

Translation

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Summary of Consolidated Financial Results for the Six Months Ended August 31, 2019 (Based on Japanese GAAP)

October 10, 2019

Company name: NARUMIYA INTERNATIONAL Co.,Ltd
 Stock exchange listing: Tokyo
 Stock code: 9275 URL <http://www.narumiya-net.co.jp/ir/>
 Representative: President, Representative Director and Chief Executive Officer Toshiaki Ishii
 Inquiries: Executive Managing Director Chief Financial Officer Chiaki Ueda TEL 03-6430-3405
 Scheduled date to file Quarterly Securities Report: October 11, 2019
 Scheduled date to commence dividend payments: -
 Preparation of supplementary material on quarterly 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, 2019 (from March 1, 2019 to August 31, 2019)

(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, 2019	15,205	-	402	-	368	-	172	-
Six months ended August 31, 2018	-	-	-	-	-	-	-	-

(Note) Comprehensive income: Six months ended August 31, 2019 172 millions of yen (- %)

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended August 31, 2019	17.17		17.10	
Six months ended August 31, 2018	-		-	

(Note) On March 29, 2019, the Company acquired all the shares of Heartfeel Co., Ltd., and made it a consolidated subsidiary. To reflect this, the Company announces its financial statements on a consolidated basis beginning the First Quarter Ended May 31, 2019.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of August 31, 2019	14,094	3,455	24.5
As of February 28, 2019	-	-	-

(Note) On March 29, 2019, the Company acquired all the shares of Heartfeel Co., Ltd., and made it a consolidated subsidiary. To reflect this, the Company announces its financial statements on a consolidated basis beginning the First Quarter Ended May 31, 2019.

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen				
Year ended February 28, 2019	-	1,465.00	-	31.00	-
Year ending February 29, 2020	-	0.00	-	-	-
Year ending February 29, 2020 (Forecast)	-	-	-	34.00	34.00

(Note) 1. Note: Revision to the most recently announced dividend forecast: Yes

Breakdown of dividends for FY2020(forecast) : ordinary dividend of 31yen, commemorative dividend of 3yen

2. On June 29, 2018, the Company implemented a stock split, at a ratio of 30 shares to one common share. The dividend per share for the three months ended August 31, 2019 was before the stock split.

3. Forecast of consolidated financial results for the year ending February 29, 2020 (from March 1, 2019 to February 29, 2020)

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	33,007	–	1,712	–	1,646	–	1,007	–	101.65

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

4. Notes

(1) Changes in significant subsidiaries during the six months ended August 31, 2019
(changes in specified subsidiaries resulting in the change in scope of consolidation): Yes

(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: No

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, 2019	10,082,630 shares	As of February 28, 2019	9,906,830 shares
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Number of treasury shares at the end of the period

As of August 31, 2019	– shares	As of February 28, 2019	– 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, 2019	10,027,394 shares	Six months ended August 31, 2018	9,624,330 shares
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(Note) 1. On June 29, 2018, the Company implemented a stock split, at a ratio of 30 shares to one common share. Total number of issued shares at the end of the period, total number of treasury shares at the end of the period and average number of shares during the period were calculated by assuming that the stock split was implemented at the beginning of the previous fiscal year.

2. Total number of issued shares has increased by 282,500 as a result of new shares issued by public offering (bookbuilding subscription) with the payment date of September 5, 2018.

※ These financial results are outside the scope of the quarterly review by a certified public accountant or an audit corporation.

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

The earnings forecasts and other forward-looking statements provided herein are based on information that is currently available to the Company and certain assumptions that the Company deems reasonable, and the Company does not in any way guarantee the achievement of the projections. Actual results may differ significantly from the forecasts due to various factors. For details on the assumptions of the earnings forecasts and points to be noted in using the earnings forecasts, please refer to “1. Qualitative Information on Quarterly Financial Results (3) Explanation of Forecast of Performance Results and Other Forward-Looking Information” on page 3 of the attached document.

