Financial Report for the First Two Quarters of the Fiscal Year Ending February 28, 2021 (Japanese Accounting Standards) (Consolidated)

October 13, 2020

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Securities code 3093 URL: https://www.treasurefactory.co.jp/
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Scheduled dates:
Submission of statutory quarterly financial report: October 13, 2020
Commencement of dividend payments: November 1, 2020
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 two quarters of the fiscal year ending February 28, 2021 (March 1, 2020 to August 31, 2020)

(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	%
First two quarters ended Aug. 31, 2020	8,377	(7.6)	(263)	−	(222)	−	(266)	−
First two quarters ended Aug. 31, 2019	9,066	9.1	379	55.6	421	61.6	288	75.5

(Note) Comprehensive income: First two quarters ended August 31, 2020: (264) million yen (−%)
First two quarters ended August 31, 2019: 288 million yen (72.9%)

	Profit per share	Diluted profit per share
	yen	yen
First two quarters ended Aug. 31, 2020	(23.51)	−
First two quarters ended Aug. 31, 2019	25.47	−

(2) Financial position

	Total assets	Net assets	Equity capital ratio
	million yen	million yen	%
First two quarters ended Aug. 31, 2020	9,189	4,282	46.3
Year ended Feb. 29, 2020:	9,379	4,644	49.1

(Reference) Shareholders' equity: First two quarters ended August 31, 2020: 4,253 million yen Year ended February 29, 2020: 4,606 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. 29, 2020	−	9.00	−	8.00	17.00
Year ending Feb. 28, 2021	−	2.00			
Year ending Feb. 28, 2021 (forecast)			−	8.00	10.00

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

3. Results forecast for the fiscal year ending February 28, 2021 (March 1, 2020 to February 28, 2021)

(Percentage figures represent year-on-year changes)

	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	18,308	(4.3)	111	(88.2)	159	(84.0)	5	(99.0)	0.44

(Note) Revisions to results forecast published most recently: Yes

* Notes

(1) Changes in important subsidiaries during the first two quarters 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 [1] 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, 2020:	11,598,800 shares	As of Feb. 29, 2020	11,598,800 shares
[2] Treasury shares at period-end	As of Aug. 31, 2020:	283,031 shares	As of Feb. 29, 2020	283,031 shares
[3] Average number of shares issued during the period	As of Aug. 31, 2020:	11,315,769 shares	As of Aug. 31, 2019:	11,315,769 shares

* These quarterly financial results are outside the scope of quarterly review procedures conducted by a certified public accountant or audit corporation.

* Explanation of the proper use of financial results forecast and other notes

Information relating to forecasts stated in this document was based on information available at the time of publication of the document. Actual results may differ materially from the forecasts due to a range of factors. For further information about the results forecast, please refer to (3) Explanation of Future Prospects Including Consolidated Results Forecasts in 1. Qualitative Information about the Quarterly Financial Results on Page 3 of the attached material.

○ Table of Contents (Attachment)

1. Qualitative Information about the Quarterly Financial Results …… 2
(1) Explanation regarding the Non-consolidated Results of Operations …… 2
(2) Explanation regarding the Non-consolidated Financial Position …… 3
(3) Explanation regarding the Information on Forecast including Consolidated Forecasts …… 3
2. Quarterly Consolidated Financial Statements and Main 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 Statements of Cash Flows …… 8
(4) Notes on the Quarterly Consolidated Financial Statements …… 9
(Notes on Going Concern Assumption) …… 9
(Notes on Substantial Changes in the Amount of Shareholders' Equity) …… 9
(Segment Information, etc.) …… 9
(Material Post-Balance Sheet Events) …… 10

1. Qualitative Information about the Quarterly Financial Results

(1) Explanation regarding the Non-consolidated Results of Operations

During the first two quarters of the current consolidated cumulative period, Japan's economy had a tough time due to the spread of the coronavirus. Nevertheless, consumer spending showed signs of recovery with the reopening of the economy.

A business that runs reuse stores, the Treasure Factory Group purchases used items from consumers to offer highly affordable goods for daily use. To continue fulfilling this role as part of the social infrastructure in the face of this situation, we kept our stores operating by temporarily closing some of our shops and shortening store hours during the stay-at-home period from March to May and by continuing the measures to prevent the spread of infections at our stores once the state of emergency was lifted in late May.

