Financial Report for the First Nine Months of the Fiscal Year Ending February 29, 2020 (Japanese Accounting Standards) (Consolidated)

January 10, 2020

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

Scheduled dates:

Submission of statutory quarterly financial report	January 10, 2020
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 29, 2020 (March 1, 2019 to November 30, 2019)

(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, 2019	14,061	8.1	715	11.1	771	14.7	527	19.2
Nine months ended Nov. 30, 2018	13,012	7.8	644	39.9	672	34.1	442	32.2

(Note) Comprehensive income: Nine months ended November 30, 2019: 528 million yen (18.9%)
Nine months ended November 30, 2018: 445 million yen (32.3%)

	Profit per share	Diluted profit per share
	yen	yen
Nine months ended Nov. 30, 2019	46.61	–
Nine months ended Nov. 30, 2018	39.01	–

(2) Financial position

	Total assets	Net assets	Equity capital ratio
	million yen	million yen	%
As of Nov. 30, 2019	9,695	4,658	47.6
As of Feb. 28, 2019	8,838	4,298	48.5

(Reference) Shareholders' equity: As of November 30, 2019: 4,619 million yen As of February 28, 2019: 4,285 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, 2019	–	8.00	–	8.00	16.00
Year ending Feb. 29, 2020	–	9.00	–		
Year ending Feb. 29, 2020 (forecast)				9.00	18.00

(Note) Revisions to dividend projection published most recently: Yes

3. Results forecast for the fiscal year ending February 29, 2020 (March 1, 2019 to February 29, 2020)

(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	19,741	11.3	909	0.4	948	-0.2	626	10.8	55.32

(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:	None
[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, 2019:	11,598,800 shares
As of Feb. 28, 2019:	11,598,800 shares

[2] Treasury shares at period-end

As of Nov. 30, 2019:	283,031 shares
As of Feb. 28, 2019:	283,031 shares

[3] Average number of shares issued

Nine months ended Nov. 30, 2019:	11,315,769 shares
Nine months ended Nov. 30, 2018:	11,343,710 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 29, 2020 on page 3 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 29, 2020

(1) Description of Operating Results

The second-hand goods retail industry remains in an expansionary trend due to the multi-store development of reuse store chains and the spread of flea market apps. Meanwhile, consumption tax increased in October and events that affected the retail industry occurred, such as large typhoons that hit the Tokyo area in September and October.

In this business environment, the Treasure Factory companies (the "Group") have established four pillars for growth: growth through the reuse business, growth through M&A, growth in overseas markets, and investments in new businesses. We have worked to achieve the business growth of the Group as a whole.

The consolidated operating results for the first nine months of the fiscal year under review include net sales of 14,061,124 thousand yen (up 8.1% year-on-year), operating profit of 715,629 thousand yen (up 11.1% year-on-year), ordinary profit of 771,824 thousand yen (up 14.7% year-on-year), and profit attributable to owners of parent of 527,413 thousand yen (up 19.2% year-on-year).

In the reuse business, non-consolidated net sales increased 6.7% year-on-year and non-consolidated sales at existing stores rose 1.6% year-on-year. Growth in the sales of the mainstay categories, apparel and home appliances, based on an increase in the average unit price contributed to a rise in revenue. Meanwhile, net sales at existing stores declined 1.9% year-on-year, affected by sluggish sales of autumn/winter apparel due to the temporary closing of stores in the Tokyo area because of the typhoon and prolonged hot weather. The performance of Brand Collect stores, in which sales to foreign tourists have been increasing, also remained strong. E-commerce sales mainly from the Company's own e-commerce website increased 51.7% year-on-year.

Growth in consolidated sales by product category was particularly high in apparel and hobby-related items, which was 7.6% year-on-year and 15.0% year-on-year, respectively. A year-on-year increase of 5.7% and 1.2% were achieved in fashion items and electric appliances, respectively.

Consolidated cost of purchased items rose 4.8% year-on-year. In addition to ongoing strong in-store purchases, home-visit purchases increased 31.0% year-on-year and home-delivery purchases through the internet grew 20.9% year-on-year, which contributed to purchase growth.

Among other businesses, sales in the rental business proved strong with a year-on-year increase of 80.3%.

As part of its store opening measures, the Company opened one directly managed Treasure Factory store as a General Reuse Store, one Treasure Factory Style store as a Fashion Reuse Store, one Treasure Factory Sports store as a Sports and Outdoor Reuse Store, two UseLet stores as Fashion Outlet Reuse Stores, and one Brand Collect store ad a Brand-Name Fashion Reuse Store. As a result, the Company operated a total of 128 stores as of November 30, 2019, consisting of 124 directly managed stores and four franchise stores. The total number of stores in the Group became 192, due in part to the opening of three new directly managed stores by Kindal, a member of the Group.

Looking at profits, the consolidated gross profit ratio was 62.5%, unchanged from a year ago, the non-consolidated gross profit ratio was 64.8%, rising 0.4%.

