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Consolidated Financial Results for the Three Months Ended May 20, 2022 [Japanese GAAP]



June 27, 2022

Company name: OKUWA Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange

Code number: 8217

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Scheduled date of filing quarterly securities report: June 27, 2022

Scheduled date of commencing dividend payments: –

Availability of supplementary explanatory materials on quarterly financial results: Not available

Schedule of quarterly financial results briefing session: Not scheduled

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

1. Consolidated Financial Results for the Three Months Ended May 20, 2022 (February 21, 2022 - May 20, 2022)

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

	Operating income		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended								
May 20, 2022	58,132	–	273	(74.1)	346	(68.8)	203	(63.0)
May 20, 2021	64,363	(6.3)	1,053	(47.6)	1,112	(46.3)	551	(52.8)

(Note) Comprehensive income: Three months ended May 20, 2022: ¥93 million [(86.0)%]

Three months ended May 20, 2021: ¥665 million [(39.7)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
May 20, 2022	4.64	4.64
May 20, 2021	12.57	12.57

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the first three months of the consolidated fiscal year under review. Therefore, the figure of operating income for the three months ended May 20, 2022 shows the amount after the relevant accounting standards are applied, and the change from the previous corresponding period is not described.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of May 20, 2022	130,337	77,757	59.4
As of February 20, 2022	133,513	78,170	58.3

(Reference) Equity: As of May 20, 2022: ¥77,472 million

As of February 20, 2022: ¥77,876 million

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the first three months of the consolidated fiscal year under review. Therefore, the figures as of May 20, 2022 show the amounts after the relevant accounting standards are applied.

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 20, 2022	—	13.00	—	13.00	26.00
Fiscal year ending February 20, 2023	—				
Fiscal year ending February 20, 2023 (Forecast)		13.00	—	13.00	26.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 20, 2023 (February 21, 2022 - February 20, 2023)

(% indicates changes from the previous corresponding period.)

	Operating income		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	125,000	—	2,000	(19.0)	2,100	(19.6)	1,000	(31.0)	22.80
Full year	252,000	—	5,400	3.2	5,600	2.5	2,050	34.6	46.75

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

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the first three months of the consolidated fiscal year under review. Therefore, the figures of operating income in the consolidated financial results forecast for the fiscal year ending February 20, 2023 show the amounts after the relevant accounting standards are applied, and the changes from the previous corresponding period are not described.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the three months ended May 20, 2022 (February 21, 2022 - May 20, 2022), the Japanese economy saw its corporate activities and consumer spending remain extremely challenged as the quasi-emergency measures, which had been reapplied in January 2022, were extended to March 21, amid the prolonged influence of the COVID-19 pandemic. Although there were signs of the economy reopening or being normalized as the spread of COVID-19 was being mitigated by widespread vaccination, the outlook remains uncertain due to a series of subsequent events, including soaring prices of crude oil and other energy resources, as well as raw materials, following the emergence of geopolitical risks such as Russia's invasion of Ukraine, and the yen's rapid depreciation following the rise in interest rates in the U.S.

The retail industry, too, continues to be hindered by this harsh environment, primarily owing to fluctuating prices of raw materials due to the imbalance between supply and demand and the hikes in market prices, and secondly, owing to rising costs due to an upward swing in energy and labor costs. Against this backdrop, OKUWA Co., Ltd. (the "Company") has decided the slogan for the fiscal year as "Let us contribute to host communities through our business as we cope with the ever-changing social circumstances and remain true to the customer-comes-first principle." With the basic stance of responding to the ever-changing social environment and customer needs, and providing customers with food safety and security, and a prosperous life, we have worked to provide products and services that can respond to changing lifestyles with an eye on a post COVID-19 world. In addition, we have continued to thoroughly implement preventive measures against the infection at each store, and have worked to provide sales systems and services to ensure the safety of employees and earn the trust of our customers.

As for the new store openings for the period under review, we opened the Nakatsugawa Nakamura Store (Nakatsugawa-shi, Gifu) in March. As for the revitalization of existing stores, we renovated the Kishiwada Hatsuta Store (Kishiwada-shi, Osaka) in March, and both the Pare Marche Nishikani Store (Kani-shi, Gifu) and the Price Cut Matsusaka Oishi Store (Matsusaka-shi, Mie) in April. Meanwhile, in order to increase management efficiency, we closed the Sanda Store (Sanda-shi, Hyogo) and the Momoyama Store (Kinokawa-shi, Wakayama).

With regards to our consolidated subsidiaries, due to changes in consumer demand in the aftermath of the disruptions stemmed from the pandemic, OAK FOODS CO.LTD., which operates restaurants, began to show a recovery trend to post slightly higher sales, while Hiramatsu Co., Ltd., a food supermarket chain, and SUNRISE., CO. LTD., which handles the processing and delivery of agricultural and other products, both saw a decline in sales.

