

Consolidated Financial Results for the Three Months Ended May 31, 2022 (Japanese Accounting Standards)

July 13, 2022

| | | |
|---|---|--|
| Company name | Treasure Factory Co., Ltd. | Listings: 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 | |
| Submission of statutory quarterly financial report: | July 13, 2022 | |
| Commencement of dividend payments: | - | |
| Supplementary documents for quarterly results: | Yes | |
| Quarterly results briefing: | No | |

(Amounts in millions of yen rounded down to the nearest million yen)

1. Results for the three months ended May 31, 2022 (March 1, 2022 to May 31, 2022)

(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 | % |
| FY2023 Q1 | 6,733 | 18.8 | 766 | 123.3 | 786 | 114.9 | 532 | 117.1 |
| FY2022 Q1 | 5,668 | 43.2 | 343 | - | 366 | - | 245 | - |

(Note) Comprehensive income: FY2023 Q1 530 million yen (120.5%)
FY2022 Q1 240 million yen (-%)

| | Profit per share | Diluted profit per share |
|-----------|------------------|--------------------------|
| | yen | yen |
| FY2023 Q1 | 47.88 | - |
| FY2022 Q1 | 21.86 | - |

(2) Financial position

| | Total assets | Net assets | Equity capital ratio |
|-----------|--------------|-------------|----------------------|
| | million yen | million yen | % |
| FY2023 Q1 | 12,376 | 5,374 | 41.6 |
| FY2022 | 11,809 | 4,895 | 40.0 |

(Reference) Shareholders' equity: FY2023 Q1 5,150 million yen
FY2022 4,719 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 |
| FY2022 | - | 8.00 | - | 9.00 | 17.00 |
| FY2023 | - | | | | |
| FY2023 (forecast) | | 10.00 | - | 10.00 | 20.00 |

(Note) Revisions to dividend forecast published most recently: No

3. Results forecast for the fiscal year ending February 28, 2023 (March 1, 2022 to February 28, 2023)

(Percentage figures represent year-on-year changes)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Profit per share yen |
|--------------------|-------------|------|------------------|-------|-----------------|-------|---|-------|-------------------------|
| | million yen | % | million yen | % | million yen | % | million yen | % | |
| First two quarters | 12,430 | 15.8 | 625 | 302.6 | 650 | 258.7 | 426 | 842.7 | 38.33 |
| Full year | 26,038 | 11.7 | 1,400 | 40.7 | 1,430 | 35.7 | 886 | 25.9 | 79.72 |

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

* Notes

(1) Changes in important subsidiaries during the nine months of the current consolidated cumulative period 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: Yes

[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 May 31, 2022 | 11,598,800 shares | As of Feb. 28, 2022 | 11,598,800 shares |
| [2] Treasury shares at period-end | As of May 31, 2022 | 484,464 shares | As of Feb. 28, 2022 | 484,431 shares |
| [3] Average number of shares issued during the period | As of May 31, 2022 | 11,114,347 shares | As of May 31, 2021 | 11,212,669 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 regarding the Information on Forecast including Consolidated Forecasts in 1. Qualitative Information about the Quarterly Financial Results on Page 6 of the attached material.

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1. Qualitative Information about the Quarterly Financial Results

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

During the first quarter of the current consolidated cumulative period, restrictions on Japan's economic activities have been gradually eased and consumption has been slowly coming back to normal as cases of COVID-19 decreased. However, the economic outlook remains uncertain due to such factors as the yen's sharp falls and inflation coupled with resource shortages due to circumstances in Russia and Ukraine.

In the reuse industry, the market continues to grow as society works toward the Sustainable Development Goals (SDGs) and turns to reuse more consciously. In these circumstances, demand for purchases by neighborhood reuse stores steadily grew. In regard to sales, there remain considerable needs of consumers to buy daily necessities at bargain prices.

During the first quarter, the Treasure Factory Group enjoyed steady business that continued from the previous quarter. We achieved an operating profit of ¥766,129 thousand over the first quarter of the consolidated accounting period from March to May, which was far more than planned, and a record figure for our operating profit earned in the first quarter of a consolidated accounting period. On a non-consolidated basis, we opened 6 directly-managed stores, and existing stores also enjoyed steady sales. All Group companies that engage in the reuse business also saw steady sales, which led to more revenues and profits. Consequently, the results of operations for the first quarter of the current consolidated cumulative period show net sales of ¥6,733,664 thousand (up 18.8 percent year on year), operating profit of ¥766,129 thousand (up 123.3 percent year on year), ordinary profit of ¥786,565 thousand (up 114.9 percent year on year), and quarterly profit of ¥532,168 thousand attributable to owners of the parent (up 117.1 percent year on year).

