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October 12, 2022

Summary of Consolidated Financial Results for the Six Months Ended August 31, 2022 (Based on Japanese GAAP)

Company name: NARUMIYA INTERNATIONAL Co., Ltd
 Stock exchange listing: Tokyo
 Stock code: 9275 URL <https://www.narumiya-net.co.jp/ir/>
 Representative: President, Representative Director and Chief Executive Officer Toshiaki Ishii
 Inquiries: Financial Director Yoshiari Sakano TEL 03-6430-3405
 Scheduled date to file Quarterly Securities Report: October 13, 2022
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on financial results: Yes
 Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the six months ended August 31, 2022 (from March 1, 2022 to August 31, 2022)

(1) Consolidated operating results (cumulative)

Percentages indicate year-on-year changes.

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended August 31, 2022	15,742	16.3	282	–	211	–	89	–
Six months ended August 31, 2021	13,533	13.2	(52)	–	(79)	–	(115)	–

Note: Comprehensive income Six months ended August 31, 2022: 82 million yen (–%)
 Six months ended August 31, 2021: (123) million yen (–%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended August 31, 2022	8.86	–
Six months ended August 31, 2021	(11.41)	–

Note: Diluted earnings per share is not stated, as there are no dilutive shares.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of August 31, 2022	13,069	4,653	35.6
As of February 28, 2022	14,521	4,901	33.8

Reference: Shareholders' equity As of August 31, 2022: 4,653 million yen As of February 28, 2022: 4,901 million yen

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended February 28, 2022	—	0.00	—	31.00	31.00
Year ending February 28, 2023	—	0.00			
Year ending February 28, 2023 (Forecast)			—	31.00	31.00

Note: Revisions to the most recently announced dividend forecast: None

3. Forecast of consolidated financial results for the fiscal year ending February 28, 2023 (from March 1, 2022 to February 28, 2023)

Percentages indicate year-on-year changes.

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	34,500	—	1,450	3.4	1,404	5.4	830	1.2	82.06

Note: Revision to the most recently announced consolidated forecast: None

As the Company has applied the “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan Statement No. 29, March 31, 2020), etc. from the beginning of the first quarter of the current fiscal year, the above forecasts of consolidated financial results are the amounts after these are applied, and year-on-year changes of net sales are not indicated.

4. Notes

- (1) Changes in significant subsidiaries during the six months ended August 31, 2022 (changes in specified subsidiaries resulting in the change in scope of consolidation): No
- (2) Application of special accounting methods for preparing quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements
 - Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
 - Changes in accounting policies due to other reasons: No
 - Changes in accounting estimates: No
 - Restatement of prior period financial statements: No

(4) Number of issued shares (common shares)

Total number of issued shares at the end of the period (including treasury shares)

As of August 31, 2022	10,122,830 shares	As of February 28, 2022	10,122,830 shares
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Number of treasury shares at the end of the period

As of August 31, 2022	122 shares	As of February 28, 2022	122 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended August 31, 2022	10,122,708 shares	Six months ended August 31, 2021	10,122,756 shares
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Note 1: The current quarterly financial report is not subject to quarterly review procedures by certified public accountants or an auditing firm.

Note 2: Explanation and other special notes concerning the appropriate use of business performance forecasts

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable, and are not promise by the Company regarding their achievement. Actual results may differ materially from the forecast depending on a range of factors. For the assumptions that form the basis of the earnings forecasts and notes on the use of the earnings forecasts, refer to “1. Qualitative Information on Quarterly Consolidated Financial Performance (3) Explanation of consolidated earnings forecasts and other forward-looking information” on page 3 of the attached material.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter “Revenue Recognition Accounting Standard”), etc. from the beginning of the first quarter of the current fiscal year. As a result, the accounting method for revenue differs between the first six months of the previous fiscal year and the entire period. For this reason, in the description of operating results below, the amount and percentage of year-on-year change are not included.

Forward-looking statements in this document are based on our views as of the end of the second quarter of the current fiscal year.

(1) Explanation of results of operations

Looking at Japan’s economy during the first six months of the current fiscal year, the spread of the omicron variant of new coronavirus (COVID-19) infection became prominent, and the highest number of new cases to date were confirmed. In addition, there were global price increases arising from the invasion of Ukraine by Russia in February of this year, as well as the fact that the yen trended downward against the dollar, reaching the 138 yen/dollar range for the first time in approximately 30 years since 1991 in August, leading to an increase in import costs.

On the other hand, in terms of personal consumption, the movement of people recovered as there were no restrictions on people’s actions from a declaration of a state of emergency, etc., and spending increased on services, such as food, beverage, and travel, and semi-durable consumer goods, such as clothing. In the future, a moderate recovery in the economy is expected, and if the spread of COVID-19 abates, a recovery in spending on services is expected.

