



Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending May 2023 [Japanese GAAP]

December 16, 2022

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 Scheduled date of payment of dividend: -
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results explanation meeting: Yes (for institutional investors and analysts)

(Rounded down to the nearest million yen)

1. Consolidated financial results for the second quarter of the fiscal year ending May 2023 (May 16, 2022-November 15, 2022)

(1) Consolidated operating results (cumulative)

(Percentages represent changes from the same period of the previous year)

Six months ended	Net sales		Operating profit		Ordinary profit		Quarterly profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
November 15, 2022	42,952	2.6	334	25.8	357	17.6	224	26.6
November 15, 2021	41,865	△ 1.7	266	1.9	303	0.8	177	△ 55.2

(Note) Comprehensive income Six months ended November 15, 2022: 230 million yen (39.2%)
 Six months ended November 15, 2021: 165 million yen (△57.3%)

Six months ended	Quarterly net income per share	Diluted quarterly net income per share
	Yen	Yen
November 15, 2022	16.28	16.28
November 15, 2021	12.87	12.87

(Note) The Company conducted a 3-for-1 stock split of common shares effective November 16, 2021. As a result, net income per share and diluted net income per share are calculated on the assumption that the stock split was conducted at the beginning of the fiscal year ended May 15, 2022.

(2) Consolidated financial position

As of	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
November 15, 2022	42,558	8,997	20.9
May 15, 2022	41,398	8,888	21.2

(Note) Equity As of November 15, 2022: 8,896 million yen
 As of May 15, 2022: 8,792 million yen

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
Fiscal year	Yen	Yen	Yen	Yen	Yen
Ended May 15, 2022	-	0.00	-	9.34	9.34
Ending May 15, 2023	-	0.00			
Ending May 15, 2023 (forecast)			-	10.00	10.00

(Note) Changes from the recently announced dividend forecast: None

3. Consolidated Earnings Forecast for the Fiscal Year Ending May 2023 (May 16, 2022 - May 15, 2023)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full Year	91,400	10.2	1,200	60.6	1,200	51.3	700	120.9	50.72

(Note) Changes from the latest announced earnings forecast: None

※ Notes

(1) Changes in significant subsidiaries during the current quarterly consolidated cumulative period (changes in the scope of consolidation): None

(2) Application of special accounting methods in preparation of the quarterly consolidated financial statement: Yes

(Note) For details, please refer to "2. Quarterly consolidated financial statements and notes, (3) Quarterly consolidated financial statements and notes (Application of special accounting methods in preparation of the quarterly consolidated financial statement)" on page 9 of the attached materials.

(3) Changes in accounting policies and accounting-based estimates, and restatements

① Changes in accounting policies due to revisions in accounting standards :	Yes
② Changes in accounting policies other than ① :	None
③ Changes in accounting-based estimates :	None
④ Restatements :	None

(Note) For details, please refer to "2. Quarterly consolidated financial statements and notes, (3) Quarterly consolidated financial statements and notes (Changes in accounting policies)" on page 9 of the attached materials

(4) Number of shares outstanding (common shares)

① Number of shares outstanding as of the end of the period (including treasury shares)	As of November 15, 2022	14,236,564 shares	As of May 15, 2022	14,226,000 shares
② Number of treasury shares as of the end of the period	As of November 15, 2022	432,747 shares	As of May 15, 2022	432,747 shares
③ Average number of shares outstanding during the period (quarterly cumulative)	Six months ended November 15, 2022	13,796,353 shares	Six months ended November 15, 2021	13,785,996 shares

(Note) The Company conducted a 3-for-1 stock split of common shares effective November 16, 2021. As a result, the number of outstanding shares (common stock) is calculated on the assumption that the stock split was conducted at the beginning of the fiscal year ended May 15, 2022.

※ Quarterly financial statements are not subject to quarterly reviews by certified public accountants or auditing firms.

※ Cautionary statement with respect to forecasts

Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to our company's management at the time these materials were prepared but are not promises regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons.

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1. Qualitative Information on the Current Quarterly Financial Results

(1) Explanation of operating results

In the first half of the current consolidated fiscal year (May 16, 2022 to November 15, 2022), the Japanese economy showed some movement toward normalization of socio-economic activities due to the easing of behavioral restrictions and other factors amid the continuing impact of the COVID-19 pandemic. However, the future economic outlook remains uncertain due to the increased geopolitical risks from the situation in Ukraine and the impact of rising raw material prices on consumer spending.

In the drugstore industry, in which the Group mainly operates, the demand for masks and other hygiene-related products remained stronger than prior to the COVID-19 pandemic. However, the business environment surrounding the Group continues to be challenging due to a decline in demand for cosmetics as lifestyles change, a decrease in demand for common cold remedies as infection prevention measures take root, the disappearance of inbound demand, as well as intensifying competition across industry boundaries, competition to open new stores among existing companies, and oligopolistic consolidation through M&As.