During the stay-at-home period from March to May, our stores suffered a decrease in customer traffic because of the temporary closing and shorter hours, along with sluggish demand for fashion items, which significantly affected our performance. Consequently, operating loss amounted to ¥221, 663 thousand (down ¥609,404 thousand year on year). On the other hand, the period between June and August after the state of emergency was lifted saw the return of customer traffic and the growth of the need for reuse items, which had arisen since March. This helped operating loss recover almost to the level of the same period last year, the amount recorded being ¥41,715 thousand (down ¥33,204 thousand year on year). Specifically, consumers spent more time at home as companies switched to telecommuting, giving them time to sort out items they no longer used and a greater need to find buyers for these items. Consumer needs also grew for spending time at home more comfortably and for enjoying leisure time in the neighborhood while avoiding crowds, which led to an increase in sales of home appliances, furniture, hobby-related items, and outdoor goods. The fashion category has been recovering since June, and sales of branded items rebounded strongly in July.

The rate of selling, general and administrative expenses increased to 64.6 percent, 5.9 points up from the same period last year, due to our personnel expenses being maintained to keep our employees employed amid the coronavirus pandemic, along with expense increases at the stores that opened during the previous period. We also had subsidy income, which is granted to businesses that have temporarily closed due to the pandemic, and recorded the amount of ¥24,122 thousand as non-operating income.

Consequently, the non-consolidated results of operations for the first two quarters of the current consolidated cumulative period show net sales of ¥8,377,476 thousand (down 7.6 percent year on year), operating loss of ¥263,378 thousand (the same period of the previous year saw operating profit of ¥379,230 thousand), ordinary loss of ¥222,178 thousand (the same period of the previous year saw ordinary profit of ¥421,771 thousand), and quarterly loss of ¥266,079 thousand attributable to owners of the parent (the same period of the previous year saw quarterly profit of ¥288,185 thousand attributable to owners of the parent).

The non-consolidated results of operations sorted by segment are as stated below.

(Reuse Business)

In regard to purchases, non-consolidated purchases dropped 14.7 percent year on year. As for purchases by channel, in-store purchases of unsolicited items decreased 18.2 percent year on year due to the effects of the stay-at-home request and reduced hours for in-store purchases, whereas purchases at consumers' home rose 26.9 percent year on year owing to a greater need for selling used items without leaving their home. As a result, the consolidated turnover of purchased goods for the current period dropped 19.6 percent year on year.

In regard to sales, non-consolidated sales dropped 4.9 percent year on year, and non-consolidated sales at existing stores decreased 9.3 percent year on year. The apparel and branded item categories were hit hard by drops in sales due to the stay-at-home request and temporary closing of our stores during the months between March and May. By contrast, home appliances, furniture, and hobby-related items enjoyed strong sales owing to the demand created by telecommuting and the need to stay home. As for e-commerce sales, we expanded offerings on our e-commerce site to meet the demand for shopping from home, thereby increasing non-consolidated e-commerce sales on our website by 94.1 percent year on year.

As for stores opened during the first two quarters of the current consolidated cumulative period, Treasure Factory Sports in Tama Minami Osawa opened as a non-consolidated store. The number of stores at the end of the consolidated fiscal year under review is as follows: 128 directly-managed stores and 4 franchise stores, the non-consolidated total being 132; and 191 stores in total across the Group.

These results added up to net sales of ¥8,180,109 thousand (down 7.5 percent year on year) and the segment's profit of ¥445,510 thousand (down 52.2 percent year on year).

(Other)

Cariru, our rental business that rents formal dresses as its mainstay, suffered a 70.5-percent decrease in sales year on year from wedding cancellations or postponements due to the pandemic.

As for our information system business, our Group company Digital Quest worked on the development and maintenance of a

system connected to our newly launched auction business.
These results added up to net sales of ¥222,517 thousand (down 3.1 percent year on year) and the segment's loss of ¥44,551 thousand (the same period of the previous year saw ¥13,621 thousand in profit).