Amid this environment, there was a decline in the impact of temporary delivery delays caused by factors such as lockdowns in China, one of the Group’s suppliers, and the Group shifted to a normal procurement structure. In response to the increase in costs caused by the weak yen, we are continuing efforts to minimize impacts through refinements to specifications, designs, and selling prices. In addition, we are also endeavoring to cut general and administrative expenses by improving operations at stores and making logistics operations more efficient. We continued to plan carefully selected store openings that take into consideration the status of store openings, etc., and are proceeding according to our initial schedule.

Unlike in the previous consolidated fiscal year, during the first six months of the current fiscal year we implemented no large-scale store closures, shortening of business hours, etc., and sales at physical outlets recovered under normal business operation.

Looking at the status of store openings and closings during the first six months of the current fiscal year, we opened six stores in department stores, three stores in shopping centers, and three outlet stores, and closed 12 stores in department stores and one store in a shopping center. (Note)

As a result of the above, in the first six months of the current fiscal year we recorded net sales of 15,742 million yen (13,533 million yen in the same quarter in the previous fiscal year), operating profit of 282 million yen (operating loss of 52 million yen in the same quarter in the previous fiscal year), ordinary profit of 211 million yen (ordinary loss of 79 million yen in the same quarter in the previous fiscal year), and profit attributable to owners of parent of 89 million yen (loss attributable to owners of parent of 115 million yen in the same quarter in the previous fiscal year).

For details on the impact of the application of the Revenue Recognition Accounting Standards on financial position and business results, see “2. Quarterly Consolidated Financial Statements and Significant Notes (4) Notes concerning quarterly consolidated financial statements (Changes in accounting policies).”

As the Group has a single segment for planning and sales of kids wear, disclosure of operating results by segment has been omitted.

(Note) Because the number of stores at department stores is calculated by multiplying the number of places where things are sold by the number of brands, the number of stores opened and closed tends to increase.

(2) Explanation of financial position

Assets

Assets at the end of the second quarter decreased by 1,452 million yen from the end of the previous fiscal year to 13,069 million yen. This was mainly due to decreases of 904 million yen in cash and deposits, 205 million yen in notes and accounts receivable-trade, and 115 million yen in goodwill.

Liabilities

Liabilities at the end of the second quarter decreased by 1,204 million yen from the end of the previous fiscal year to 8,416 million yen. This was mainly due to decreases of 192 million yen in accounts payable-trade, 3,041 million yen in current portion of long-term borrowings, 282 million yen in accounts payable-other, and 271 million yen in income taxes payable, as well as an increase of 2,727 million yen in long-term borrowings.

Net assets

Total net assets at the end of the second quarter decreased by 248 million yen from the end of the previous fiscal year to 4,653 million yen. This was mainly due to the recording of 89 million yen in profit attributable to owners of parent and the payment of 313 million yen in dividends.

(3) Explanation of consolidated earnings forecasts and other forward-looking information

In the full-year consolidated earnings forecast, there is no change to the earnings forecast announced on April 12, 2022. The above forecasts were prepared based on information available as of the date of publication of this document and on certain assumptions deemed to be reasonable. Actual results, etc. may differ significantly from these forecasts due to a variety of factors.

2. Quarterly Consolidated Financial Statements and Significant Notes

(1) Consolidated balance sheets

(Thousands of yen)

	As of February 28, 2022	As of August 31, 2022
Assets		
Current assets		
Cash and deposits	2,724,291	1,819,723
Notes and accounts receivable - trade	2,377,200	2,171,920
Merchandise	2,945,951	2,914,019
Prepaid expenses	114,165	107,881
Other	44,303	63,407
Allowance for doubtful accounts	(8,848)	(9,002)
Total current assets	8,197,063	7,067,950
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,367,900	1,390,007
Accumulated depreciation	(1,131,264)	(1,181,120)
Buildings and structures, net	236,636	208,887
Tools, furniture and fixtures	107,681	109,332
Accumulated depreciation	(70,984)	(77,455)
Tools, furniture and fixtures, net	36,697	31,876
Land	5,940	5,940
Leased assets	2,856,236	2,943,865
Accumulated depreciation	(2,094,277)	(2,232,441)
Leased assets, net	761,958	711,423
Total property, plant and equipment	1,041,232	958,128
Intangible assets		
Goodwill	2,961,840	2,846,556
Software	221,556	199,389
Leased assets	70,526	50,737
Other	526	486
Total intangible assets	3,254,450	3,097,170
Investments and other assets		
Investment securities	12,489	12,489
Distressed receivables	102,865	102,082
Long-term prepaid expenses	9,974	11,693
Guarantee deposits	1,232,002	1,172,851
Deferred tax assets	484,810	438,880
Other	289,955	310,457
Allowance for doubtful accounts	(102,865)	(102,082)
Total investments and other assets	2,029,232	1,946,371
Total non-current assets	6,324,915	6,001,670
Total assets	14,521,978	13,069,620