As a result, for the three months ended May 20, 2022, the Company and its consolidated subsidiaries (the "Group") posted operating income (net sales and operating revenue) of 58,132 million yen (64,363 million yen for the corresponding period of the previous year), operating profit of 273 million yen (down by 74.1% year-on-year), and profit attributable to owners of parent of 203 million yen (down by 63.0% year-on-year).

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the first three months of the consolidated fiscal year under review. For details, please see "2. Quarterly Consolidated Financial Statements and Primary Notes, (3) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies)."

(2) Explanation of Financial Position

Total assets at the end of the first three months of the consolidated fiscal year under review decreased by 3,176 million yen from the end of the previous consolidated fiscal year to 130,337 million yen. The breakdown of the changes is as follows: a decrease of 2,838 million yen in current assets, primarily due to an increase of 1,021 million yen in merchandise and finished goods and a decrease of 3,845 million yen in cash and deposits; and a decrease of 338 million yen in non-current assets, primarily due to an increase of 957

million yen in buildings and structures, net, under property, plant and equipment and a decrease of 1,231 million yen in construction in progress included in other, net, under property, plant and equipment.

Liabilities decreased by 2,763 million yen from the end of the previous consolidated fiscal year to 52,579 million yen. Current liabilities decreased by 1,450 million yen, primarily due to a decrease of 400 million yen in short-term borrowings and a decrease of 1,101 million yen from the sum total of electronically recorded obligations - facilities, accounts payable - other, and deposits received, which are all included in other under current liabilities. Non-current liabilities decreased by 1,312 million yen, primarily due to a decrease of 970 million yen in long-term borrowings.

Net assets decreased by 413 million yen from the end of the previous consolidated fiscal year to 77,757 million yen. This was primarily due to a decrease of 298 million yen in retained earnings and a decrease of 112 million yen in valuation difference on available-for-sale securities.

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

Given the operating results for the three months ended May 20, 2022 and other factors, the Company has decided not to revise its earlier consolidated financial results forecast for the fiscal year ending February 20, 2023, which were announced on April 4, 2022.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of February 20, 2022	As of May 20, 2022
Assets		
Current assets		
Cash and deposits	17,029	13,184
Notes and accounts receivable - trade	5,653	5,913
Merchandise and finished goods	8,789	9,810
Other	1,942	1,669
Allowance for doubtful accounts	(0)	(0)
Total current assets	33,414	30,576
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	48,265	49,223
Land	27,876	27,876
Other, net	7,565	6,393
Total property, plant and equipment	83,708	83,494
Intangible assets		
Other	3,929	3,878
Total intangible assets	3,929	3,878
Investments and other assets		
Other	12,473	12,399
Allowance for doubtful accounts	(12)	(12)
Total investments and other assets	12,460	12,387
Total non-current assets	100,099	99,760
Total assets	133,513	130,337
Liabilities		
Current liabilities		
Notes and accounts payable - trade	13,192	13,479
Short-term borrowings	5,060	4,660
Current portion of long-term borrowings	4,149	4,024
Provision for point card certificates	1,385	–
Refund liabilities	–	1,400
Contract liabilities	–	1,570
Other	14,981	12,182
Total current liabilities	38,768	37,317
Non-current liabilities		
Long-term borrowings	9,310	8,339
Retirement benefit liability	73	74
Asset retirement obligations	3,093	3,116
Other	4,097	3,730
Total non-current liabilities	16,574	15,261
Total liabilities	55,342	52,579

(Million yen)

	As of February 20, 2022	As of May 20, 2022
Net assets		
Shareholders' equity		
Share capital	14,117	14,117
Capital surplus	15,015	15,014
Retained earnings	50,656	50,358
Treasury shares	(1,658)	(1,650)
Total shareholders' equity	78,131	77,839
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	139	26
Remeasurements of defined benefit plans	(394)	(394)
Total accumulated other comprehensive income	(255)	(367)
Share acquisition rights	45	38
Non-controlling interests	249	247
Total net assets	78,170	77,757
Total liabilities and net assets	133,513	130,337

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Three Months Ended May 20

(Million yen)

	For the three months ended May 20, 2021	For the three months ended May 20, 2022
Net sales	61,776	55,118
Cost of sales	44,835	39,657
Gross profit	16,941	15,460
Operating revenue		
Real estate lease revenue	775	1,023
Other operating revenue	1,811	1,990
Total operating revenue	2,586	3,013
Operating gross profit	19,527	18,474
Selling, general and administrative expenses	18,474	18,201
Operating profit	1,053	273
Non-operating income		
Share of profit of entities accounted for using equity method	19	18
Gain on sale of recycled materials	16	15
Penalty income	3	–
Sponsorship money income	–	21
Other	42	43
Total non-operating income	81	99
Non-operating expenses		
Interest expenses	16	15
Other	6	10
Total non-operating expenses	22	25
Ordinary profit	1,112	346
Extraordinary income		
Gain on sale of non-current assets	0	4
Subsidy income	8	–
Gain on differences between the asset retirement obligation balance and the actual retirement costs	–	234
Total extraordinary income	8	239
Extraordinary losses		
Loss on retirement of non-current assets	181	97
Impairment losses	11	–
Loss on cancellation of rental contracts	26	91
Other	0	0
Total extraordinary losses	219	188
Profit before income taxes	901	397
Income taxes	344	191
Profit	556	205
Profit attributable to non-controlling interests	5	1
Profit attributable to owners of parent	551	203