(2) Explanation regarding the Non-consolidated Financial Position

Total assets at the end of the first two quarters of the current consolidated accounting period decreased by ¥189,755 thousand year on year to ¥9,189,348 thousand because of a decrease of ¥214,832 thousand in merchandise, an increase of ¥33,684 thousand in buildings and structures (net), a decrease of ¥12,051 thousand in goodwill, and an increase of ¥72,072 thousand in cash and deposits, among other reasons.

Total liabilities at the end of the first two quarters of the current consolidated accounting period increased by ¥172,185 thousand year on year to ¥4,906,779 thousand because of an increase of ¥326,324 thousand in short-term borrowings, among other reasons.

Total net assets at the end of the first two quarters of the current consolidated accounting period decreased by ¥361,940 thousand year on year to ¥4,282,568 thousand because a quarterly loss of ¥266,079 thousand attributable to owners of the parent was recorded, among other reasons.

(Analysis of Cash Flows)

Cash and cash equivalents at the end of the first two quarters of the current consolidated accounting period increased by ¥72,072 thousand year on year to ¥1,690,703 thousand. The details of the cash flows and their factors during this period are as stated below:

(Cash Flows from Operating Activities)

Cash flows from operating activities during the first two quarters of the current consolidated accounting period amounted to income of ¥125 thousand (the same period of the previous year saw income of ¥86,679 thousand). This result is mainly because of depreciation of ¥141,057 thousand and a decrease of ¥216,491 thousand in inventories, along with loss of ¥216,471 thousand before income taxes.

(Cash Flows from Investing Activities)

Cash flows from investing activities during the first two quarters of the current consolidated accounting period amounted to expense of ¥190,622 thousand (the same period of the previous year saw expense of ¥274,472 thousand). This result is mainly because of purchase of property, plant and equipment that added up to ¥92,582 thousand associated with building new stores.

(Cash Flows from Financing Activities)

Cash flows from financing activities during the first two quarters of the current consolidated accounting period amounted to income of ¥255,495 thousand (the same period of the previous year saw expense of ¥246,499 thousand). This result is mainly because of proceeds of ¥280,000 thousand from long-term borrowings and net increase/decrease of ¥326,324 thousand in short-term borrowings, along with repayments of long-term borrowings of ¥262,082 thousand.

(3) Explanation regarding the Information on Forecast including Consolidated Forecasts

Today (October 13, 2020), we published our consolidated forecasts, which we had not yet made.

Please refer to “Information about Projected Business Results and Expected Dividends” published today (October 13, 2020).

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of Yen)

	Previous Consolidated Fiscal Year (Ended February 29, 2020)	First Two Quarters of the Current Consolidated Accounting Period (Ended August 31, 2020)
Assets		
Current assets		
Cash and deposits	1,627,037	1,699,109
Accounts receivable - trade	481,014	446,829
Merchandise	3,362,147	3,147,315
Other	398,214	379,096
Total current assets	5,868,413	5,672,350
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	941,539	975,223
Land	141,555	141,555
Other, net	258,593	234,769
Total property, plant and equipment	1,341,688	1,351,548
Intangible assets		
Goodwill	193,988	181,936
Other	84,577	99,408
Total intangible assets	278,565	281,344
Investments and other assets		
Leasehold and guarantee deposits	1,475,169	1,501,779
Other	415,265	382,324
Total investments and other assets	1,890,435	1,884,103
Total non-current assets	3,510,689	3,516,997
Total assets	9,379,103	9,189,348

(Thousands of Yen)

	Previous Consolidated Fiscal Year (Ended February 29, 2020)	First Two Quarters of the Current Consolidated Accounting Period (Ended August 31, 2020)
Liabilities		
Current liabilities		
Accounts payable - trade	50,125	52,599
Short-term borrowings	1,187,436	1,513,760
Current portion of long-term borrowings	484,924	494,328
Income taxes payable	196,400	57,633
Provision for bonuses	244,237	252,729
Provision for sales returns	20,076	29,262
Provision for point card certificates	37,824	39,341
Other	1,031,459	962,559
Total current liabilities	3,252,483	3,402,214
Non-current liabilities		
Long-term borrowings	942,617	951,131
Asset retirement obligations	503,911	513,828
Deferred tax liabilities	—	6,026
Other	35,581	33,579
Total non-current liabilities	1,482,110	1,504,564
Total liabilities	4,734,594	4,906,779
Net assets		
Shareholders' equity		
Share capital	521,183	521,183
Capital surplus	456,183	456,183
Retained earnings	3,872,603	3,515,997
Treasury shares	(241,113)	(241,113)
Total shareholders' equity	4,608,857	4,252,251
Cumulative amount of other comprehensive income		
Foreign currency translation adjustment	(1,892)	1,210
Total cumulative amount of other comprehensive income	(1,892)	1,210
Share acquisition rights	6,619	—
Non-controlling interests	30,925	29,105
Total net assets	4,644,509	4,282,568
Total liabilities and net assets	9,379,103	9,189,348