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

(Reuse Business)

Consolidated sales increased 18.3 percent year on year, non-consolidated sales increased 19.0 percent year on year, and non-consolidated sales at existing stores increased 7.1 percent year on year. In terms of sales by category, apparel sales increased 22.4 percent year on year partly because the temperature steadily rose over the months from March to May and demand for outfits for going out grew, and sales of household items also increased 18.7 percent year on year. As for electric appliances, sales rose 15.9 percent year on year as demand related to new styles of living grew in early spring, and as summer home appliances sold well early. Rising gold prices also helped significantly boost the sales of fashion items by 19.9 percent year on year and of hobby-related items, which we have been selling more than before since the pandemic started, by 8.4 percent year on year. As for e-commerce sales, we expanded offerings on our e-commerce site, thereby increasing consolidated e-commerce sales by 21.2 percent year on year.

Purchases of merchandise for the fiscal year under review increased 19.7 percent year on year, and non-consolidated purchases also grew by 15.3 percent. As for non-consolidated purchases by channel, in-store purchases showed a steady increase of 16.9 percent year on year. Home-delivery purchases dramatically increased by 35.4 percent year on year, and home-visit purchases continued favorably and increased 19.0 percent year on year.

During the first quarter of the current consolidated cumulative period, we opened 3 general reuse stores and 3 fashion reuse stores, the non-consolidated total being 6 stores. In terms of new stores by region, we opened 3 in Kanto, 2 in Kansai, and 1 in Chubu, maintaining a good balance of geographic locations. The numbers of stores at the end of the first quarter of the consolidated accounting period under review are as follows: 155 directly-managed stores and 4 franchise stores, the non-consolidated total being 159; and 226 stores in total across the Group.

These results added up to net sales of ¥6,519,621 thousand (up 18.3 percent year on year) and a segment profit of ¥1,139,669 thousand (up 52.6 percent year on year).

(Other)

Cariru, our rental business, successfully captured demand as people attended weddings and other events. Consequently, sales of the rental business increased 92.3 percent year on year.

These results added up to net sales of ¥254,994 thousand (up 54.1 percent year on year) and a segment profit of ¥77,118 thousand (the same period of the previous year saw ¥8,012 thousand in loss).

(2) Explanation regarding the Non-consolidated Financial Position

Total assets at the end of the first quarter of the current consolidated accounting period increased by ¥566,790 thousand year on year to ¥12,376,441 thousand because of an increase of ¥167,189 thousand in accounts receivable-trade, an increase of ¥295,215 thousand in merchandise, an increase of ¥87,385 thousand in buildings and structures, and an increase of ¥45,472 thousand in leasehold and guarantee deposits, among other reasons.

Total liabilities at the end of the first quarter of the current consolidated accounting period increased by ¥88,378 thousand compared to the end of the previous consolidated fiscal year, totaling to ¥7,002,065 thousand because of an increase of ¥310,100 thousand in short-term borrowings, an increase of ¥61,682 thousand in contract liabilities, a decrease of ¥176,462 thousand in long-term borrowings, a decrease of ¥134,974 thousand in provision for bonuses, and a decrease of ¥83,823 thousand in income taxes payable, among other reasons.

Total net assets at the end of the first quarter of the current consolidated accounting period increased by ¥478,412 thousand year on year to ¥5,374,375 thousand because a quarterly profit of ¥532,168 thousand attributable to owners of the parent was recorded, among other reasons.

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

The Company pursues five growth strategies: development of the reuse business, investment in new businesses, growth in overseas markets, growth through M&A, and growth through investment in digital transformation (DX). On the basis of these strategies, we are working toward the goals of our medium-term profit and loss plan.

During the first quarter of the current consolidated cumulative period, consolidated sales added up to 118.8 percent year on year. Profit margins also improved, with the growth of more than 200 percent year on year in operating profit, ordinary profit, and profit attributable to owners of parent, which was significantly greater than planned. Consequently, operating profit, ordinary profit, and profit attributable to owners of parent for the second quarter of the cumulative period and for the full year are projected to surpass the previous forecast. Hence, we have revised the results forecast published on April 13, 2022.

