



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

October 9, 2019

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	October 9, 2019		
Commencement of dividend payments	November 1, 2019		
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 29, 2020 (March 1, 2019 to August 31, 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	%
Six months ended Aug. 31, 2019	9,066	9.1	379	55.6	421	61.6	288	75.5
Six months ended Aug. 31, 2018	8,307	7.7	243	54.6	261	38.7	164	36.8

(Note) Comprehensive income: Six months ended August 31, 2019: 288 million yen (72.9%)
Six months ended August 31, 2018: 166 million yen (37.6%)

	Profit per share	Diluted profit per share
	yen	yen
Six months ended Aug. 31, 2019	25.47	—
Six months ended Aug. 31, 2018	14.49	—

(2) Financial position

	Total assets	Net assets	Equity capital ratio
	million yen	million yen	%
As of Aug. 31, 2019	8,997	4,519	49.8
As of Feb. 28, 2019	8,838	4,298	48.5

(Reference) Shareholders' equity: As of August 31, 2019: 4,482 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)	—	—	—	8.00	17.00

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

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

Accompanying Materials — Contents

1. Qualitative Information on the Financial Results for the First Six Months of the Fiscal Year Ending February 29, 2020.....	2
(1) Description of Operating Results	2
(2) Description of Financial Position	3
(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
(Segment information)	9
(Significant subsequent events).....	10

1. Qualitative Information on the Financial Results for the First Six 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.

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 six months of the fiscal year under review include net sales of 9,066,323 thousand yen (up 9.1% year-on-year), operating profit of 379,230 thousand yen (up 55.6% year-on-year), ordinary profit of 421,771 thousand yen (up 61.6% year-on-year), and profit attributable to owners of parent of 288,185 thousand yen (up 75.5% year-on-year).

In the reuse business, non-consolidated net sales increased 8.1% year-on-year and non-consolidated sales at existing stores rose 3.4% year-on-year thanks to strong performance of the core segments, i.e., General Reuse Stores and Treasure Factory Style stores. 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. Performance of Sports and Outdoor Reuse Stores and 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 44.7% year-on-year.

Growth in consolidated sales by product category was particularly high in apparel and hobby-related items, which was 11.7% year-on-year and 12.9% year-on-year, respectively. A year-on-year increase of 3.8% and 1.3% were achieved in fashion items and electric appliances, respectively.

Consolidated cost of purchased items rose 6.6% year-on-year. Non-consolidated purchase from general customers climbed 5.8% year-on-year. In addition to ongoing strong in-store purchases, home-visit purchases increased 26.2% year-on-year and home-delivery purchases through the internet grew 16.3% 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 60.5%.

As part of its store opening measures, the Company opened one directly managed Treasure Factory store as a General 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 as a Brand-Name Fashion Reuse Store. As a result, the Company operated a total of 127 stores as of August 31, 2019, consisting of 123 directly managed stores and four franchise stores. The total number of stores in the Group became 189, due in part to the opening of a new directly managed store by Kindal, a member of the Group.

Looking at profits, the consolidated gross profit ratio was 62.9%, rising 0.3% year-on-year. The non-consolidated gross profit ratio was 65.1%, increasing 0.4% year-on-year. The Company implemented rationalization of pricing at the time of purchase, and the profit margin improved due to a decrease in discounts and price cuts.

The selling, general, and administration expense ratio stood at 58.7%, decreasing 1.0% year-on-year, as a result of a fall in the ratio of personnel expenses such as salaries by 1.0% year-on-year. The consolidated operating profit ratio came to 4.2%, up 1.3% from a year earlier, and the consolidated ordinary profit ratio came to 4.7%, up 1.6% from a year earlier.

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 8,839,237 thousand yen (up 7.2% compared to the same period a year ago), and segment profit was 932,006 thousand yen (up 28.9% 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 229,542 thousand yen (up 252.6% compared to the same period a year ago), and segment profit was 13,621 thousand yen (up 16.7% compared to the same period a year ago).

(2) Description of Financial Position

Total assets as of the end of the second quarter under review increased 158,973 thousand yen compared to the end of the previous fiscal year, to 8,997,450 thousand yen, due primarily to growth of 292,756 thousand yen in merchandise, increases of 36,246 thousand yen in buildings and structures (net) and 62,637 thousand yen in goodwill, and a decrease of 292,198 thousand yen in cash and deposits.

Total liabilities as of the end of the second quarter under review stood at 4,478,112 thousand yen, a decrease of 61,963 thousand yen from the end of the previous fiscal year as a result primarily of a fall of 98,176 thousand yen in long-term loans payable.

