

Consolidated Financial Results for the Nine Months Ended November 30, 2021 [Japanese GAAP]



January 7, 2022

Company name: WELCIA HOLDINGS CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 3141

URL: <https://www.welcia.co.jp/>

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Scheduled date of filing quarterly securities report: January 7, 2022

Scheduled date of commencing dividend payments: –

Availability of supplementary briefing material on quarterly financial results: Available

Schedule of quarterly financial results briefing session: Scheduled (for institutional investors)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Nine Months Ended November 30, 2021 (March 1, 2021 - November 30, 2021)

(1) Consolidated Operating Results (cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended								
November 30, 2021	756,403	6.5	29,815	(9.6)	32,943	(6.1)	20,208	(6.8)
November 30, 2020	710,408	10.8	32,971	34.1	35,095	32.3	21,692	36.2

(Note) Comprehensive income: Nine months ended November 30, 2021: ¥20,184 million [(7.6)%]

Nine months ended November 30, 2020: ¥21,842 million [37.2%]

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended		
November 30, 2021	97.04	96.96
November 30, 2020	103.90	103.80

(Note) A two-for-one stock split of the Company's common stock was executed on September 1, 2020. "Net income per share" and "diluted net income per share" are calculated assuming that the stock split was executed at the beginning of the fiscal year ended February 28, 2021.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of November 30, 2021	436,913	196,161	44.6
As of February 28, 2021	435,685	180,351	41.2

(Reference) Equity: As of November 30, 2021: ¥194,991 million

As of February 28, 2021: ¥179,490 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended February 28, 2021	—	27.00	—	15.00	—
Fiscal year ending February 28, 2022	—	15.00	—		
Fiscal year ending February 28, 2022 (Forecast)				15.00	30.00

(Notes) 1. Revision to the forecast for dividends announced most recently: None

2. A two-for-one stock split of the Company's common stock was executed on September 1, 2020. The figure for the "2nd quarter-end" of the fiscal year ended February 28, 2021 is the actual dividend amount paid before the stock split was executed. The annual dividend for the fiscal year ended February 28, 2021 is not presented, because it is impossible to simply aggregate the amounts for each quarter-end due to the stock split. In pre-split terms, the year-end dividend would come to ¥30, making the annual dividend for the year ¥57.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2022 (March 1, 2021 - February 28, 2022)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	1,021,000	7.5	44,300	3.1	47,600	3.9	27,000	(3.6)	129.79

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

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review: None
(Changes in specified subsidiaries resulting in changes in scope of consolidation):
Newly included: – (), Excluded: – ()
- (2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
- 1) Changes in accounting policies due to the revision of accounting standards: None
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Total number of issued and outstanding shares (common shares)
- 1) Total number of issued and outstanding shares at the end of the period (including treasury stock):

November 30, 2021:	209,633,676 shares
February 28, 2021:	209,633,676 shares
 - 2) Total number of treasury stock at the end of the period:

November 30, 2021:	1,181,120 shares
February 28, 2021:	1,606,772 shares
 - 3) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year):

Nine months ended November 30, 2021:	208,256,343 shares
Nine months ended November 30, 2020:	208,790,627 shares

- (Notes) 1. The number of shares of the Company held in the Employees' Stock Ownership ESOP Trust (February 28, 2021: 1,050,200 shares; November 30, 2021: 728,100 shares) and the number of shares of the Company held in the Directors' Remuneration BIP Trust (February 28, 2021: 502,238 shares; November 30, 2021: 440,442 shares) were included in the total number of treasury stock at the end of the period. The number of shares of the Company held in the Employees' Stock Ownership ESOP Trust and the Directors' Remuneration BIP Trust, was included in the number of treasury stock, which was to be deducted from the calculation of the average number of shares outstanding during the period (November 30, 2020: 787,822 shares; November 30, 2021: 1,356,609 shares).
2. A two-for-one stock split of the Company's common stock was executed on September 1, 2020. The figures for the "total number of issued and outstanding shares (common shares)" are calculated assuming that the stock split was executed at the beginning of the fiscal year ended February 28, 2021.

* These quarterly consolidated financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* 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 available to the Company and certain assumptions deemed reasonable, and the Company does not promise the achievement of those forecasts. Actual results may differ significantly from these forecasts due to a wide range of factors. For the assumptions underlying the forecasts and the notes on the use of the forecasts, please refer to "1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information" on page 4 of the attached document.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the nine months ended November 30, 2021 (from March 1, 2021 to November 30, 2021), all the state of emergency and semi-emergency coronavirus measures issued to 27 prefectures due to the impact of the coronavirus disease (COVID-19) were lifted on September 30, 2021, and signs of a recovery resulting from gradually lifting the request for restriction on movement have been expected. However, the signs have been weak, and the Japanese economy continued to face difficulties. In addition, although the number of new cases of infection confirmed in Japan remains low, concerns associated with a potential resurgence of COVID-19 by a new variant have not been dispelled and uncertainty continues to prevail.