Please see “Notice on Revisions to Results Forecast for Six Months Ending August 31, 2022 and for Full Fiscal Year” published today (July 13, 2022) for details.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of Yen)

| | Previous Consolidated Fiscal Year (Ended February 28, 2022) | First Quarter of the Current Consolidated Accounting Period (Ended May 31, 2022) |
|--|--|--|
| Assets | | |
| Current assets | | |
| Cash and deposits | 2,360,856 | 2,351,149 |
| Accounts receivable - trade | 643,971 | 811,160 |
| Merchandise | 4,014,226 | 4,309,441 |
| Other | 532,725 | 567,800 |
| Total current assets | 7,551,779 | 8,039,552 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 1,127,839 | 1,215,224 |
| Land | 426,511 | 426,511 |
| Other, net | 253,537 | 290,130 |
| Total property, plant and equipment | 1,807,887 | 1,931,867 |
| Intangible assets | | |
| Goodwill | 93,313 | 89,139 |
| Other | 126,210 | 120,608 |
| Total intangible assets | 219,524 | 209,748 |
| Investments and other assets | | |
| Leasehold and guarantee deposits | 1,695,875 | 1,741,348 |
| Other | 534,582 | 453,925 |
| Total investments and other assets | 2,230,458 | 2,195,273 |
| Total non-current assets | 4,257,871 | 4,336,889 |
| Total assets | 11,809,650 | 12,376,441 |

(Thousands of Yen)

| | Previous Consolidated Fiscal Year (Ended February 28, 2022) | First Quarter of the Current Consolidated Accounting Period (Ended May 31, 2022) |
|---|--|--|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 58,790 | 56,648 |
| Short-term borrowings | 1,792,403 | 2,102,503 |
| Current portion of long-term borrowings | 734,198 | 717,495 |
| Income taxes payable | 286,785 | 202,962 |
| Contract liabilities | - | 61,682 |
| Refund liabilities | - | 34,729 |
| Provision for bonuses | 318,470 | 183,496 |
| Provision for shareholder benefit program | 4,536 | 2,743 |
| Provision for sales returns | 21,335 | - |
| Provision for point card certificates | 60,158 | - |
| Other | 1,158,626 | 1,319,917 |
| Total current liabilities | 4,435,305 | 4,682,178 |
| Non-current liabilities | | |
| Long-term borrowings | 1,811,355 | 1,634,893 |
| Asset retirement obligations | 640,774 | 658,742 |
| Other | 26,252 | 26,252 |
| Total non-current liabilities | 2,478,381 | 2,319,887 |
| Total liabilities | 6,913,687 | 7,002,065 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 521,183 | 521,183 |
| Capital surplus | 456,183 | 456,183 |
| Retained earnings | 4,148,547 | 4,580,686 |
| Treasury shares | (410,119) | (410,153) |
| Total shareholders' equity | 4,715,795 | 5,147,899 |
| Cumulative amount of other comprehensive income | | |
| Foreign currency translation adjustment | 3,987 | 2,198 |
| Total cumulative amount of other comprehensive income | 3,987 | 2,198 |
| Share acquisition rights | 162,819 | 210,916 |
| Non-controlling interests | 13,360 | 13,360 |
| Total net assets | 4,895,963 | 5,374,375 |
| Total liabilities and net assets | 11,809,650 | 12,376,441 |

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income
 (Quarterly consolidated statement of income)
 (First quarter of the consolidated cumulative period)

(Thousands of Yen)

| | First Quarter of the Previous Consolidated Cumulative Period (from March 1, 2021 to May 31, 2021) | First Quarter of the Current Consolidated Cumulative Period (from March 1, 2022 to May 31, 2022) |
|--|--|---|
| Net sales | 5,668,841 | 6,733,664 |
| Cost of sales | 2,126,798 | 2,453,772 |
| Gross profit | 3,542,043 | 4,279,892 |
| Reversal of provision for sales returns | 18,822 | - |
| Provision for sales returns | 21,135 | - |
| Net gross profit | 3,539,730 | 4,279,892 |
| Selling, general and administrative expenses | 3,196,654 | 3,513,762 |
| Operating profit | 343,075 | 766,129 |
| Non-operating income | | |
| Interest income | 120 | 91 |
| Vending machine income | 2,172 | 2,073 |
| Foreign exchange gains | 599 | 10,954 |
| Subsidy income | 9,006 | 3,023 |
| Commission income | 3,814 | - |
| Delivery fees | 1,596 | 2,694 |
| Other | 8,862 | 5,085 |
| Total non-operating income | 26,171 | 23,922 |
| Non-operating expenses | | |
| Interest expenses | 3,084 | 3,022 |
| Other | 77 | 463 |
| Total non-operating expenses | 3,162 | 3,486 |
| Ordinary profit | 366,085 | 786,565 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 1,761 | 997 |
| Total extraordinary losses | 1,761 | 997 |
| Quarterly profit before income taxes | 364,323 | 785,568 |
| Income taxes - current | 85,308 | 166,848 |
| Income taxes - deferred | 37,161 | 86,551 |
| Total income taxes | 122,470 | 253,399 |
| Net quarterly profit | 241,853 | 532,168 |
| Quarterly loss attributable to non-controlling interests | (3,245) | - |
| Profit attributable to owners of parent | 245,099 | 532,168 |

(Quarterly consolidated statement of comprehensive income)
(First quarter of the consolidated cumulative period)