Net assets as of the end of the second quarter under review rose 220,937 thousand compared to the end of the previous fiscal year, to 4,519,338 thousand yen, primarily due to the recording of profit attributable to owners of parent of 288,185 thousand yen.

(Analysis of cash flows)

Cash and cash equivalents at the end of the second quarter under review amounted to 1,314,300 thousand yen, as a result of a decrease of 436,264 thousand yen from the end of the previous fiscal year and an increase of 144,066 thousand yen in cash and cash equivalents due to the new consolidation of Digital Quest Corporation. 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 86,679 thousand yen (net cash provided by operating activities in the same period of the previous fiscal year was 62,773 thousand yen). This chiefly reflects profit before income taxes of 443,302 thousand yen and depreciation of 141,487 thousand yen, which more than offset an increase in inventories of 304,218 thousand yen.

(Cash flows from investing activities)

Net cash used in investing activities during the first six months under review stood at 274,472 thousand yen (net cash used in investing activities in the same period of the previous fiscal year was 479,256 thousand yen). This was primarily due to the purchase of property, plant and equipment of 173,517 thousand yen associated with new store openings.

(Cash flows from financing activities)

Net cash used in financing activities during the first six months under review was 246,499 thousand yen (net cash provided by financing activities in the same period of the previous fiscal year was 204,004 thousand yen). The main factors included proceeds from long-term borrowings of 60,000 thousand yen, which more than offset expenditure of 212,628 thousand yen in repayments of long-term borrowings.

(3) Explanation of Future Prospects Including Consolidated Results Forecasts

During the first six months of the fiscal year under review, purchases and sales steadily increased, control of selling, general, and administrative expenses improved, and the ratio of selling, general, and administrative expenses decreased; as a result, operating profit and ordinary profit grew more than the plans. From the third quarter, the Company plans to continue strengthening its purchases in light of possibility that propensities to consume such as budget-mindedness will be stronger while the impact of the tax hike in October is still unclear. The Company will work to offer a large selection of affordable used items.

Consolidated full-year results forecasts for the fiscal year ending February 29, 2020 remain unchanged from the figures released by the Company 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)	Second quarter under review (August 31, 2019)
Assets		
Current assets		
Cash and deposits	1,614,905	1,322,706
Accounts receivable - trade	367,765	387,641
Merchandise	3,042,162	3,334,918
Other	338,066	426,166
Total current assets	5,362,898	5,471,433
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,026,731	1,062,977
Land	141,555	141,555
Other, net	252,212	295,225
Total property, plant and equipment	1,420,499	1,499,759
Intangible assets		
Goodwill	143,402	206,040
Other	52,303	65,149
Total intangible assets	195,705	271,189
Investments and other assets		
Leasehold and guarantee deposits	1,371,534	1,429,257
Other	487,838	325,811
Total investments and other assets	1,859,372	1,755,068
Total non-current assets	3,475,578	3,526,017
Total assets	8,838,477	8,997,450

(Thousand yen)

	Previous consolidated fiscal year (February 28, 2019)	Second quarter under review (August 31, 2019)
Liabilities		
Current liabilities		
Accounts payable - trade	29,088	47,526
Short-term borrowings	1,104,904	1,100,004
Current portion of long-term borrowings	402,738	433,830
Income taxes payable	234,872	207,684
Provision for bonuses	244,663	262,703
Provision for sales returns	20,713	24,182
Provision for point card certificates	34,910	36,099
Other	912,890	899,068
Total current liabilities	2,984,779	3,011,099
Non-current liabilities		
Long-term borrowings	1,032,496	934,320
Asset retirement obligations	479,758	495,651
Other	43,041	37,041
Total non-current liabilities	1,555,296	1,467,013
Total liabilities	4,540,076	4,478,112
Net assets		
Shareholders' equity		
Share capital	521,183	521,183
Capital surplus	456,183	456,183
Retained earnings	3,549,042	3,746,702
Treasury shares	-241,113	-241,113
Total shareholders' equity	4,285,296	4,482,956
Accumulated other comprehensive income		
Foreign currency translation adjustment	-256	-126
Total accumulated other comprehensive income	-256	-126
Share acquisition rights	-	6,619
Non-controlling interests	13,360	29,889
Total net assets	4,298,400	4,519,338
Total liabilities and net assets	8,838,477	8,997,450