1. Qualitative information concerning Consolidated Financial Results for the Second Quarter ended August 31, 2019

(1) Explanation about operating results

During the three months ended August 31, 2019, the Japanese economy was on a mild recovery trend overall despite uncertainties over the outlook of global economy, such as the effects of US policies and concerns over China's sustainable growth, thanks to continued improvements in employment and income conditions at home.

In the apparel industry, to which the Company belong, while strong tendencies to choose lower-priced items continued and consumer purchases at brick and mortar shops continued to slide, online sales continued to rise.

In this business environment, our sales at shopping centers and e-commerce stores, the two main pillars of the Group's multi channels, marked a double-digit increase year-on-year, driving the Group's overall earning, as with the previous fiscal year. The new store openings and closings in the Second Quarter ended August 31, 2019 were as follows: 18 opened (nine closed) at department stores, notably the "ANNA SUI mini" toddler brand; and 10 opened (one closed) at shopping centers, notably the "petit main" toddler brand and "Lovetoxic" junior brand.

On an existing-store basis, sales remained solid particularly for toddler brands such as "X-girl STAGES", promoted at department stores, and "petit main" and "Lovetoxic," promoted at shopping centers.

To expand out e-commerce channels, we acquired all the shares of Heartfeel Co., Ltd., with its mainstay "GLAZOS" boys brand, making it a wholly-owned consolidated subsidiary.

As a result, the Company posted net sales of ¥15,205 million, operating income of ¥402 million, ordinary income of ¥368 million, and net income attributable to owners of parent of ¥172 million for the Second Quarter ended August 31, 2019.

Please note that, on March 29, 2019 the Company acquired all the shares of Heartfeel Co., Ltd., and made it a wholly-owned subsidiary, and announces its financial statements on a consolidated basis beginning the First Quarter Ended May 31, 2019. For year-on-year comparison of business performance, please see the table below (year-on-year comparison of business results in the six months ended August 31, 2019 and six months ended August 31, 2018)

	Six months ended August 31, 2018 (non-consolidated)	Six months ended August 31, 2019	YoY change (%)
Net sales (million yen)	13,220	14,781	11.8
Operating income (million yen)	268	436	62.9
Ordinary income (million yen)	197	414	109.9
Net income (million yen)	37	213	472.4
EBITDA (million yen)	641	835	30.2
Basic earnings per share (yen)	3.87	21.29	—

(Note) 1. Net income for the six month ended August 31, 2019 is adjusted for a gain on extinguishment of tie-in shares of ¥875 million.

2..On June 29, 2018, the Company implemented a stock split, at a ratio of 30 shares to one common share. Basic earnings per share for the three months ended August 31, 2019 was calculated by assuming that the stock split was implemented at the beginning of the six months ended August 31, 2019.

As the Group is engaged in the planning and sales of baby and child clothes and not in any other business segment, the disclosures of business performance by segment has been omitted.

(2) Explanation about Financial Position

(Assets)

Total assets as of the end of the Second Quarter ended August 31, 2019 were ¥14,094 million. This primarily reflects ¥1,487 million in cash and deposits, ¥2,611 million in accounts receivable-trade, ¥3,182 million in merchandise, ¥260 million in buildings and structures, ¥858 million in leased assets-PPE, ¥3,475 million in goodwill and ¥1,098 million in guarantee deposits.

(Liabilities)

Total liabilities as of the end of the Second Quarter ended August 31, 2019 were ¥10,638 million. This primarily reflects ¥2,012 million in accounts payable-trade, ¥4,804 million in long-term loans payable and ¥717 million in lease obligations (fixed).

(Net assets)

Net assets as of the end of the Second Quarter ended August 31, 2019 were ¥3,455 million. This primarily reflects ¥1,853 million in capital surplus and ¥1,380 million in retained earnings.

(3) Status of Cash Flows

Cash and cash equivalents (hereinafter referred to as “funds”) at the end of the Second Quarter ended August 31, 2019 were ¥1,487 million. The status of cash flows for the Second Quarter ended August 31, 2019 and the related factors are as described below.