In the drugstore industry, the primary market for the Group's business, competition intensified, as the industry underwent reorganization even among the major players and entrants from other industries entered the market. Moreover, while demand continued for products to prevent infectious diseases as well as for foods, alcohol, and other products due to the ongoing restriction on movement to avoid the risk of infection, impacts of the restriction such as fewer people catching colds as a result of regularly wearing masks and washing their hands, and a drop in demand for cosmetics persist. Meanwhile, in the dispensing market, there are signs that the number of prescriptions will recover due to fewer people refraining from visiting doctors.

Under such circumstances, the Group made efforts to operate its business to provide products and services, while continuing to implement measures to prevent COVID-19 infections and thorough hygiene management. In terms of the sale of goods, the Cosmetics segment has not recovered the levels prior to COVID-19, while the Food Products segment reported a reactionary decline from a spike in special demand in the previous fiscal year. In terms of dispensing pharmacy sales, the number of prescriptions handled increased due primarily to the increase in the number of stores with dispensing pharmacies (1,797 stores as of November 30, 2021), despite the effects of the NHI drug price revision. Additionally, the Group managed to optimize selling, general and administrative expenses, mainly in terms of its labor costs by thoroughly managing store man-hours for optimization and improving store operational efficiency through the promotion of automatic ordering, while seeking to properly place pharmacists by promoting the addition of dispensing pharmacies to existing stores.

The Group also made efforts toward the improvement of business efficiency by carrying out an absorption-type merger, effective March 1, 2021, whereby Neo Pharma Co., Ltd. and Summit Co., Ltd., wholly-owned subsidiaries engaged in the dispensing business in Shikoku area mainly in Ehime Prefecture, were absorbed and WELCIA YAKKYOKU Co., Ltd., a consolidated subsidiary became the surviving company.

As for store openings and closures, the Group as a whole opened 115 stores and closed 21 stores, for a total of 2,312 stores Group-wide as of November 30, 2021. As of December 1, 2021, the Group converted Kabushiki Kaisha Pupule Himawari (132 stores), which operates stores mainly in Hiroshima Prefecture, into a subsidiary through the acquisition of shares.

(Unit: No. of Stores)

	No. of stores as of February 28, 2021	Increase resulting from transfer of business	Increase/decrease resulting from mergers	Openings	Closures	No. of stores as of November 30, 2021
WELCIA YAKKYOKU (Note 1)	1,899	1	13	106	13	2,006
Marudai Sakurai Pharmacy	87	–	–	4	1	90
SHIMIZU YAKUHIN	62	–	–	3	2	63
Marue Drug	58	–	–	–	1	57
YODOYA	25	–	–	–	1	24
Kanamitsu Yakuhin	28	–	–	–	2	26
MASAYA	35	–	–	1	–	36
Neo Pharma (Note 2)	10	–	(10)	–	–	–
Summit (Note 3)	3	–	(3)	–	–	–
Total in Japan	2,207	1	–	114	20	2,302
Welcia-BHG (Singapore)	10	–	–	1	1	10
Total	2,217	1	–	115	21	2,312

- (Notes) 1. Effective April 1, 2021, a store of the drugstore business operated by Joshin Denki was transferred to WELCIA YAKKYOKU through a transfer of business.
2. The number of stores of WELCIA YAKKYOKU as of November 30, 2021, includes the stores of Neo Pharma, due to WELCIA YAKKYOKU acquiring Neo Pharma through a merger by absorption, effective March 1, 2021.
3. The number of stores of WELCIA YAKKYOKU as of November 30, 2021, includes the stores of Summit, due to WELCIA YAKKYOKU acquiring Summit through a merger by absorption, effective March 1, 2021.
4. Of the number of stores as of November 30, 2021, 1,673 stores of WELCIA YAKKYOKU, 33 stores of Marudai Sakurai Pharmacy, 38 stores of SHIMIZU YAKUHIN, 21 stores of Marue Drug, eight stores of YODOYA, 19 stores of Kanamitsu Yakuhin, and five stores of Welcia-BHG (Singapore) have dispensing pharmacies for a total of 1,797 stores with dispensing pharmacies. 1,603 stores of WELCIA YAKKYOKU, 46 stores of Marudai Sakurai Pharmacy, 56 stores of SHIMIZU YAKUHIN, 14 stores of Marue Drug, 13 stores of YODOYA, and nine stores of Kanamitsu Yakuhin offer late-night services for a total of 1,741 stores offering late-night services.