Quarterly Consolidated Statements of Comprehensive Income

Three Months Ended May 20

(Million yen)

	For the three months ended May 20, 2021	For the three months ended May 20, 2022
Profit	556	205
Other comprehensive income		
Valuation difference on available-for-sale securities	96	(112)
Remeasurements of defined benefit plans, net of tax	12	0
Total other comprehensive income	108	(112)
Comprehensive income	665	93
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	659	91
Comprehensive income attributable to non-controlling interests	5	1

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

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

There is no relevant information.

(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)

(Calculation of taxes)

Taxes are calculated by multiplying profit before income taxes for the three months ended May 20, 2022 by the reasonably estimated effective tax rate subsequent to the application of tax effect accounting to the profit before income taxes for the current consolidated fiscal year ending February 20, 2023, including the first three months of the consolidated fiscal year under review. Should it be deemed to be significantly irrational to calculate taxes by the effective tax rate thus estimated, the normal effective statutory tax rate will be used for calculation.

(Changes in accounting policies)

(Application of the Accounting Standard for Revenue Recognition, etc.)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter "Revenue Recognition Standard"), etc. from the beginning of the first three months ended May 20, 2022. The Company recognizes revenue when control of a promised good or service is transferred to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services.

Major changes due to the application of the Revenue Recognition Standard, etc. are as follows.

1. Revenue recognition related to agent transactions

For transactions in which the Company offers a good or services to a customer as an agent (consignment buying), revenue was previously recognized at the total amount of consideration received from the customer. After evaluating the Company's role (whether it acts as a principal or an agent) in the provision of a good or services to the customer, however, revenue is now recognized at the net amount received from the customer less the amount paid to the supplier. Such revenue is recorded under operating revenue.

2. Revenue recognition related to the loyalty program

The Company offers a customer loyalty program, whereby points are granted to members at the time of sale and one point is converted to one yen. The Company previously recognized the estimated value to be redeemed as the provision and recorded the provision of point card certificates as promotion expenses under selling, general and administrative expenses. However, such revenue is now recognized at the amount of net sales less the points granted.

The Company previously recorded the points granted in connection with the sale of products based on the loyalty program operated by other companies as selling, general and administrative expenses. However, such revenue is now recognized at the amount of net sales less the amount equivalent to the points granted.

3. Revenue recognition related to gift certificates issued by the Company

The Company previously did not recognize revenue for unused portions of gift certificates it had issued. However, such revenue is now recognized at the time when the likelihood of customers exercising their rights becomes extremely low.

The Company applies the Revenue Recognition Standard, etc. in accordance with the transitional treatment provided for in the proviso to Paragraph 84 of the Revenue Recognition Standard. The cumulative impact of retrospectively applying the new accounting policies to prior periods is adjusted to retained earnings at the beginning of the three months ended May 20, 2022, with the new accounting policies applied from the beginning balance.

As a result, for the three months ended May 20, 2022, net sales decreased by 3,695 million yen, cost of sales decreased by 2,830 million yen, operating revenue increased by 378 million yen, and selling, general and administrative expenses decreased by 485 million yen. These results do not affect operating profit, ordinary profit, and profit before income taxes. Meanwhile, the balance of retained earnings at the beginning of the period increased by 68 million yen.

Because of the application of the Revenue Recognition Standard, etc., starting from the three months ended May 20, 2022, gift certificates and electronic money, which were included in other under current liabilities in the consolidated balance sheets for the previous consolidated fiscal year, are now included in contract liabilities, and provision for point card certificates is now presented as refund liabilities. In accordance with the transitional treatment set forth in Paragraph 89-2 of the Revenue Recognition Standard, no reclassification has been made to the previous year's consolidated financial statements to conform to the new presentation method. Moreover, in accordance with the transitional treatment set forth in Paragraph 28-15 of the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12, March 31, 2020), the Company has not presented information on the disaggregation of revenue from contracts with customers for the three months ended May 20, 2021.

(Application of the Accounting Standard for Fair Value Measurement)

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter "Fair Value Measurement Standard"), etc. from the beginning of the three months ended May 20, 2022, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard, etc. in accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). This does not affect the quarterly consolidated financial statements.

(Additional information)

(Accounting estimates associated with the impact of the spread of COVID-19)

There has been no significant change to the assumptions on the impact of COVID-19, including how it might spread and how it will end, which were described in the "Accounting estimates associated with the impact of the spread of COVID-19" of "Additional information" of the Consolidated Financial Results for the previous fiscal year.