In response to these circumstances, under the theme of "evolving into a regional integrated lifestyle group" in its medium-term management plan ending in May 2026, the Group is engaged in three growth strategies of "integrated lifestyle store strategy," "regional platform strategy," and "collaboration strategy" and organizational strategies, aiming to grow as a group while differentiating ourselves from our competitors by expanding our business domain from retail that only "sells goods" to the area of lifestyle services that provide "goods × services" while strengthening the earnings base of our core retail business.

The integrated lifestyle store strategy includes expansion of the number of stores that provide fresh foods, which is part of our line-robbing efforts to expand our product categories, expansion of stores with dispensing facilities, and provision of lifestyle services such as continuous in-store nutritional consultation sessions with nutritionists in an attempt to create stores that are supported by local residents.

The regional platform strategy includes the continuously growing "EZOCA" ecosystem centered on Hokkaido's common point card "EZOCA," the members of which surpassed 2 million in August 2021. The number of "EZOCA" partner stores expanded to 747 stores with 164 companies. "Esashi EZOCA" was launched as part of the initiatives based on a comprehensive cooperation agreement with Esashi Town. Together with the town, we are also engaged in a MaaS demonstration experiment to improve public transportation, as we aim to implement a revenue cycle model within society by utilizing and verifying data acquired from the Esashi EZOCA.

In our collaboration strategy, under the comprehensive business alliance with COOP SAPPORO, we have started joint purchasing of food products for both companies and begun selling our PB products at Coop Drug to improve convenience for our customers, members, and other residents of Hokkaido through the supply of more favorable products. Also, we have newly concluded comprehensive cooperation agreements with Sapporo Jikei Gakuen Sapporo Shinyo High School, Tokachi Mainichi Newspaper Inc., and NisekoMachi Co, Ltd. to contribute to the sustainable development of the region and the resolution of social issues. As of the end of October 2022, we have entered into thirty different agreements with local governments, businesses, etc. Furthermore, the effective and sustained promotion of these strategies requires a greater sense of speed through collaboration with various companies in Japan and abroad beyond Group companies, as well as the acquisition of new insight and technology. Therefore, we established a corporate venture capital company (S Ventures Co., Ltd.) in October 2022 that invests in early to middle stage startup companies in Japan and abroad to produce synergy between existing businesses as well as create new businesses.

In terms of organizational strategy, we established a D&I Committee in order to create an environment in which diverse human resources can play an active role, and we are actively promoting health management through the establishment of a Chief Health Officer (CHO) and the enactment of the Satudora Group Health and Productivity Management Declaration. We have also strengthened our governance structure and implemented the application of all principles of the Corporate Governance Code.

As a result of the above, consolidated net sales for the second quarter of the current fiscal year were 42,952 million yen (up 2.6%, or 1,087 million yen, year on year), operating profit was 334 million yen (up 25.8%, or 68 million yen, year on year), ordinary profit was 357 million yen (up 17.6%, or 53 million yen, year on year), and profit attributable to owners of parent was 224 million yen (up 26.6%, or 47 million yen, year on year).

An overview of the segment performance is as follows.

The classification of reportable segments has been changed from the first quarter of the current fiscal year. Therefore, year-on-year comparisons are calculated based on the reclassified figures for the same period of the previous fiscal year. Details are provided in "2. Quarterly consolidated financial statements and notes (3) Quarterly consolidated financial statements and notes (Segment information)".

<Retail Business>

We operate a chain of drugstore-format stores aimed at becoming a dominant player primarily in Hokkaido, as well as dispensing pharmacies and inbound format stores in tourist areas and other locations which many foreign visitors to Japan frequent. On the sales front, we aim to promote a low-price strategy centered on Everyday Same Low Price (ESLP) in order to gain more customer support and to improve operational efficiency by leveling work operations. We also aim to expand product categories by strengthening line-robbing, including fresh foods. In addition, we are working to promote digital marketing with our official apps. As for dispensing pharmacies, in addition to the operation of near hospital pharmacies, we have also established them within drugstores. At the same time, we are working to provide lifestyle services such as fitness businesses and nutrition counseling sessions by registered dietitians.

In the first half of the current fiscal year, increasing frugality due to price hikes led to a decrease in the number of customers due to a decline in the frequency of customer visits; however, demand for cold medicine and cosmetics has gradually recovered, and the average spends per customer has risen, resulting in increased year-on-year sales for the drugstore format. In terms of the inbound format, sales have continued to be marginal due to the slowdown in the number of foreign visitors to Japan; however, year-on-year sales improved due to the reopening of store locations that had been closed. As for dispensing pharmacies, net sales grew year on year due in part to the implementation of vaccine and test packages and the effect of increased sales of medical antigen test kits.

The status of store openings and closures is as shown in the table below.