Sales by category were as indicated below.

Category	Sales (million yen)	YoY change (%)
OTC products, healthcare/nursing care products, baby products, and health food	150,016	102.3
Dispensing	147,415	115.1
Cosmetics	118,096	105.1
Household goods	109,554	104.6
Food products	170,593	104.5
Others	60,727	109.6
Total	756,403	106.5

As a result of the above, the consolidated operating results for the nine months ended November 30, 2021, were ¥756,403 million in net sales (an increase of 6.5% year-on-year), ¥29,815 million in operating income (a decrease of 9.6% year-on-year), ¥32,943 million in ordinary income (a decrease of 6.1% year-on-year), and ¥20,208 million in net income attributable to owners of parent (a decrease of 6.8% year-on-year).

(2) Explanation of Financial Position

(Assets)

Total assets as of November 30, 2021 increased by ¥1,228 million compared to the end of the previous fiscal year to ¥436,913 million. This was primarily due to the increases of ¥11,606 million in merchandise, and ¥10,095 million in buildings and structures, net, despite a decrease of ¥24,734 million in cash and deposits.

(Liabilities)

Total liabilities as of November 30, 2021 decreased by ¥14,581 million compared to the end of the previous fiscal year to ¥240,752 million. This was primarily due to the decreases of ¥17,288 million in accounts payable - trade and ¥3,611 million in income taxes payable, despite the increases of ¥5,166 million in long-term loans payable and ¥1,641 million in lease obligations.

(Net assets)

Net assets as of November 30, 2021 increased by ¥15,809 million compared to the end of the previous fiscal year to ¥196,161 million. This was primarily due to the recording of net income attributable to owners of parent of ¥20,208 million, despite a decrease of ¥6,288 million in retained earnings due to the dividends from surplus.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

There has been no change from the consolidated financial results forecast announced in the “Consolidated Financial Results for the Fiscal Year Ended February 28, 2021” (on April 7, 2021).

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of February 28, 2021	As of November 30, 2021
Assets		
Current assets		
Cash and deposits	51,918	27,184
Accounts receivable - trade	44,821	48,462
Merchandise	103,283	114,890
Other	15,867	13,071
Allowance for doubtful accounts	(1)	(1)
Total current assets	215,890	203,606
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	84,094	94,190
Land	14,743	14,802
Leased assets, net	42,081	45,240
Other, net	7,309	7,552
Total property, plant and equipment	148,229	161,786
Intangible assets		
Goodwill	16,899	15,572
Other	2,509	2,767
Total intangible assets	19,409	18,339
Investments and other assets		
Guarantee deposits	37,017	38,832
Other	15,161	14,371
Allowance for doubtful accounts	(23)	(22)
Total investments and other assets	52,155	53,181
Total noncurrent assets	219,794	233,306
Total assets	435,685	436,913

(Million yen)

	As of February 28, 2021	As of November 30, 2021
Liabilities		
Current liabilities		
Accounts payable - trade	150,388	133,100
Short-term loans payable	6,394	7,648
Lease obligations	7,528	8,291
Accounts payable - other	13,287	10,512
Income taxes payable	7,757	4,145
Provision for bonuses	4,653	1,819
Provision for bonuses for directors (and other officers)	142	47
Provision for point card certificates	26	45
Other	12,868	14,968
Total current liabilities	203,049	180,579
Noncurrent liabilities		
Long-term loans payable	9,222	14,389
Lease obligations	24,406	26,047
Asset retirement obligations	9,955	10,550
Retirement benefits-related liabilities	5,281	5,887
Allowance for executive stock benefit	717	690
Other	2,700	2,608
Total noncurrent liabilities	52,284	60,172
Total liabilities	255,333	240,752
Net assets		
Shareholders' equity		
Capital stock	7,736	7,736
Capital surplus	51,672	51,670
Retained earnings	125,866	139,780
Treasury stock	(5,855)	(4,284)
Total shareholders' equity	179,419	194,902
Accumulated other comprehensive income		
Other valuation difference on available-for-sale securities	357	305
Foreign currency translation adjustment	3	26
Accumulated adjustment related to retirement benefits	(289)	(242)
Total accumulated other comprehensive income	70	89
Subscription rights to shares	230	183
Minority interests	630	986
Total net assets	180,351	196,161
Total liabilities and net assets	435,685	436,913

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Nine Months Ended November 30

(Million yen)