(Thousands of Yen)

| | First Quarter of the Previous Consolidated Cumulative Period (from March 1, 2021 to May 31, 2021) | First Quarter of the Current Consolidated Cumulative Period (from March 1, 2022 to May 31, 2022) |
|--|--|---|
| Net quarterly profit | 241,853 | 532,168 |
| Other comprehensive income | | |
| Foreign currency translation adjustment | (1,269) | (1,788) |
| Total of other comprehensive income | (1,269) | (1,788) |
| Quarterly comprehensive income | 240,584 | 530,379 |
| Comprehensive income attributable to | | |
| Quarterly comprehensive income attributable to owners of parent | 243,830 | 530,379 |
| Quarterly comprehensive income attributable to non- controlling interests | (3,245) | - |

(3) 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

(Changes in accounting policies)

(Adoption of the Accounting Standard for Revenue Recognition)

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; the "Revenue Recognition Accounting Standard") since the beginning of the first quarter of the current consolidated accounting period. This means that we recognize revenue when the control of a promised good or service is transferred to a customer at the monetary amount that we expect to receive in exchange for the good or service.

The major changes due to the adoption of this Revenue Recognition Accounting Standard are as follows.

(1) Sale with a right of return

In regard to sale with a right of return that the Treasure Factory Group practices, we conventionally recorded provisions for sales returns based on the amount that is commensurate with gross profit. With the adoption of the Standard, we have switched to the method that does not recognize revenue when a good or service is sold, considering an expected portion of returned goods or services, according to the rules about variable considerations. Given this change, we now present the considerations of the products that will likely be returned as "Refund liabilities." As for the assets that are recognized as our right to recover merchandise from customers when refund liabilities are settled, we include these "returned assets" in "Other" under "Current assets."

(2) Revenue recognition of point card certificates

The Treasure Factory Group has a point card certificate system, which gives members point card certificates according to their purchases and offers a good or service in exchange for the certificates that the members choose to use. We conventionally used the method that recorded as provisions the monetary amount commensurate with the certificates to be used in the future. With the adoption of the Standard, we have switched to the method that identifies point card certificates as a performance obligation to defer the recording of the revenue. Given this change, we now include considerations that pertain to unfulfilled performance obligations at the period end in "Contract liabilities" for recording purposes.

We apply the Revenue Recognition Accounting Standard in accordance with the transitional measures prescribed in the proviso to Section 84 of this Standard. The new accounting standard has been applied since the beginning of the first quarter of the current consolidated accounting period, adding to and subtracting from retained earnings the cumulative effects of retroactively applying the new accounting policy prior to the beginning of the said period.

The impact of the adoption of this Standard on profit or loss for the first quarter of the current consolidated cumulative period is omitted because it is limited. There will be no impact on the balance of retained earnings at the beginning of the current period. We have not restated the financial statements for the previous consolidated fiscal year to reflect the changes in presentation, in accordance with the transitional measures prescribed in Section 89-2 of the Revenue Recognition Accounting Standard. We have also omitted information that breaks down revenue from contracts with customers for the first quarter of the previous consolidated cumulative period, in accordance with the transitional measures prescribed in Section 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No.12, March 31, 2020).

(Adoption of the Accounting Standard for Fair Value Measurement)

We have applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; the "Fair Value Measurement Accounting Standard") since the beginning of the first quarter of the consolidated accounting period. We will continue to apply the new accounting policy prescribed by the Fair Value Measurement Accounting Standard in accordance with the transitional measures specified in Section 19 of the Fair Value Measurement Accounting Standard as well as in Section 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). The adoption of this Standard has only a limited impact on the quarterly consolidated financial statements.

(Segment Information, etc.)

[Segment Information]

I. First Quarter of Previous Consolidated Cumulative Period (from March 1, 2021 to May 31, 2021)

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 | 5,510,145 | 158,695 | 5,668,841 | - | 5,668,841 |
| Internal sales or transfer between segments | - | 6,785 | 6,785 | (6,785) | - |
| Total | 5,510,145 | 165,480 | 5,675,626 | (6,785) | 5,668,841 |
| Segment's profit (loss) | 746,936 | (8,012) | 738,924 | (395,848) | 343,075 |

(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

II. First Quarter of Current Consolidated Cumulative Period (from March 1, 2022 to May 31, 2022)

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 | 6,519,621 | 214,043 | 6,733,664 | - | 6,733,664 |
| Internal sales or transfer between segments | - | 40,951 | 40,951 | (40,951) | - |
| Total | 6,519,621 | 254,994 | 6,774,615 | (40,951) | 6,733,664 |
| Segment's profit | 1,139,669 | 77,118 | 1,216,787 | (450,657) | 766,129 |

(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 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)

N/A

(Material Post-Balance Sheet Events)

N/A