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

(Quarterly consolidated statement of income)

(First two quarters of the consolidated cumulative period)

(Thousands of Yen)

	First Two Quarters of the Previous Consolidated Cumulative Period (from March 1, 2019 to August 31, 2019)	First Two Quarters of the Current Consolidated Cumulative Period (from March 1, 2020 to August 31, 2020)
Net sales	9,066,323	8,377,476
Cost of sales	3,365,638	3,223,149
Gross profit	5,700,684	5,154,327
Reversal of provision for sales returns	20,713	20,076
Provision for sales returns	24,182	29,262
Net gross profit	5,697,215	5,145,140
Selling, general and administrative expenses	5,317,985	5,408,519
Operating profit (loss)	379,230	(263,378)
Non-operating income		
Interest income	362	360
Vending machine income	7,577	6,251
Financial support income	23,069	—
Subsidy income	—	24,122
Other	15,692	13,612
Total non-operating income	46,702	44,346
Non-operating expenses		
Interest expenses	2,134	2,523
Foreign exchange losses	1,695	—
Other	331	622
Total non-operating expenses	4,161	3,146
Ordinary profit (loss)	421,771	(222,178)
Extraordinary income		
Compensation income	22,052	—
Gain on reversal of share acquisition rights	—	6,619
Total extraordinary income	22,052	6,619
Extraordinary losses		
Loss on retirement of non-current assets	521	911
Total extraordinary losses	521	911
Net profit (loss) before taxes in the previous quarter	443,302	(216,471)
Income taxes - current	156,902	11,871
Income taxes - deferred	(1,811)	39,555
Total income taxes	155,090	51,427
Net quarterly profit (loss)	288,212	(267,898)
Quarterly profit (loss) attributable to non-controlling interests	26	(1,819)
Quarterly profit (loss) attributable to owners of the parent	288,185	(266,079)

(Quarterly consolidated statement of comprehensive income)

(First two quarters of the consolidated cumulative period)

(Thousands of Yen)

	First Two Quarters of the Previous Consolidated Cumulative Period (from March 1, 2019 to August 31, 2019)	First Two Quarters of the Current Consolidated Cumulative Period (from March 1, 2020 to August 31, 2020)
Net quarterly profit (loss)	288,212	(267,898)
Other comprehensive income		
Foreign currency translation adjustment	129	3,102
Total of other comprehensive income	129	3,102
Quarterly comprehensive income	288,341	(264,795)
(Comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	288,315	(262,976)
Quarterly comprehensive income attributable to non-controlling interests	26	(1,819)

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of Yen)

