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MEMBERSHIP

November 8, 2022

Consolidated Financial Results for the Six Months Ended September 30, 2022 (Based on Japanese GAAP)

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 Stock exchange listing: Tokyo
 Securities code: 8111
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 Scheduled date to file Quarterly Securities Report: November 14, 2022
 Scheduled date to commence dividend payments: December 5, 2022
 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 September 30, 2022 (from April 1, 2022 to September 30, 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								
September 30, 2022	45,309	18.6	5,277	60.0	7,452	94.3	5,844	122.0
September 30, 2021	38,208	21.1	3,299	166.8	3,835	174.8	2,632	321.9

Note: Comprehensive income Six months ended September 30, 2022: ¥7,826 million [131.6%]
 Six months ended September 30, 2021: ¥3,378 million [648.9%]

	Earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2022	129.70	—
September 30, 2021	58.01	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
September 30, 2022	98,248	66,340	67.4
March 31, 2022	99,085	63,411	63.9

Reference: Equity
 As of September 30, 2022 ¥66,228 million
 As of March 31, 2022 ¥63,278 million

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 March 31, 2022	–	20.00	–	65.00	85.00
Year ending March 31, 2023	–	25.00			
Year ending March 31, 2023 (Forecast)			–	65.00	90.00

Note: Revisions to the forecast of cash dividends most recently announced: No

3. Forecast of consolidated financial results for the year ending March 31, 2023 (from April 1, 2022 to March 31, 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	106,000	7.9	17,000	3.0	21,400	5.5	16,000	11.5	355.09

Note: Revisions to the forecast of consolidated financial results most recently announced: No

*** Notes**

- (1) Changes in significant subsidiaries during the six months ended September 30, 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
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
 - (ii) Changes in accounting policies due to other reasons: No
 - (iii) Changes in accounting estimates: No
 - (iv) Restatement of prior period financial statements: No

(4) Number of issued shares (common shares)

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

As of September 30, 2022	47,448,172 shares
As of March 31, 2022	47,448,172 shares

(ii) Number of treasury shares at the end of the period

As of September 30, 2022	2,424,859 shares
As of March 31, 2022	2,202,276 shares

(iii) Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2022	45,059,559 shares
Six months ended September 30, 2021	45,377,536 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of financial forecasts, and other special matters

Descriptions of the above financial forecasts and other data are based on information currently available to the Company and certain assumptions that we consider to be reasonable. Actual financial results may differ significantly from the forecasts for various reasons. Please refer to “1. Qualitative Information on Financial Results for the Period under Review, (3) Explanation of consolidated financial results forecasts and other forward-looking statements” on page 3 of the attached material for the suppositions that form the assumptions for the financial forecasts and cautions regarding the use of the financial forecasts.

Attached Material

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1. Qualitative Information on Financial Results for the Period under Review

(1) Explanation of operating results

During the six months ended September 30, 2022, the outlook for the Japanese economy remained uncertain due to factors such as the rise in global resource prices, turmoil in the supply chain and the rapid depreciation of the yen.

Meanwhile, in the second quarter (July to September), despite starting out strong, the Group experienced some constraints on allocation of personnel at directly managed stores due to the effects of the seventh wave of the novel coronavirus disease (COVID-19) from late July. Then from late August, the number of visitors to stores, particularly at suburban stores, staged a recovery, in part, because of the drop in the number of COVID-19 cases. On the other hand, aware of the need to remain mindful of the rapid rise in inflation and foreign exchange trends, we revised sales prices by 5 to 10% for 200 stock items, which account for about 10% of the autumn-winter products.

As described above, although the situation remains uncertain, the easing of behavioral regulations led to the expansion of multiple sales in the mainstay brand, THE NORTH FACE, not only for apparel products due to the increase in demand to leave home such as for travel, not just camping, but also for backpacks and shoes, etc. Furthermore, in regard to Speedo, a full-fledged recovery trend from the COVID-19 pandemic has been evident in multiple brands, such as with the expansion of the areas of business into training wear at fitness gyms, etc. in addition to traditional swimwear. Consequently, second quarter net sales exceeded the upwardly revised figures announced with the first quarter results at a record ¥45,309 million.