(Thousands of yen)

	As of February 28, 2022	As of August 31, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	2,518,351	2,325,600
Current portion of long-term borrowings	3,782,452	741,368
Lease obligations	345,657	318,263
Accounts payable - other	649,529	366,982
Accrued expenses	526,393	527,042
Income taxes payable	397,985	126,092
Accrued consumption taxes	218,953	68,030
Provision for bonuses	96,893	202,361
Provision for sales returns	129	–
Provision for point card certificates	105,033	14,451
Other	69,924	137,312
Total current liabilities	8,711,303	4,827,504
Non-current liabilities		
Long-term borrowings	35,981	2,763,339
Lease obligations	586,447	533,772
Retirement benefit liability	278,688	286,374
Other	7,755	5,155
Total non-current liabilities	908,872	3,588,641
Total liabilities	9,620,176	8,416,146
Net assets		
Shareholders' equity		
Share capital	255,099	255,099
Capital surplus	1,860,774	1,860,774
Retained earnings	2,766,903	2,526,144
Treasury shares	(132)	(132)
Total shareholders' equity	4,882,645	4,641,885
Accumulated other comprehensive income		
Remeasurements of defined benefit plans	19,157	11,588
Total accumulated other comprehensive income	19,157	11,588
Total net assets	4,901,802	4,653,474
Total liabilities and net assets	14,521,978	13,069,620

(2) Consolidated statements of income (cumulative) and consolidated statements of comprehensive income (cumulative)**Consolidated statements of income (cumulative)**

(Thousands of yen)

	Six months ended August 31, 2021	Six months ended August 31, 2022
Net sales	13,533,706	15,742,131
Cost of sales	6,125,888	6,548,046
Gross profit	7,407,817	9,194,084
Selling, general and administrative expenses	7,460,169	8,911,405
Operating profit (loss)	(52,352)	282,678
Non-operating income		
Interest and dividend income	4	5
Surrender value of insurance policies	4,340	6,181
Purchase discounts	475	667
Rental income	11,502	9,332
Miscellaneous income	3,683	2,748
Total non-operating income	20,005	18,935
Non-operating expenses		
Interest expenses	30,597	28,273
Finance Fee	–	35,446
Foreign exchange losses	3,378	6,430
Commission expenses	–	10,000
Rental expenses	9,576	7,557
Miscellaneous losses	3,419	2,890
Total non-operating expenses	46,972	90,598
Ordinary profit (loss)	(79,319)	211,016
Extraordinary income		
Grant income	59,908	18,064
Gain on sale of investment securities	1,961	–
Total extraordinary income	61,870	18,064
Extraordinary losses		
Loss on retirement of non-current assets	1,733	687
Impairment losses	999	–
Temporary closure loss	61,026	–
Total extraordinary losses	63,760	687
Profit (loss) before income taxes	(81,209)	228,392
Income taxes - current	32,694	81,966
Income taxes - deferred	1,631	56,689
Total income taxes	34,326	138,655
Profit (loss)	(115,535)	89,737
Profit (loss) attributable to owners of parent	(115,535)	89,737

Consolidated statements of comprehensive income (cumulative)

(Thousands of yen)

	Six months ended August 31, 2021	Six months ended August 31, 2022
Profit (loss)	(115,535)	89,737
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,693)	–
Remeasurements of defined benefit plans, net of tax	(3,871)	(7,569)
Total other comprehensive income	(7,565)	(7,569)
Comprehensive income	(123,100)	82,168
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(123,100)	82,168
Comprehensive income attributable to non-controlling interests	–	–

(3) Consolidated statements of cash flows

(Thousands of yen)