(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, 2018 to August 31, 2018)	First six months under review (from March 1, 2019 to August 31, 2019)
Net sales	8,307,663	9,066,323
Cost of sales	3,104,888	3,365,638
Gross profit	5,202,775	5,700,684
Provision for sales returns	21,125	20,713
Reversal of provision for sales returns	24,069	24,182
Gross profit - net	5,199,830	5,697,215
Selling, general and administrative expenses	4,956,055	5,317,985
Operating profit	243,774	379,230
Non-operating income		
Interest income	122	362
Income from vending machines	7,806	7,577
Income from financial support received	—	23,069
Other	12,947	15,692
Total non-operating income	20,876	46,702
Non-operating expenses		
Interest expenses	1,825	2,134
Foreign exchange losses	1,476	1,695
Other	342	331
Total non-operating expenses	3,644	4,161
Ordinary profit	261,006	421,771
Extraordinary income		
Compensation income	15,640	22,052
Total extraordinary income	15,640	22,052
Extraordinary losses		
Loss on retirement of non-current assets	461	521
Loss on cancellation of rental contracts	5,500	—
Total extraordinary losses	5,961	521
Profit before income taxes	270,685	443,302
Income taxes - current	99,422	156,902
Income taxes - deferred	7,032	-1,811
Total income taxes	106,454	155,090
Profit	164,230	288,212
Profit attributable to non-controlling interests	—	26
Profit attributable to owners of parent	164,230	288,185

(Consolidated Statement of Comprehensive Income)

(Thousand yen)

	First six months of previous consolidated fiscal year (from March 1, 2018 to August 31, 2018)	First six months under review (from March 1, 2019 to August 31, 2019)
Profit	164,230	288,212
Other comprehensive income		
Foreign currency translation adjustment	2,504	129
Total other comprehensive income	2,504	129
Comprehensive income	166,734	288,341
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	166,734	288,315
Comprehensive income attributable to non-controlling interests	–	26

(3) Quarterly Consolidated Statement of Cash Flows

(Thousand yen)

	First six months of previous consolidated fiscal year (from March 1, 2018 to August 31, 2018)	First six months under review (from March 1, 2019 to August 31, 2019)
Cash flows from operating activities		
Profit before income taxes	270,685	443,302
Depreciation	136,799	141,487
Amortization of goodwill	8,348	11,434
Increase (decrease) in provision for bonuses	30,134	16,790
Increase (decrease) in provision for point card certificates	-57	1,188
Increase (decrease) in provision for sales returns	2,944	3,469
Interest and dividend income	-162	-402
Income from financial support received	-	-23,069
Interest expenses	1,825	2,134
Foreign exchange losses (gains)	1,476	2,101
Compensation income	-15,640	-22,052
Loss on retirement of non-current assets	461	521
Loss on cancellation of rental contracts	5,500	-
Decrease (increase) in trade receivables	31,789	28,881
Decrease (increase) in inventories	-251,953	-304,218
Increase (decrease) in trade payables	-19,356	14,056
Other	-36,760	-88,242
Subtotal	166,033	227,383
Interest and dividends received	162	402
Interest paid	-1,810	-2,178
Proceeds from compensation	15,660	22,052
Income taxes paid	-117,271	-160,980
Net cash provided by (used in) operating activities	62,773	86,679
Cash flows from investing activities		
Purchase of property, plant and equipment	-222,503	-173,517
Purchase of intangible assets	-22,842	-9,141
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-153,919	-
Payments of leasehold and guarantee deposits	-79,694	-62,778
Proceeds from refund of leasehold and guarantee deposits	31,969	6,307
Other	-32,265	-35,342
Net cash provided by (used in) investing activities	-479,256	-274,472
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-24,897	-4,900
Proceeds from long-term borrowings	445,008	60,000
Repayments of long-term borrowings	-134,249	-212,628
Proceeds from issuance of shares	88,350	-
Purchase of treasury shares	-80,568	-
Dividends paid	-90,356	-90,636
Other	717	1,664
Net cash provided by (used in) financing activities	204,004	-246,499
Effect of exchange rate change on cash and cash equivalents	1,027	-1,972
Net increase (decrease) in cash and cash equivalents	-211,449	-436,264
Cash and cash equivalents at beginning of period	1,335,690	1,606,499
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	-	144,066
Cash and cash equivalents at end of period	1,124,240	1,314,300

(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

(Segment information)

(Segment information, etc.)

[Segment information]

I. First six months of previous consolidated fiscal year (from March 1, 2018 to August 31, 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	8,243,257	64,406	8,307,663	—	8,307,663
Inter-segment sales or transfers	—	—	—	—	—
Total	8,243,257	64,406	8,307,663	—	8,307,663
Segment profit (loss)	723,113	11,670	734,783	-491,008	243,774

(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 six months under review (from March 1, 2019 to August 31, 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	8,839,237	227,085	9,066,323	–	9,066,323
Inter-segment sales or transfers	–	2,457	2,457	-2,457	–
Total	8,839,237	229,542	9,068,780	-2,457	9,066,323
Segment profit (loss)	932,006	13,621	945,627	-566,397	379,230

(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 second 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 six 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