Operating profit was ¥5,277 million, the second highest for a second quarter following the ¥5,538 million recorded in the fiscal year ended March 31, 2020. This was, in addition to the partial revision of sales prices, mainly due to the thorough control of inventory liquidity during the season while monitoring the orders for appropriate volumes as well as to the maintenance of the gross profit margin at 50.7% (51.0% for the same period of the previous fiscal year) through improvements in sales efficiency at directly managed stores. Furthermore, selling, general and administrative expenses of ¥17,710 million, which includes the portion deferred to the second half of the fiscal year that was included as part of the ¥19,158 million anticipated for the first half of the fiscal year, contributed to the increase in profit year on year.

Ordinary profit was ¥7,452 million (up 94.3% year on year), mainly due to the strong performance of YOUNGONE OUTDOOR Corporation, an affiliate in South Korea accounted for under the equity method, in addition to an increase in operating profit. Note that in addition to the South Korean economy's faster recovery from the COVID-19 pandemic than the Japanese economy, the mainstay brand, THE NORTH FACE, has enhanced the product line-up in backpacks, etc. This has eliminated the previous tendency for sales to be biased towards a single product, and improved the balance of the sales structure. As a result, the ability to acquire a broad customer base and the associated expansion of the sales channels are factors that have contributed to good performance.

Profit attributable to owners of parent also reached ¥5,844 million (up 122.0% year on year), and both ordinary profit and profit attributable to owners of parent reached new record highs for the second quarter.

Consequently, for the six months ended September 30, 2022, net sales were ¥45,309 million (up 18.6% year on year), operating profit was ¥5,277 million (up 60.0% year on year), ordinary profit was ¥7,452 million (up 94.3% year on year), and profit attributable to owners of parent was ¥5,844 million (up 122.0% year on year).

(2) Explanation of financial position

Total assets at the end of the period under review amounted to ¥98,248 million, down ¥836 million from the end of the previous fiscal year. The main factors were a ¥9,998 million decrease in cash and deposits, despite a ¥3,334 million increase in investment securities, a ¥2,468 million increase in notes and accounts receivable - trade, and contract assets, and a ¥2,373 million increase in merchandise and finished goods.

Total liabilities at the end of the period under review amounted to ¥31,907 million, down ¥3,765 million from the end of the previous fiscal year. The main factors were a ¥4,019 million increase in notes and accounts payable - trade, offset by a ¥2,298 million decrease in electronically recorded obligations - operating, a ¥2,183 million decrease in income taxes payable and a ¥1,074 million decrease in long-term borrowings.

Total net assets at the end of the period under review amounted to ¥66,340 million, up ¥2,929 million from the end of the previous fiscal year. This was mainly due to a ¥2,802 million increase in retained earnings and a ¥1,706 million increase in foreign currency translation adjustment, despite a decrease caused by a ¥1,831 million increase in treasury shares. As a result, equity ratio was 67.4%.

(Analysis of cash flows)

Cash and cash equivalents at the end of the period under review amounted to ¥14,877 million, down ¥10,158 million from the end of the previous fiscal year. The status of each cash flow and their factors are as follows.

(Cash flow from operating activities)

Cash flow used as a result of operating activities amounted to ¥3,430 million (down ¥258 million in expenses compared with the same period of the previous fiscal year). This was mainly due to ¥3,273 million of income taxes paid, a ¥2,695 million increase in inventories, ¥2,080 million of share of profit of entities accounted for using equity method and a ¥1,701 million increase in trade receivables, despite ¥7,433 million in profit before income tax.

(Cash flow from investing activities)

Cash flow used as a result of investing activities amounted to ¥1,112 million (up ¥741 million in expenses compared with the same period of the previous fiscal year). This was mainly due to expenses of ¥919 million for the purchase of property, plant and equipment and intangible assets.

