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October 12, 2023

Summary of Consolidated Financial Results for the Six Months Ended August 31, 2023 (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 Hirotaka Kunikyo
 Inquiries: General Manager of Accounting and Finance Department Yoshiari Sakano TEL 03-6430-3405
 Scheduled date to file Quarterly Securities Report: October 13, 2023
 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, 2023 (from March 1, 2023 to August 31, 2023)

(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, 2023	16,909	7.4	639	126.2	621	194.4	188	110.1
Six months ended August 31, 2022	15,742	16.3	282	–	211	–	89	–

Note: Comprehensive income Six months ended August 31, 2023: 188 million yen (128.8%)
 Six months ended August 31, 2022: 82 million yen (–%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended August 31, 2023	19.05	–
Six months ended August 31, 2022	8.86	–

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, 2023	13,354	4,976	37.3
As of February 28, 2023	13,438	5,382	40.1

Reference: Shareholders' equity As of August 31, 2023: 4,976 million yen As of February 28, 2023: 5,382 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, 2023	–	0.00	–	31.00	31.00
Year ending February 29, 2024	–	0.00			
Year ending February 29, 2024 (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 29, 2024 (from March 1, 2023 to February 29, 2024)

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	36,227	3.5	1,800	5.6	1,772	9.1	1,075	29.5	109.15

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

4. Notes

- (1) Changes in significant subsidiaries during the six months ended August 31, 2023
(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, 2023	10,122,830 shares	As of February 28, 2023	10,122,830 shares
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Number of treasury shares at the end of the period

As of August 31, 2023	305,122 shares	As of February 28, 2023	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, 2023	9,897,274 shares	Six months ended August 31, 2022	10,122,708 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 2 of the attached material.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of results of operations

Looking at Japan's economy during the first six months of the current fiscal year, the outlook has remained uncertain due to factors such as increased resource, energy and raw material prices due to the invasion of Ukraine by Russia, etc., tighter monetary policy throughout the world with the aim of controlling high levels of inflation, and the impact of the yen's fall, increases in prices of goods, etc. on Japan's economy despite the normalization of social and economic activities due to the legal classification of the new coronavirus (COVID-19) infection transitioning to a "class 5 disease."

In the apparel industry, to which we belong, overseas supply chain trends for product procurement have steadily recovered as there have been signs of a recovery trend at facilities such as department stores and shopping centers due to "demand for going out" increasing as a result of the normalization of social activities, but negative factors for the business environment continue to be seen here and there due to factors such as increases in prices of daily necessities, increased raw material prices and continued yen depreciation.

In such a business environment, the Group has experienced an increase in customers visiting physical outlets including department stores, shopping centers, and outlet malls. As a result, sales were strong in the department store channel, shopping center channel, and outlet channel. Furthermore, recently, sales have been strong for summer wear and clothing for going out due to the temperature remaining high and the increase in events for children. Meanwhile, sales in the EC channel decreased year on year due to the reversal of the stay-at-home demand experienced during the COVID-19 pandemic. However, through appropriate inventory allocation to our own website and the websites of other companies, independent EC promotions, and the introduction of dedicated EC products, sales began to recover steadily in May. We are also working to minimize impacts on our financial results from surging purchase prices caused by the depreciation of the yen and high raw materials prices through creative approaches to our specifications, designs, and sale prices.

Looking at the status of store openings and closings during the first six months of the current fiscal year, we opened nine stores in department stores, three stores in shopping centers, and one outlet store, and closed 11 stores in department stores, one store in a shopping center and two stores in LOVST photo studios. As in the previous fiscal year, we carefully select regions and commercial zones in our store opening plan.

As a result of the above, in the first six months of the current fiscal year we recorded net sales of 16,909 million yen (7.4% increase year-on-year), operating profit of 639 million yen (126.2% increase year-on-year), ordinary profit of 621 million yen (194.4% increase year-on-year), and profit attributable to owners of parent of 188 million yen (110.1% increase year-on-year).

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

(2) Explanation of financial position

Assets

Assets at the end of the second quarter decreased by 83 million yen from the end of the previous fiscal year to 13,354 million yen. This was mainly due to an increase of 801 million yen in merchandise, as well as decreases of 658 million yen in cash and deposits and 273 million yen in goodwill.

