income taxes	155,575	239,949
Profit	334,843	442,545
Profit attributable to non-controlling interests	–	–
Profit attributable to owners of parent	334,843	442,545

Quarterly Consolidated Statement of Comprehensive Income

(Thousand yen)

	First nine months of previous consolidated fiscal year (from March 1, 2017 to November 30, 2017)	First nine months under review (from March 1, 2018 to November 30, 2018)
Profit	334,843	442,545
Other comprehensive income		
Foreign currency translation adjustment	1,483	2,542
Total other comprehensive income	1,483	2,542
Comprehensive income	336,326	445,087
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	336,221	445,087
Comprehensive income attributable to non-controlling interests	105	–

(3) 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)

Acquisition of a company through the acquisition of shares

At a meeting held on December 14, 2018, the Board of Directors of the Company passed a resolution on acquiring shares of Digital Quest Corporation (hereinafter "Digital Quest") to make it a subsidiary, and the Company entered into a share transfer agreement with Digital Quest on the same day.

(1) Purpose of acquiring the shares

The Group has a policy of promoting the "expansion of categories of products, the customer base and sales and purchase channels" to enable customers to use its reuse services in a wider range of areas in the reuse retail industry. Meanwhile, Digital Quest has set "business creation through inquiries in the digital world and social contribution through business" as its philosophy. It excels at the commissioned development of websites and applications from the planning phase in the upstream process of systems to development and operation end-to-end and has a track record of developing a multitude of native applications and web services. Digital Quest has a corporate culture that is rich in novelty, constantly working on new business projects by actively incorporating the latest technologies that are emerging day to day, such as the blockchain.

By welcoming Digital Quest into the Group, the Company will work to create new customer value jointly by utilizing the big data it holds by advancing the creation of a new assessment system utilizing AI based on its purchase data on more than one million purchases a year and the development of new services utilizing its member data on hundreds of thousands of members.

(2) Name of the person from whom we have acquired the shares

We omit the description of the person from whom we have acquired the shares because it is an individual, but there are no capital, business and human relationships to note between the individual and the Company.

(3) Overview of the acquired company

Name	Digital Quest Corporation
Address	4-21, Roppongi 3-chome, Minato-ku, Tokyo
Representative	Hiroyuki Samejima
Business	Planning, operation and commissioned development of websites and applications
Capital	35,000 thousand yen
Established	January 6, 2014

(4) Date of business combination

March 31, 2019

(5) Legal form of business combination

Acquisition of shares with cash and treasury shares as consideration

(6) Number of shares

Number of acquired shares: 372 (percentage of voting rights: 87.1%)

(7) Main reason for reaching the decision on the acquired company

Because the Company acquired 87.1% of voting rights as a result of acquiring the shares.

Acquisition of own shares

At a meeting held on January 11, 2019, the Board of Directors of the Company passed a resolution with regard to matters pertaining to the acquisition of own shares as follows, pursuant to the provisions of Article 156 of the Companies Act that are applied by rereading them pursuant to the provisions of Article 165, Paragraph 3 of the Act.

1. Reason for acquiring own shares

The Company will acquire own shares from the perspective of executing capital policies in a mobilized manner in response to the business environment and enhancing shareholder returns comprehensively.

2. Details of the matters pertaining to the acquisition

(1) Class of shares for acquisition	Common stock
(2) Total number of shares able to be acquired	200,000 (maximum) (Ratio to the total number of shares issued and outstanding (excluding treasury shares): 1.8%)
(3) Total acquisition value of shares	150 million yen (maximum)
(4) Acquisition period	From January 15, 2019 to January 31, 2019
(5) Acquisition method	Market purchase on the Tokyo Stock Exchange