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Consolidated Financial Results for the Six Months Ended August 20, 2022 [Japanese GAAP]



October 3, 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: October 3, 2022

Scheduled date of commencing dividend payments: October 18, 2022

Availability of supplementary explanatory materials on quarterly financial results: Available

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

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

1. Consolidated Financial Results for the Six Months Ended August 20, 2022 (February 21, 2022 - August 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	%
Six months ended August 20, 2022	120,653	–	1,026	(58.4)	1,179	(54.8)	635	(56.2)
August 20, 2021	133,002	(5.1)	2,470	(41.4)	2,610	(39.9)	1,448	(39.2)

(Note) Comprehensive income: Six months ended August 20, 2022: ¥638 million [(58.2)%]

Six months ended August 20, 2021: ¥1,529 million [(36.2)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended August 20, 2022	14.48	14.48
August 20, 2021	33.04	33.03

(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 six months ended August 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 August 20, 2022	131,955	78,318	59.1
As of February 20, 2022	133,513	78,170	58.3

(Reference) Equity: As of August 20, 2022: ¥78,031 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 August 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	—	13.00			
Fiscal year ending February 20, 2023 (Forecast)			—	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	
Full year	245,500	—	3,700	(29.3)	3,900	(28.6)	1,100	(27.8)	25.07	

(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 six months ended August 20, 2022 (February 21, 2022 - August 20, 2022), the Japanese economy began to show signs of recovery as the country sought to maintain a balance between socioeconomic activities and measures to mitigate the spread of COVID-19 including vaccination. Nevertheless, the pandemic has yet to be contained with a resurgence in the number of new cases due to a new variant of the virus. With this, coupled with a series of other developments, including soaring prices of crude oil and other energy resources, as well as raw materials, on the back of worsening international situation, and the yen's rapid depreciation, the future outlook remains uncertain.

The retail industry, too, continues to struggle with the harsh environment, as existing players compete to open new stores and cross-industry competition intensifies, amid a rise in the costs of raw materials, utilities, labor, and so forth.

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 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, and the Izumisano Shofudai Store (Izumisano-shi, Osaka) in June. Meanwhile, in order to increase management efficiency, we closed the Sanda Store (Sanda-shi, Hyogo), the Momoyama Store (Kinokawa-shi, Wakayama), and the Pare Marche Horita Store (Nagoya-shi, Aichi).

With regards to our consolidated subsidiaries, OAK FOODS CO. LTD., which operates restaurants, remained on a recovery track 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 six months ended August 20, 2022, the Company and its consolidated subsidiaries (the "Group") posted operating income (net sales and operating revenue) of 120,653 million yen, operating profit of 1,026 million yen (down by 58.4% year-on-year), ordinary profit of 1,179 million yen (down by 54.8% year-on-year), and profit attributable to owners of parent of 635 million yen (down by 56.2% 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 ending February 20, 2023. 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 second quarter of the consolidated fiscal year under review decreased by 1,558 million yen from the end of the previous consolidated fiscal year to 131,955 million yen. The breakdown of the changes is as follows: a decrease of 1,089 million yen in current assets, primarily due to an increase of 1,298 million yen in notes and accounts receivable - trade, and an increase of 703 million yen in merchandise and finished goods, as well as a decrease of 3,324 million yen in cash and deposits; and a decrease of 469 million yen in non-current assets, primarily due to an increase of 418 million yen in furniture and fixtures, net, included

in other, net, under property, plant and equipment, and an increase of 371 million yen in land, and a decrease of 1,014 million yen in construction in progress included in other, net, under property, plant and equipment.

Liabilities decreased by 1,706 million yen from the end of the previous consolidated fiscal year to 53,636 million yen. Current liabilities increased by 633 million yen, primarily due to an increase of 2,050 million yen in notes and accounts payable - trade, and an increase of 347 million yen in income taxes payable, despite a decrease of 400 million yen in short-term borrowings, a decrease of 324 million yen in the current portion of long-term borrowings, and a decrease of 927 million yen in the sum total of electronically recorded obligations - facilities, accounts payable - other, deposits received, and accrued consumption taxes, which are all included in other under current liabilities. Non-current liabilities decreased by 2,339 million yen, primarily due to a decrease of 1,790 million yen in long-term borrowings.