Liabilities

Liabilities at the end of the second quarter increased by 322 million yen from the end of the previous fiscal year to 8,378 million yen. This was mainly due to increases of 931 million yen in accounts payable - trade and 170 million yen in provision for bonuses, as well as decreases of 358 million yen in long-term borrowings, 83 million yen in lease liabilities, 43 million yen in contract liabilities, and 286 million yen in accrued consumption taxes.

Net Assets

Total net assets at the end of the second quarter decreased by 406 million yen from the end of the previous fiscal year to 4,976 million yen. This was mainly due to the recording of 188 million yen in profit attributable to owners of parent, the payment of 313 million yen in dividends, and an increase in treasury shares of 280 million yen.

(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, 2023. 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, 2023	As of August 31, 2023
Assets		
Current assets		
Cash and deposits	3,047,482	2,388,932
Notes and accounts receivable - trade	2,221,445	2,316,567
Merchandise	2,478,474	3,279,543
Prepaid expenses	110,410	136,176
Other	73,626	60,602
Allowance for doubtful accounts	(1,084)	(1,136)
Total current assets	7,930,356	8,180,686
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,365,493	1,377,102
Accumulated depreciation	(1,181,381)	(1,205,980)
Buildings and structures, net	184,111	171,121
Tools, furniture and fixtures	110,672	111,259
Accumulated depreciation	(84,220)	(89,072)
Tools, furniture and fixtures, net	26,452	22,187
Land	5,940	5,940
Leased assets	2,944,608	3,008,852
Accumulated depreciation	(2,348,313)	(2,470,477)
Leased assets, net	596,294	538,374
Total property, plant and equipment	812,798	737,623
Intangible assets		
Goodwill	2,637,481	2,363,848
Software	189,267	213,242
Leased assets	31,195	15,683
Other	446	406
Total intangible assets	2,858,390	2,593,181
Investments and other assets		
Investment securities	9,947	9,947
Distressed receivables	111,000	101,217
Long-term prepaid expenses	9,734	26,505
Guarantee deposits	1,148,048	1,127,715
Deferred tax assets	439,012	447,969
Other	229,776	230,772
Allowance for doubtful accounts	(111,000)	(101,217)
Total investments and other assets	1,836,519	1,842,911
Total non-current assets	5,507,708	5,173,716
Total assets	13,438,065	13,354,403

(Thousands of yen)

	As of February 28, 2023	As of August 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	1,874,019	2,805,413
Current portion of long-term borrowings	726,344	717,404
Lease liabilities	270,034	235,241
Accounts payable - other	538,953	521,275
Accrued expenses	540,045	567,731
Income taxes payable	347,893	331,032
Accrued consumption taxes	302,069	15,127
Contract liabilities	117,012	73,621
Provision for bonuses	117,186	287,807
Provision for point card certificates	9,613	11,987
Other	53,156	50,429
Total current liabilities	4,896,329	5,617,072
Non-current liabilities		
Long-term borrowings	2,404,637	2,045,935
Lease liabilities	445,511	396,669
Retirement benefit liability	303,857	313,389
Other	5,155	5,155
Total non-current liabilities	3,159,161	2,761,149
Total liabilities	8,055,490	8,378,221
Net assets		
Shareholders' equity		
Share capital	255,099	255,099
Capital surplus	1,860,774	1,860,774
Retained earnings	3,267,507	3,142,247
Treasury shares	(132)	(280,732)
Total shareholders' equity	5,383,248	4,977,388
Accumulated other comprehensive income		
Remeasurements of defined benefit plans	(674)	(1,207)
Total accumulated other comprehensive income	(674)	(1,207)
Total net assets	5,382,574	4,976,181
Total liabilities and net assets	13,438,065	13,354,403

(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, 2022	Six months ended August 31, 2023
Net sales	15,742,131	16,909,800
Cost of sales	6,548,046	6,791,891
Gross profit	9,194,084	10,117,909
Selling, general and administrative expenses	8,911,405	9,478,605
Operating profit	282,678	639,303
Non-operating income		
Interest and dividend income	5	13
Foreign exchange gains	–	10,094
Surrender value of insurance policies	6,181	5,147
Purchase discounts	667	752
Rental income	9,332	5,380
Miscellaneous income	2,748	3,913
Total non-operating income	18,935	25,302
Non-operating expenses		
Interest expenses	28,273	22,958
Finance fee	35,446	3,512
Foreign exchange losses	6,430	–
Commission expenses	10,000	–
Rental expenses	7,557	4,338
Commission for purchase of treasury shares	–	1,403
Miscellaneous losses	2,890	11,243
Total non-operating expenses	90,598	43,455
Ordinary profit	211,016	621,150
Extraordinary income		
Grant income	18,064	–
Total extraordinary income	18,064	–
Extraordinary losses		
Loss on retirement of non-current assets	687	1,921
Amortization of goodwill	–	166,165
Total extraordinary losses	687	168,087
Profit before income taxes	228,392	453,063
Income taxes - current	81,966	273,241
Income taxes - deferred	56,689	(8,721)
Total income taxes	138,655	264,519
Profit	89,737	188,543
Profit attributable to owners of parent	89,737	188,543