	Six months ended August 31, 2021	Six months ended August 31, 2022
Cash flows from operating activities		
Profit (loss) before income taxes	(81,209)	228,392
Depreciation	248,815	257,937
Amortization of guarantee deposits	40,113	41,296
Amortization of goodwill	115,283	115,283
Subsidy income	(59,908)	(18,064)
Loss on retirement of non-current assets	1,733	687
Impairment losses	999	–
Loss (gain) on sale of investment securities	(1,961)	–
Temporary closure loss	61,026	–
Increase (decrease) in allowance for doubtful accounts	(2,037)	(629)
Increase (decrease) in provision for bonuses	106,528	105,467
Increase (decrease) in provision for sales returns	(4,836)	–
Increase (decrease) in provision for point card certificates	22,200	(622)
Increase (decrease) in retirement benefit liability	5,666	(3,223)
Interest and dividend income	(4)	(5)
Interest expenses	30,597	28,273
Decrease (increase) in trade receivables	887,575	206,496
Decrease (increase) in inventories	725,601	31,932
Increase (decrease) in trade payables	(813,702)	(192,750)
Increase (decrease) in accounts payable - other	(275,446)	(286,317)
Increase (decrease) in accrued expenses	(55,362)	493
Increase (decrease) in accrued consumption taxes	99,786	(150,923)
Other, net	(47,488)	(65,530)
Subtotal	1,003,970	298,196
Interest and dividends received	4	5
Interest paid	(31,016)	(28,087)
Income taxes paid	(352,881)	(334,133)
Subsidies received	59,908	18,064
Payments for temporary closure	(56,345)	–
Net cash provided by (used in) operating activities	623,640	(45,954)
Cash flows from investing activities		
Purchase of property, plant and equipment	(23,123)	(19,987)
Purchase of intangible assets	(75,341)	(10,648)
Proceeds from sale of investment securities	19,249	–
Purchase of insurance funds	(17,447)	(13,981)
Proceeds from maturity of insurance funds	6,850	9,396
Payments of guarantee deposits	(107,439)	(18,917)
Proceeds from refund of guarantee deposits	13,513	52,718
Other, net	(31,900)	(49,202)
Net cash provided by (used in) investing activities	(215,639)	(50,622)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	400,000	–
Proceeds from long-term borrowings	–	3,100,000
Repayments of long-term borrowings	(314,335)	(3,413,726)
Repayments of lease obligations	(183,791)	(180,407)
Purchase of treasury shares	(44)	–
Dividends paid	(313,678)	(313,916)
Net cash provided by (used in) financing activities	(411,849)	(808,050)
Net increase (decrease) in cash and cash equivalents	(3,849)	(904,627)
Cash and cash equivalents at beginning of period	1,831,435	2,724,211
Cash and cash equivalents at end of period	1,827,585	1,819,583

(4) Notes concerning quarterly consolidated financial statements

(Going concern assumptions)

Not applicable.

(Notes regarding significant changes in the amount of shareholders' equity)

Not applicable.

(Changes in accounting policies)

1. Application of Accounting Standard for Revenue Recognition, Etc.

We have applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter "Revenue Recognition Accounting Standard"), etc. from the beginning of the first quarter of the current fiscal year, and recognize revenue at the time the control of promised goods or services is transferred to the customer at the amount expected to be received upon exchange of said goods or services. The main changes due to the application of the Revenue Recognition Accounting Standards, etc. are as follows.

(1) Revenue recognition related to in-house point program

Regarding points awarded based on purchase amount by members under our in-house point program, in the past, revenue was recognized at the time of sale, the amount of awarded points that were expected to be used in the future were recorded as a provision for points, and the provision for point card certificates was recorded as selling, general and administrative expenses. However, we are changing to a method by which awarded points are recognized as performance obligations, and allocation of transaction prices is performed based on independent sales prices calculated with consideration of prospects for future expiration of points, etc.

(2) Revenue recognition related to individual transactions

In the past, for internal consumption transactions targeting department stores, revenue was recognized as the net amount of consideration received from customers minus an amount equivalent to the commissions of dealers. However, for transactions in which the role of the Group in the provision of goods and services to customers is deemed to correspond to the individual, we are changing to a method of recognizing the total amount as income.

The application of the Accounting Standard for Revenue Recognition, etc. is subject to the transitional treatment provided for in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the first quarter of the current fiscal year, was added to or deducted from the opening balance of retained earnings of the first quarter of the current fiscal year, and the new accounting policy was applied based on said opening balance. However, the new accounting policy was not retrospectively applied to contracts for which nearly all the revenue amounts had been recognized according to the previous treatment in periods prior to the beginning of the first quarter of the current fiscal year, by applying the method provided for in paragraph 86 of the Accounting Standard for Revenue Recognition.

As a result, net sales and gross profit for the first six months of the current fiscal year each increased by 1,078,166,000 yen, and selling, general and administrative expenses increased by 1,052,610,000 yen. Operating profit, ordinary profit, and profit before income taxes each increased by 25,555,000 yen, and profit attributable to owners of parent increased by 18,137,000 yen. The balance of retained earnings at the beginning of the period decreased by 16,692,000 yen.

Furthermore, information on disaggregation of revenue from contracts with customers during the first six months of the previous fiscal year has not been disclosed, as allowed by the transitional treatment provided for in paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020).

2. Application of Accounting Standard for Fair Value Measurement, Etc.

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019) and relevant ASBJ regulations from the beginning of the first quarter of the current fiscal year, and has applied the new accounting policy provided for by the Accounting Standard for Fair Value Measurement, etc. prospectively in accordance with the transitional measures provided for in paragraph 19 of the “Accounting Standard For Fair Value Measurement” and paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). There is no impact on the quarterly consolidated financial statements.