	For the nine months ended November 30, 2020	For the nine months ended November 30, 2021
Net sales	710,408	756,403
Cost of sales	491,757	522,782
Gross profit	218,650	233,620
Selling, general and administrative expenses	185,679	203,804
Operating income	32,971	29,815
Non-operating income		
Interest and dividend income	9	7
Share of profit of entities accounted for using equity method	5	–
Real estate rent	726	719
Sponsorship money income	222	252
Subsidy income	–	979
Other	1,628	1,768
Total non-operating income	2,592	3,728
Non-operating expenses		
Interest expenses	322	335
Share of loss of entities accounted for using equity method	–	6
Rent cost of real estate	118	123
Other	27	135
Total non-operating expenses	468	600
Ordinary income	35,095	32,943
Extraordinary income		
Gain on step acquisitions	169	–
Gain on sale of noncurrent assets	102	6
Other	87	5
Total extraordinary income	358	12
Extraordinary loss		
Loss on sale of noncurrent assets	10	1
Loss on retirement of noncurrent assets	72	190
Impairment loss	358	177
COVID-related loss	460	11
Other	225	49
Total extraordinary losses	1,127	430
Net income before income taxes and minority interests	34,326	32,524
Income taxes - current	12,389	11,640
Income taxes - deferred	282	735
Total income taxes	12,672	12,375
Net income	21,654	20,148
Loss attributable to non-controlling interests	(38)	(59)
Net income attributable to owners of parent	21,692	20,208

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended November 30

(Million yen)

	For the nine months ended November 30, 2020	For the nine months ended November 30, 2021
Net income	21,654	20,148
Other comprehensive income		
Other valuation difference on available-for-sale securities	125	(51)
Foreign currency translation adjustment	25	45
Remeasurements of defined benefit plans	37	41
Total other comprehensive income	187	35
Comprehensive income	21,842	20,184
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	21,886	20,222
Comprehensive income attributable to non-controlling interests	(44)	(37)

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in shareholders' equity)

Not applicable.

(Significant subsequent events)

(Business combination by acquisition)

The Company resolved, at the Board of Directors meeting held on September 20, 2021, to make Kabushiki Kaisha Pupule Himawari a subsidiary by acquiring its shares. The Company acquired its shares on December 1, 2021.

1. Overview of business combination

(1) Name and business of the acquired company

Name: Kabushiki Kaisha Pupule Himawari

Business: Operation of drugstores

(2) Main reasons for the business combination

The Group's mission is to "promote higher quality of life and healthy lifestyles for our customers" as we aim to be a provider of key support for people's lives and a one-stop store that offers specialist support by proposing high value-added products and services focused on health. We are evolving our business model centered on the operation of drugstores with dispensing pharmacies, counseling services, late-night services, and long-term care services. And we offer counseling and courteous customer services based on the expertise of employees such as pharmacists, registered sales clerks, beauty care advisors, registered dietitians, and dispensing clerks as we provide products with regional characteristics and enhance services that improve customer convenience. In this way, we aim to create stores that support the health and beauty of our area customers and their affluent living. Mainly based in the Kanto area, our service operations cover regions extending from the Tohoku area to the Chugoku/Shikoku area.

Meanwhile, Kabushiki Kaisha Pupule Himawari's mission is: "We aim to be a support group for the healthy, beautiful, affluent, and comfortable lives of local residents; We put customers first, always greet customers with gratitude and enthusiasm, smile brightly, and provide satisfaction with accurate product knowledge; We respect one another, improve our abilities through work, and make life easier." The company, which aims to become a one-stop shop that provides both expertise and convenience as a company that is needed for local residents, operates mainly in Hiroshima Prefecture but also in Okayama Prefecture, Shimane Prefecture, Tottori Prefecture, Hyogo Prefecture, Ehime Prefecture, and Kagawa Prefecture.

We are seeking to expand our store network in the Chugoku/Shikoku area. And we are also expecting to expand our business scale and strengthen our business structure by sharing the management resources owned by each company, such as know-how and human resources.

(3) Date of business combination

December 1, 2021

(4) Legal form of business combination

Share acquisition in cash

(5) Name after business combination

No changes

(6) Percentage of voting rights to be acquired

51.0%

(7) Primary reason for determining the acquiring company

The Company's cash acquisition of shares

2. Cost of acquisition of the acquired company and breakdown thereof

Acquisition price	Cash	13,200 million yen
<hr/>		
Acquisition cost		13,200 million yen

3. Description and amount of major acquisition-related costs

Advisory fees, etc. 29 million yen

4. Resulting amount of goodwill, reason for goodwill, amortization method, and amortization period

Not determined at this time

5. Amount of assets received and liabilities assumed on the date of business combination and their major breakdown

Not determined at this time