Consolidated statements of comprehensive income (cumulative)

(Thousands of yen)

	Six months ended August 31, 2022	Six months ended August 31, 2023
Profit	89,737	188,543
Other comprehensive income		
Remeasurements of defined benefit plans, net of tax	(7,569)	(533)
Total other comprehensive income	(7,569)	(533)
Comprehensive income	82,168	188,010
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	82,168	188,010
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated statements of cash flows

(Thousands of yen)

	Six months ended August 31, 2022	Six months ended August 31, 2023
Cash flows from operating activities		
Profit before income taxes	228,392	453,063
Depreciation	257,937	226,126
Amortization of guarantee deposits	41,296	35,974
Amortization of goodwill	115,283	273,632
Subsidy income	(18,064)	–
Loss on retirement of non-current assets	687	1,921
Increase (decrease) in allowance for doubtful accounts	(629)	(9,731)
Increase (decrease) in provision for bonuses	105,467	170,620
Increase (decrease) in provision for point card certificates	(622)	2,374
Increase (decrease) in retirement benefit liability	(3,223)	8,763
Interest and dividend income	(5)	(13)
Interest expenses	28,273	22,958
Decrease (increase) in trade receivables	206,496	(100,019)
Decrease (increase) in inventories	31,932	(801,069)
Increase (decrease) in trade payables	(192,750)	931,394
Increase (decrease) in accounts payable - other	(286,317)	(26,495)
Increase (decrease) in accrued expenses	493	27,665
Increase (decrease) in accrued consumption taxes	(150,923)	(286,942)
Other, net	(65,530)	(28,551)
Subtotal	298,196	901,674
Interest and dividends received	5	13
Interest paid	(28,087)	(22,915)
Income taxes paid	(334,133)	(290,792)
Subsidies received	18,064	–
Net cash provided by (used in) operating activities	(45,954)	587,979
Cash flows from investing activities		
Purchase of property, plant and equipment	(19,987)	(29,494)
Purchase of intangible assets	(10,648)	(57,080)
Purchase of insurance funds	(13,981)	(14,174)
Proceeds from maturity of insurance funds	9,396	7,913
Payments of guarantee deposits	(18,917)	(7,001)
Proceeds from refund of guarantee deposits	52,718	7,673
Other, net	(49,202)	(70,957)
Net cash provided by (used in) investing activities	(50,622)	(163,120)
Cash flows from financing activities		
Proceeds from long-term borrowings	3,100,000	–
Repayments of long-term borrowings	(3,413,726)	(367,642)
Repayments of lease liabilities	(180,407)	(147,878)
Purchase of treasury shares	–	(280,600)
Dividends paid	(313,916)	(313,628)
Net cash provided by (used in) financing activities	(808,050)	(1,109,749)
Effect of exchange rate change on cash and cash equivalents	–	1,378
Net increase (decrease) in cash and cash equivalents	(904,627)	(683,511)
Cash and cash equivalents at beginning of period	2,724,211	2,943,532
Cash and cash equivalents at end of period	1,819,583	2,260,021

(4) Notes concerning quarterly consolidated financial statements

(Going concern assumptions)

Not applicable.

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

Based on a resolution by the Board of Directors at a meeting held on April 17, 2023, the Company purchased 305,000 shares of treasury shares. As a result of this purchase, the value of our treasury shares in the first six months of the current fiscal year increased by 280,600 thousand yen, totaling 280,732 thousand yen at the end of the second quarter of the current fiscal year.

(Changes in accounting policies)

We started to apply the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (Accounting Standards Board of Japan ASBJ Guidance No. 31, June 17, 2021) from the beginning of the first quarter of the current fiscal year. According to the transitional handling provided in Article 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement, we have decided to apply the new accounting policy provided in the guidance into the future.

Furthermore, there is no impact on the quarterly consolidated financial statements resulting from the application of the Implementation Guidance on Accounting Standard for Fair Value Measurement.