(Net cash provided by operating activities)

Funds provided by operating activities resulted in a cash inflow of ¥445 million. This was primarily due to profit before income taxes of ¥361 million, depreciation of ¥250 million, goodwill amortization of ¥111 million, an increase of ¥276 million in notes and accounts receivable-trade, a decrease of ¥719 million in inventories, a decrease of ¥723 million in notes and accounts payable – trade, an increase of ¥121 million in accrued expenses and income taxes paid of ¥299 million.

(Net cash used in investing activities)

Funds used in investing activities resulted in a cash outflow of ¥519 million. This was primarily due to purchase of property, plant and equipment of ¥177 million, purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥234 million and ¥61 million in guarantee deposits.

(Net cash used in financing activities)

Funds used in financing activities resulted in a cash outflow of ¥284 million. This was mainly due to a net increase in short-term loans of ¥100 million, cash inflow from long-term loans of ¥620 million, repayment of long-term loans of ¥586 million, repayment of lease obligations of ¥170 million and payment of dividends of ¥307 million.

(4) Explanation on Future Forecast Information including Consolidated Earnings Forecast

The financial results forecast for the Fiscal Year Ending February 28, 2020 remains unchanged from that announced on April 12, 2019. The earnings forecasts provided herein are based on information that is currently available to the Company and certain assumptions that the Company deems reasonable. Actual results may differ significantly from the forecasts due to various factors.

Quarterly consolidated financial statements
Consolidated balance sheets

(Thousands of yen)

As of August 31, 2019

Assets	
Current assets	
Cash and deposits	1,487,689
Notes and accounts receivable - trade	2,611,607
Merchandise	3,182,200
Prepaid expenses	45,561
Other	49,018
Allowance for doubtful accounts	(11,076)
Total current assets	<u>7,365,000</u>
Non-current assets	
Property, plant and equipment	
Buildings and structures	1,347,592
Accumulated depreciation	(1,087,420)
Buildings and structures, net	<u>260,172</u>
Tools, furniture and fixtures	82,753
Accumulated depreciation	(61,402)
Tools, furniture and fixtures, net	<u>21,350</u>
Land	5,940
Leased assets	2,134,472
Accumulated depreciation	(1,276,413)
Leased assets, net	<u>858,059</u>
Total property, plant and equipment	<u>1,145,522</u>
Intangible assets	
Goodwill	3,475,746
Software	99,513
Software in progress	700
Leased assets	144,261
Other	15,726
Total intangible assets	<u>3,735,947</u>
Investments and other assets	
Investment securities	36,701
Claims provable in bankruptcy, claims provable in rehabilitation and other	50,279
Long-term prepaid expenses	21,350
Guarantee deposits	1,098,209
Deferred tax assets	463,697
Other	227,846
Allowance for doubtful accounts	(50,279)
Total investments and other assets	<u>1,847,805</u>
Total non-current assets	<u>6,729,275</u>
Total assets	<u>14,094,276</u>

(Thousands of yen)

As of August 31, 2019

Liabilities	
Current liabilities	
Accounts payable - trade	2,012,318
Short-term loans payable	100,000
Current portion of long-term loans payable	570,048
Lease obligations	390,428
Accounts payable - other	377,253
Accrued expenses	650,158
Income taxes payable	229,063
Accrued consumption taxes	139,512
Provision for bonuses	164,301
Provision for sales returns	12,539
Provision for point card certificates	88,109
Other	180,259
Total current liabilities	<u>4,913,992</u>
Non-current liabilities	
Long-term loans payable	4,714,894
Lease obligations	717,995
Net defined benefit liability	287,953
Other	3,755
Total non-current liabilities	<u>5,724,597</u>
Total liabilities	<u>10,638,590</u>
Net assets	
Shareholders' equity	
Capital stock	248,251
Capital surplus	1,853,927
Retained earnings	1,380,906
Total shareholders' equity	<u>3,483,085</u>
Accumulated other comprehensive income	
Valuation difference on available-for-sale securities	(6,696)
Remeasurements of defined benefit plans	(20,971)
Total accumulated other comprehensive income	<u>(27,667)</u>
Share acquisition rights	<u>268</u>
Total net assets	<u>3,455,686</u>
Total liabilities and net assets	<u>14,094,276</u>