(Cash flow from financing activities)

Cash flow used as a result of financing activities amounted to ¥5,811 million (up ¥1,565 million in expenses compared with the same period of the previous fiscal year). This was mainly due to ¥3,041 million in dividends paid, ¥1,428 million in purchase of treasury shares, and ¥1,074 million in repayments of long-term borrowings.

(3) Explanation of consolidated financial results forecasts and other forward-looking statements

Regarding our full-year consolidated financial results forecasts for the fiscal year ending March 31, 2023, we have made no changes from our financial results forecasts announced on May 13.

Since disclosing our initial projections, we have strived towards our initially set targets, despite changes in the underlying assumptions including changes in external factors and trends in COVID-19.

We will promptly disclose any revisions to our full-year consolidated financial results forecasts where deemed necessary, after reviewing the trends in our third quarter results, which have a large degree of impact.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly consolidated balance sheet

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	26,406	16,407
Notes and accounts receivable - trade, and contract assets	11,032	13,500
Electronically recorded monetary claims - operating	2,797	2,035
Merchandise and finished goods	12,554	14,927
Work in process	326	566
Raw materials and supplies	542	636
Other	1,841	3,453
Allowance for doubtful accounts	(13)	(13)
Total current assets	55,486	51,515
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,718	2,226
Land	4,691	4,691
Other, net	2,231	1,689
Total property, plant and equipment	8,642	8,607
Intangible assets		
Trademark right	1,490	1,345
Other	1,602	1,809
Total intangible assets	3,093	3,154
Investments and other assets		
Investment securities	24,060	27,395
Guarantee deposits	2,708	2,729
Other	5,282	5,035
Allowance for doubtful accounts	(188)	(188)
Total investments and other assets	31,862	34,971
Total non-current assets	43,598	46,733
Total assets	99,085	98,248

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	4,904	8,924
Electronically recorded obligations - operating	12,223	9,924
Current portion of long-term borrowings	1,437	928
Income taxes payable	3,112	929
Provision for bonuses	1,648	942
Other	7,060	5,722
Total current liabilities	30,386	27,372
Non-current liabilities		
Long-term borrowings	2,751	2,185
Retirement benefit liability	217	195
Provision for share awards	947	993
Other	1,371	1,160
Total non-current liabilities	5,287	4,535
Total liabilities	35,673	31,907
Net assets		
Shareholders' equity		
Share capital	7,079	7,079
Capital surplus	276	297
Retained earnings	61,356	64,158
Treasury shares	(5,377)	(7,209)
Total shareholders' equity	63,335	64,326
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	480	546
Deferred gains or losses on hedges	98	203
Foreign currency translation adjustment	196	1,902
Remeasurements of defined benefit plans	(830)	(750)
Total accumulated other comprehensive income	(56)	1,901
Non-controlling interests	132	112
Total net assets	63,411	66,340
Total liabilities and net assets	99,085	98,248

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income

Quarterly consolidated statement of income (cumulative)

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Net sales	38,208	45,309
Cost of sales	18,708	22,321
Gross profit	19,500	22,987
Selling, general and administrative expenses	16,200	17,710
Operating profit	3,299	5,277
Non-operating income		
Interest income	4	4
Dividend income	36	41
Share of profit of entities accounted for using equity method	540	2,080
Other	60	137
Total non-operating income	641	2,264
Non-operating expenses		
Interest expenses	46	22
Loss on sale of notes receivable - trade	11	4
Loss on cancellation of insurance policies	17	8
Other	29	53
Total non-operating expenses	105	89
Ordinary profit	3,835	7,452
Extraordinary income		
Gain on sale of non-current assets	0	–
Gain on sale of investment securities	14	5
Gain on liquidation of subsidiaries	–	80
Total extraordinary income	15	85
Extraordinary losses		
Loss on disposal of non-current assets	0	91
Loss on store closings	1	7
Other	0	6
Total extraordinary losses	2	104
Profit before income taxes	3,848	7,433
Income taxes - current	1,174	1,165
Income taxes - deferred	8	398
Total income taxes	1,183	1,564
Profit	2,665	5,868
Profit attributable to non-controlling interests	32	24
Profit attributable to owners of parent	2,632	5,844