The selling, general, and administration expenses ratio stood at 57.5%, unchanged from a year ago. The consolidated operating profit ratio came to 5.1%, up 0.1% from a year earlier, and the consolidated ordinary profit ratio came to 5.5%, rising 0.3%.

Operating results by segment are as follows:

The main business of the Group was the Reuse business, and the other business segments were of little importance, so the statement on segment information was omitted in the past. However, the importance of disclosure increased associated with making Digital Quest Corporation into our consolidated subsidiary during the first quarter. Accordingly, we have decided to state segment information with the Reuse business as a reportable segment.

i) Reuse business

Net sales were 13,643,765 thousand yen (up 5.7% compared to the same period a year ago), and segment profit was 1,488,289 thousand yen (up 11.0% compared to the same period a year ago).

ii) Other

The "Other" segment is a business segment that is not included in the reportable segment and includes the system business from the first quarter in addition to the rental business.

Net sales were 425,571 thousand yen (up 284.8% compared to the same period a year ago), and segment profit was 56,470 thousand yen (up 99.8% compared to the same period a year ago).

(2) Description of Financial Position

Total assets at the end of the third quarter under review came to 9,695,709 thousand yen, an increase of 857,232 thousand yen from the end of the previous consolidated fiscal year, mainly reflecting a 461,984 thousand yen increase in merchandise, a 93,372 thousand yen increase in buildings and structures (net), a 254,716 thousand yen increase in accounts receivable - trade and a 56,611 thousand yen increase in goodwill, partly offset by a 42,829 thousand yen decrease in cash and deposits.

Total liabilities as of the end of the third quarter under review stood at 5,037,566 thousand yen, an increase of 497,490 thousand yen from the end of the previous consolidated fiscal year, largely due to a 402,600 thousand yen increase in short-term loans payable and a 17,673 thousand yen increase in long-term loans payable.

Net assets as of the end of the third quarter under review rose 359,742 thousand compared to the end of the previous fiscal year, to 4,658,143 thousand yen, primarily due to the recording of profit attributable to owners of parent of 527,413 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 29, 2020 that were announced on April 10, 2019.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheet

(Thousand yen)

	Previous consolidated fiscal year (February 28, 2019)	Third quarter under review (November 30, 2019)
Assets		
Current assets		
Cash and deposits	1,614,905	1,572,075
Accounts receivable - trade	367,765	622,481
Merchandise	3,042,162	3,504,147
Other	338,066	442,691
Total current assets	5,362,898	6,141,395
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,026,731	1,120,103
Land	141,555	141,555
Other, net	252,212	307,029
Total property, plant and equipment	1,420,499	1,568,688
Intangible assets		
Goodwill	143,402	200,014
Other	52,303	64,950
Total intangible assets	195,705	264,964
Investments and other assets		
Leasehold and guarantee deposits	1,371,534	1,448,809
Other	487,838	271,851
Total investments and other assets	1,859,372	1,720,661
Total non-current assets	3,475,578	3,554,314
Total assets	8,838,477	9,695,709

(Thousand yen)

	Previous consolidated fiscal year (February 28, 2019)	Third quarter under review (November 30, 2019)
Liabilities		
Current liabilities		
Accounts payable - trade	29,088	60,418
Short-term borrowings	1,104,904	1,507,504
Current portion of long-term borrowings	402,738	502,516
Income taxes payable	234,872	116,817
Provision for bonuses	244,663	123,878
Provision for sales returns	20,713	22,360
Provision for point card certificates	34,910	37,337
Other	912,890	1,071,763
Total current liabilities	2,984,779	3,442,594
Non-current liabilities		
Long-term borrowings	1,032,496	1,050,169
Asset retirement obligations	479,758	507,761
Other	43,041	37,041
Total non-current liabilities	1,555,296	1,594,971
Total liabilities	4,540,076	5,037,566
Net assets		
Shareholders' equity		
Share capital	521,183	521,183
Capital surplus	456,183	456,183
Retained earnings	3,549,042	3,884,088
Treasury shares	-241,113	-241,113
Total shareholders' equity	4,285,296	4,620,342
Accumulated other comprehensive income		
Foreign currency translation adjustment	-256	-419
Total accumulated other comprehensive income	-256	-419
Share acquisition rights	–	6,619
Non-controlling interests	13,360	31,601
Total net assets	4,298,400	4,658,143
Total liabilities and net assets	8,838,477	9,695,709