	First Two Quarters of the Previous Consolidated Cumulative Period (from March 1, 2019 to August 31, 2019)	First Two Quarters of the Current Consolidated Cumulative Period (from March 1, 2020 to August 31, 2020)
Cash flows from operating activities		
Net profit (loss) before taxes in the previous quarter	443,302	(216,471)
Depreciation	141,487	141,057
Amortization of goodwill	11,434	12,051
Increase (decrease) in provision for bonuses	16,790	8,492
Increase (decrease) in provision for point card certificates	1,188	1,516
Increase (decrease) in provision for sales returns	3,469	9,186
Interest and dividend income	(402)	(400)
Financial support income	(23,069)	—
Interest expenses	2,134	2,523
Foreign exchange losses (gains)	2,101	(3,970)
Compensation income	(22,052)	—
Subsidy income	—	(24,122)
Gain on reversal of share acquisition rights	—	(6,619)
Loss on retirement of non-current assets	521	911
Decrease (increase) in trade receivables	28,881	34,184
Decrease (increase) in inventories	(304,218)	216,491
Increase (decrease) in trade payables	14,056	2,474
Other	(88,242)	(61,048)
Subtotal	227,383	116,258
Interest and dividends received	402	400
Interest paid	(2,178)	(2,571)
Proceeds from compensation	22,052	—
Proceeds from subsidy income	—	24,122
Income taxes paid	(160,980)	(138,084)
Cash flows from operating activities	86,679	125
Cash flows from investing activities		
Purchase of property, plant and equipment	(173,517)	(92,582)
Purchase of intangible assets	(9,141)	(49,215)
Payments of leasehold and guarantee deposits	(62,778)	(36,934)
Proceeds from refund of leasehold and guarantee deposits	6,307	9,000
Other	(35,342)	(20,889)
Cash flows from investing activities	(274,472)	(190,622)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(4,900)	326,324
Proceeds from long-term borrowings	60,000	280,000
Repayments of long-term borrowings	(212,628)	(262,082)
Dividends paid	(90,636)	(90,519)
Other	1,664	1,773
Cash flows from financing activities	(246,499)	255,495
Effect of exchange rate change on cash and cash equivalents	(1,972)	7,072
Net increase (decrease) in cash and cash equivalents	(436,264)	72,072
Cash and cash equivalents at beginning of period	1,606,499	1,618,631
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation - CCE	144,066	—
Cash and cash equivalents at end of quarter	1,314,300	1,690,703

(4) Notes on the Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

N/A

(Notes on Substantial Changes in the Amount of Shareholders' Equity)

N/A

(Segment Information, etc.)

[Segment Information]

I. Previous First Two Quarters of Consolidated Cumulative Period (from March 1, 2019 to August 31, 2019)

1. Information about the amounts of the net sales and profit or loss for each reporting segment

(Thousands of Yen)

	Reporting segment	Other (Note 1)	Total	Adjustment amount (Note 2)	Amount reported on the quarterly consolidated statement of income (Note 3)
	Reuse business				
Net sales					
Sales to external customers	8,839,237	227,085	9,066,323	—	9,066,323
Internal sales or transfer between segments	—	2,457	2,457	(2,457)	—
Total	8,839,237	229,542	9,068,780	(2,457)	9,066,323
Segment's profit	932,006	13,621	945,627	(566,397)	379,230

(Note 1) "Other" refers to the business segments not included in the reporting segments, such as the rental and information system businesses.

(Note 2) The adjustment amount for the segment's profit is a company-wide expense and primarily part of selling, general and administrative expenses not attributable to the segment.

(Note 3) The segment's profit has been adjusted according to the operating profit shown in the quarterly consolidated statement of income.

2. Information about the impairment loss on non-current assets or goodwill for each reporting segment

(Material Impairment Loss Pertaining to Non-current Assets)

N/A

(Material Change in the Amount of Goodwill)

We acquired shares in Digital Quest, with March 31, 2019 being the deemed acquisition date. Hence, "Other" includes Digital Quest in the scope of consolidation, which caused the goodwill of ¥74,072 thousand.

II. First Two Quarters of Current Consolidated Cumulative Period (from March 1, 2020 to August 31, 2020)

1. Information about the amounts of the net sales and profit or loss for each reporting segment

(Thousands of Yen)

	Reporting segment	Other (Note 1)	Total	Adjustment amount (Note 2)	Amount reported on the quarterly consolidated statement of income (Note 3)
	Reuse business				
Net sales					
Sales to external customers	8,180,109	197,366	8,377,476	—	8,377,476
Internal sales or transfer between segments	—	25,150	25,150	(25,150)	—
Total	8,180,109	222,517	8,402,626	(25,150)	8,377,476
Segment's profit (loss)	445,510	(44,551)	400,958	(664,336)	(263,378)

(Note 1) "Other" refers to the business segments not included in the reporting segments, such as the rental, information system, and real estate businesses.

(Note 2) The adjustment amount for the segment's profit or loss is a company-wide expense and primarily part of selling, general and administrative expenses not attributable to the segment.

(Note 3) The segment's profit or loss has been adjusted according to the operating profit shown in the quarterly consolidated statement of income.

2. Information about the impairment loss on non-current assets or goodwill for each reporting segment

(Material Impairment Loss Pertaining to Non-current Assets)

N/A

(Material Change in the Amount of Goodwill)

N/A

(Material Post-Balance Sheet Events)

N/A