Quarterly consolidated statement of comprehensive income (cumulative)

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Profit	2,665	5,868
Other comprehensive income		
Valuation difference on available-for-sale securities	(155)	66
Deferred gains or losses on hedges	(10)	18
Foreign currency translation adjustment	191	252
Remeasurements of defined benefit plans, net of tax	189	84
Share of other comprehensive income of entities accounted for using equity method	499	1,536
Total other comprehensive income	713	1,958
Comprehensive income	3,378	7,826
Comprehensive income attributable to:		
Owners of parent	3,345	7,802
Non-controlling interests	32	24

(3) Quarterly consolidated statement of cash flows

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Cash flows from operating activities		
Profit before income taxes	3,848	7,433
Depreciation	788	891
Decrease (increase) in retirement benefit asset	(244)	(202)
Increase (decrease) in retirement benefit liability	(2)	(21)
Increase (decrease) in allowance for doubtful accounts	36	(1)
Interest and dividend income	(40)	(46)
Interest expenses	46	22
Share of loss (profit) of entities accounted for using equity method	(540)	(2,080)
Loss (gain) on disposal of non-current assets	0	91
Decrease (increase) in trade receivables	(1,344)	(1,701)
Decrease (increase) in inventories	(2,082)	(2,695)
Increase (decrease) in trade payables	986	1,715
Decrease (increase) in accounts receivable - other	732	(1,610)
Increase (decrease) in accounts payable - other	(280)	(352)
Increase (decrease) in accrued consumption taxes	(1,416)	(1,102)
Decrease (increase) in prepaid expenses	(98)	(328)
Other, net	130	(630)
Subtotal	520	(619)
Interest and dividends received	40	484
Interest paid	(44)	(22)
Income taxes paid	(4,206)	(3,273)
Net cash provided by (used in) operating activities	(3,689)	(3,430)
Cash flows from investing activities		
Payments into time deposits	(152)	(46)
Proceeds from withdrawal of time deposits	157	30
Purchase of property, plant and equipment and intangible assets	(528)	(919)
Purchase of investment securities	–	(200)
Proceeds from sale of investment securities	34	8
Payments of guarantee deposits	(93)	(73)
Proceeds from refund of guarantee deposits	10	77
Other, net	200	12
Net cash provided by (used in) investing activities	(370)	(1,112)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(172)	–
Proceeds from long-term borrowings	643	–
Repayments of long-term borrowings	(1,260)	(1,074)
Repayments of lease liabilities	(294)	(312)
Purchase of treasury shares	(642)	(1,428)
Dividends paid	(2,581)	(3,041)
Other, net	61	46
Net cash provided by (used in) financing activities	(4,246)	(5,811)
Effect of exchange rate change on cash and cash equivalents	86	195
Net increase (decrease) in cash and cash equivalents	(8,219)	(10,158)
Cash and cash equivalents at beginning of period	20,287	25,036
Cash and cash equivalents at end of period	12,067	14,877

(4) Notes regarding quarterly consolidated financial statements

(Notes regarding assumptions of going concern)

Not applicable.

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

At the Board of Directors meeting held on February 8, 2022, the Company resolved to acquire treasury shares in accordance with the provisions of Article 459, paragraph 1 of the Companies Act and Article 36 of its Articles of Incorporation, and by June 30, 2022, it has completed the acquisition of 293,000 shares of treasury shares. As a result, in the six months ended September 30, 2022, treasury shares increased by ¥1,831 million.

(Changes in accounting policies)

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021) from the beginning of the first quarter under review, and it has applied the new accounting policy provided for by the Implementation Guidance on Accounting Standard for Fair Value Measurement prospectively in accordance with the transitional measures provided for in paragraph 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement. The application has no impact on the quarterly consolidated financial statements.

(Segment information)

Six months ended September 30, 2021 (April 1, 2021 to September 30, 2021) and six months ended September 30, 2022 (April 1, 2022 to September 30, 2022)

This information is omitted because the Group operates a single segment of sporting goods-related business.