(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, 2018 to November 30, 2018)	First nine months under review (from March 1, 2019 to November 30, 2019)
Net sales	13,012,867	14,061,124
Cost of sales	4,880,467	5,264,840
Gross profit	8,132,400	8,796,283
Reversal of provision for sales returns	21,125	20,713
Provision for sales returns	21,953	22,360
Gross profit - net	8,131,572	8,794,635
Selling, general and administrative expenses	7,487,208	8,079,006
Operating profit	644,363	715,629
Non-operating income		
Interest income	197	517
Foreign exchange gains	−	5,794
Income from vending machines	10,329	9,794
Income from financial support received	−	23,069
Other	20,997	20,793
Total non-operating income	31,523	59,969
Non-operating expenses		
Interest expenses	2,645	3,269
Other	413	504
Total non-operating expenses	3,059	3,774
Ordinary profit	672,828	771,824
Extraordinary income		
Compensation income	15,640	29,542
Total extraordinary income	15,640	29,542
Extraordinary losses		
Loss on retirement of non-current assets	473	1,010
Loss on cancellation of rental contracts	5,500	−
Total extraordinary losses	5,973	1,010
Profit before income taxes	682,495	800,355
Income taxes - current	187,510	214,218
Income taxes - deferred	52,438	56,984
Total income taxes	239,949	271,203
Profit	442,545	529,151
Profit attributable to non-controlling interests	−	1,738
Profit attributable to owners of parent	442,545	527,413

(Consolidated Statement of Comprehensive Income)

(Thousand yen)

	First nine months of previous consolidated fiscal year (from March 1, 2018 to November 30, 2018)	First nine months under review (from March 1, 2019 to November 30, 2019)
Profit	442,545	529,151
Other comprehensive income		
Foreign currency translation adjustment	2,542	-163
Total other comprehensive income	2,542	-163
Comprehensive income	445,087	528,988
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	445,087	527,250
Comprehensive income attributable to non-controlling interests	–	1,738

(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

(Segment information, etc.)
[Segment information]
I. First nine months of previous consolidated fiscal year (from March 1, 2018 to November 30, 2018)
1. Information on net sales and profit or loss of each reportable segment

(Thousand yen)

	Reportable Segment	Other (Note 1)	Total	Adjustment (Note 2)	Amount on Quarterly Consolidated Statement of Income (Note 3)
	Reuse Business				
Net sales					
Net sales to external customers	12,902,264	110,603	13,012,867	−	13,012,867
Inter-segment sales or transfers	−	−	−	−	−
Total	12,902,264	110,603	13,012,867	−	13,012,867
Segment profit	1,340,355	28,257	1,368,612	-724,248	644,363

(Note 1) The "Other" segment comprises the rental business and other businesses that are not included in the reportable segment.
(Note 2) The adjustment of segment profit is the amount of company-wide expenses, which consists primarily of selling, general, and administrative expenses that do not belong to the segment.
(Note 3) Segment profit is adjusted with operating profit in the quarterly consolidated statement of income.

2. Information on impairment loss on non-current assets or goodwill of each reportable segment
(Important impairment loss on non-current assets)
Not applicable

(Significant changes in the amount of goodwill)
In the reuse business segment, Golf Kids Co., Ltd. has been included in the scope of consolidation through the acquisition of its shares, with March 31, 2018 as the deemed date of acquisition. This has resulted in goodwill of 112,056 thousand yen.

II. First nine months under review (from March 1, 2019 to November 30, 2019)

1. Information on net sales and profit or loss of each reportable segment

(Thousand yen)

	Reportable Segment	Other (Note 1)	Total	Adjustment (Note 2)	Amount on Quarterly Consolidated Statement of Income (Note 3)
	Reuse Business				
Net sales					
Net sales to external customers	13,643,765	417,359	14,061,124	−	14,061,124
Inter-segment sales or transfers	−	8,212	8,212	-8,212	−
Total	13,643,765	425,571	14,069,336	-8,212	14,061,124
Segment profit	1,488,289	56,470	1,544,760	-829,130	715,629

(Note 1) The "Other" segment comprises the rental business, the system business, and other businesses that are not included in the reportable segment.

(Note 2) The adjustment of segment profit is the amount of company-wide expenses, which consists primarily of selling, general, and administrative expenses that do not belong to the segment.

(Note 3) Segment profit is adjusted with operating profit in the quarterly consolidated statement of income.

2. Information on impairment loss on non-current assets or goodwill of each reportable segment

(Important impairment loss on non-current assets)

Not applicable

(Significant changes in the amount of goodwill)

In the "Other" segment, Digital Quest Corporation has been included in the scope of consolidation through the acquisition of its shares, with March 31, 2019 as the deemed date of acquisition. This has resulted in goodwill of 74,072 thousand yen.

The amount of goodwill is a provisional calculation due to the allocation of the acquisition cost that is incomplete as of the end of the third quarter of the fiscal year under review.

3. Matters concerning changes in the reportable segment

The Group primarily operates the reuse business and has omitted information on other business segments in the past due to their low materiality. The conversion of Digital Quest Corporation to a consolidated subsidiary in the first quarter of the fiscal year, however, resulted in an increase in the significance of Digital Quest's information subject to disclosure. The Group therefore discloses segment information, including the reuse business as a reportable segment.

The segment information for the first nine months of the previous fiscal year presented in this report has been prepared based on the reportable segment after the change.

(Significant subsequent events)

Not applicable