Net assets increased by 147 million yen from the end of the previous consolidated fiscal year to 78,318 million yen. This was primarily due to an increase of 133 million yen in retained earnings.

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

The Company has not revised its earlier consolidated financial results forecast for the fiscal year ending February 20, 2023, which was announced on September 28, 2022.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of February 20, 2022	As of August 20, 2022
Assets		
Current assets		
Cash and deposits	17,029	13,705
Notes and accounts receivable - trade	5,653	6,952
Merchandise and finished goods	8,789	9,493
Other	1,942	2,175
Allowance for doubtful accounts	(0)	(0)
Total current assets	33,414	32,325
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	48,265	48,666
Land	27,876	28,248
Other, net	7,565	6,475
Total property, plant and equipment	83,708	83,389
Intangible assets		
Other	3,929	3,851
Total intangible assets	3,929	3,851
Investments and other assets		
Other	12,473	12,401
Allowance for doubtful accounts	(12)	(12)
Total investments and other assets	12,460	12,388
Total non-current assets	100,099	99,629
Total assets	133,513	131,955
Liabilities		
Current liabilities		
Notes and accounts payable - trade	13,192	15,243
Short-term borrowings	5,060	4,660
Current portion of long-term borrowings	4,149	3,824
Income taxes payable	358	705
Provision for point card certificates	1,385	–
Refund liability	–	1,508
Contract liabilities	–	1,731
Other	14,622	11,727
Total current liabilities	38,768	39,401
Non-current liabilities		
Long-term borrowings	9,310	7,519
Retirement benefit liability	73	73
Asset retirement obligations	3,093	3,127
Other	4,097	3,515
Total non-current liabilities	16,574	14,234
Total liabilities	55,342	53,636

(Million yen)

	As of February 20, 2022	As of August 20, 2022
Net assets		
Shareholders' equity		
Share capital	14,117	14,117
Capital surplus	15,015	15,009
Retained earnings	50,656	50,789
Treasury shares	(1,658)	(1,629)
Total shareholders' equity	78,131	78,286
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	139	138
Remeasurements of defined benefit plans	(394)	(393)
Total accumulated other comprehensive income	(255)	(255)
Share acquisition rights	45	38
Non-controlling interests	249	248
Total net assets	78,170	78,318
Total liabilities and net assets	133,513	131,955

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended August 20

(Million yen)

	For the six months ended August 20, 2021	For the six months ended August 20, 2022
Net sales	127,769	114,587
Cost of sales	92,713	82,574
Gross profit	35,056	32,012
Operating revenue		
Real estate lease revenue	1,544	2,028
Other operating revenue	3,688	4,037
Total operating revenue	5,232	6,066
Operating gross profit	40,289	38,078
Selling, general and administrative expenses	37,818	37,051
Operating profit	2,470	1,026
Non-operating income		
Share of profit of entities accounted for using equity method	20	10
Gain on sale of recycled materials	32	36
Dividend income	35	45
Sponsorship money income	–	21
Other	92	82
Total non-operating income	180	196
Non-operating expenses		
Interest expenses	32	30
Other	8	13
Total non-operating expenses	41	44
Ordinary profit	2,610	1,179
Extraordinary income		
Gain on sale of non-current assets	0	5
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	266	138
Impairment losses	34	14
Loss on cancellation of rental contracts	32	112
Other	0	1
Total extraordinary losses	333	265
Profit before income taxes	2,285	1,153
Income taxes	826	514
Profit	1,459	638
Profit attributable to non-controlling interests	10	3
Profit attributable to owners of parent	1,448	635

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended August 20

(Million yen)

	For the six months ended August 20, 2021	For the six months ended August 20, 2022
Profit	1,459	638
Other comprehensive income		
Valuation difference on available-for-sale securities	44	(1)
Remeasurements of defined benefit plans, net of tax	25	1
Total other comprehensive income	70	0
Comprehensive income	1,529	638
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,518	635
Comprehensive income attributable to non-controlling interests	10	3

(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 six months ended August 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 second quarter 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 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 six months ended August 20, 2022, net sales decreased by 7,410 million yen, cost of sales decreased by 5,599 million yen, operating revenue increased by 768 million yen, and selling, general and administrative expenses decreased by 1,041 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 liability. 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.

(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.