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, 2019
Net sales	15,205,704
Cost of sales	7,027,221
Gross profit	8,178,482
Selling, general and administrative expenses	7,775,572
Operating profit	402,909
Non-operating income	
Interest and dividend income	116
Insurance premiums refunded cancellation	5,640
Purchase discounts	603
Rent income	12,163
Subsidy income	14,900
Miscellaneous income	4,679
Total non-operating income	38,103
Non-operating expenses	
Interest expenses	38,687
Commission fee	9,200
Rent expenses	9,617
Foreign exchange losses	573
Moving to the first section expenses	8,490
Miscellaneous loss	5,449
Total non-operating expenses	72,018
Ordinary profit	368,994
Extraordinary losses	
Impairment loss	7,225
Loss on retirement of non-current assets	187
Total extraordinary losses	7,412
Profit before income taxes	361,582
Income taxes - current	176,004
Income taxes - deferred	13,334
Total income taxes	189,338
Profit	172,244
Profit attributable to owners of parent	172,244

Consolidated statements of comprehensive income (cumulative)

(Thousands of yen)

	Six months ended
	August 31, 2019
Profit	172,244
Other comprehensive income	
Valuation difference on available-for-sale securities	(3,850)
Remeasurements of defined benefit plans, net of tax	4,172
Total other comprehensive income	322
Comprehensive income	172,566
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	172,566
Comprehensive income attributable to non-controlling interests	—

Consolidated statements of cash flows

(Thousands of yen)

	Six months ended August 31, 2019
Cash flows from operating activities	
Profit before income taxes	361,582
Depreciation	250,381
Impairment loss	7,225
Amortization of guarantee deposits	45,551
Amortization of goodwill	111,904
Loss on retirement of non-current assets	187
Increase (decrease) in allowance for doubtful accounts	12,647
Increase (decrease) in provision for bonuses	73,487
Increase (decrease) in provision for sales returns	(275)
Increase (decrease) in provision for point card certificates	42,401
Increase (decrease) in net defined benefit liability	15,651
Interest and dividend income	(116)
Interest expenses	38,687
Decrease (increase) in notes and accounts receivable - trade	(276,717)
Decrease (increase) in inventories	719,557
Increase (decrease) in notes and accounts payable - trade	(723,420)
Increase (decrease) in accrued expenses	121,770
Increase (decrease) in accrued consumption taxes	70,965
Other, net	(89,433)
Subtotal	782,036
Interest and dividend income received	116
Interest expenses paid	(37,282)
Income taxes paid	(299,574)
Net cash provided by (used in) operating activities	445,296
Cash flows from investing activities	
Proceeds from withdrawal of time deposits	22,381
Purchase of property, plant and equipment	(177,379)
Purchase of intangible assets	(49,919)
Purchase of investment securities	(598)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(234,852)
Purchase of insurance funds	(15,867)
Payments for guarantee deposits	(61,228)
Proceeds from collection of guarantee deposits	3,737
Other, net	(6,027)
Net cash provided by (used in) investing activities	(519,755)
Cash flows from financing activities	
Net increase (decrease) in short-term loans payable	100,000
Proceeds from long-term loans payable	620,000
Repayments of long-term loans payable	(586,208)
Repayments of lease obligations	(170,256)
Cash dividends paid	(307,111)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	58,717
Net cash provided by (used in) financing activities	(284,858)
Net increase (decrease) in cash and cash equivalents	(359,317)
Cash and cash equivalents at beginning of period	1,847,006
Cash and cash equivalents at end of period	1,487,689