(Status of store openings and closures)

Store classification	Format classification	As of May15, 2022	Openings	Closures	As of November 15, 2022
Drugstores	Drugstore format	175 stores	4 stores	5 stores	174 stores
	Inbound format	14 stores	-	1 store	13 stores
Pharmacies	Near hospital pharmacies	10 stores	-	-	10 stores
Other stores	The Kurashi Store of Hokkaido	2 stores	-	-	2 stores
Total		201 stores	4 stores	6 stores	199 stores

As a result of the above, sales in the retail business segment amounted to 42,433 million yen (up 2.3%, or 958 million yen year on year), and segment profit amounted to 330 million yen (up 62.0%, or 126 million yen year on year).

<Other Businesses>

The Group is engaged in the regional marketing and payment service businesses utilizing the Hokkaido's common point card "EZOCA", development and sales of POS applications and other services aimed at solving issues from the user's perspective, operation of programming schools for elementary and junior high school students, and information provision services for domestic and overseas corporations, a CVC service to produce synergy between existing businesses as well as create new business, and more.

As of the end of October 2022, the number of members of "EZOCA," Hokkaido's common point card, which is our Group's strength, surpassed 2 million. In the payment service business, domestic cashless payment expanded due to the increased need for contactless payment, but in the POS system development business, we experienced decreases in reaction to orders for large projects in the previous fiscal year resulting in net sales in the other businesses segment of 715 million yen (up 23.6%, or 136 million yen year on year) and segment loss of 0 million yen (a segment profit of 43 million yen in the same period of the previous fiscal year, a decrease of 43 million yen year on year).

(2) Explanation of financial position

Total assets at the end of the second quarter of the current consolidated fiscal year were 42,558 million yen, an increase of 1,159 million yen from the end of the previous consolidated fiscal year. This was mainly due to increases of 709 million yen in merchandise, 882 million yen in property, plant and equipment, and 107 million in leasehold and guarantee deposits, despite a decrease of 582 million yen in accounts receivable-trade due to the last day of the previous consolidated fiscal year being a holiday for financial institutions.

Total liabilities were 33,560 million yen, an increase of 1,050 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 4,500 million yen in short-term borrowings and a decrease of 3,619 million yen in accounts payable-trade due to the last day of the previous consolidated fiscal year being a holiday for financial institutions, as well as an increase of 514 million yen in other current liabilities, a decrease of 516 million yen in long-term borrowings (including the current portion of long-term borrowings).

Total net assets were 8,997 million yen, an increase of 108 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 224 million yen in retained earnings due to quarterly net profit attributable to owners of parent, despite the decrease of 128 million yen in retained earnings due to dividend payments.

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

There are no changes to the forecast of consolidated financial results for the fiscal year ending May 15, 2023 from the forecast released on June 22, 2022.

2. Quarterly consolidated financial statements and notes**(1) Quarterly consolidated balance sheet**

(Millions of yen)

	As of May 15, 2022	As of November 15, 2022
Assets		
Current assets		
Cash and deposits	2,957	2,623
Accounts receivable-trade	3,085	2,503
Merchandise	10,771	11,481
Other	3,255	3,339
Total current assets	20,069	19,946
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,358	7,934
Land	3,869	3,973
Other, net	1,850	2,052
Total property, plant and equipment	13,077	13,960
Intangible assets	451	452
Investments and other assets		
Leasehold and guarantee deposits	6,222	6,329
Other	1,595	1,885
Allowance for doubtful accounts	△18	△18
Total investment and other assets	7,799	8,197
Total non-current assets	21,329	22,611
Total assets	41,398	42,558

(Millions of yen)

	As of May 15, 2022	As of November 15, 2022
Liabilities		
Current liabilities		
Accounts payable-trade	12,334	8,715
Short-term borrowings	300	4,800
Current portion of long-term borrowings	1,014	994
Income taxes payable	51	143
Provision for bonuses	536	676
Other	4,130	4,644
Total current liabilities	18,366	19,974
Non-current liabilities		
Long-term borrowings	11,734	11,237
Retirement benefit liability	634	661
Asset retirement obligations	532	557
Other	1,241	1,130
Total non-current liabilities	14,143	13,586
Total liabilities	32,510	33,560
Net assets		
Shareholders' equity		
Share capital	1,000	1,003
Capital surplus	2,095	2,098
Retained earnings	6,061	6,157
Treasury shares	△299	△299
Total shareholders' equity	8,857	8,960
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	1
Foreign currency translation adjustment	△65	△64
Remeasurements of defined benefit plans	△0	△0
Total accumulated other comprehensive income	△65	△63
Share acquisition rights	4	4
Non-controlling interests	91	95
Total net assets	8,888	8,997
Total liabilities and net assets	41,398	42,558

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statement of income

Consolidated cumulative second quarter

(Millions of yen)

	Six months ended November 15, 2021	Six months ended November 15, 2022
Net sales	41,865	42,952
Cost of sales	32,045	32,405
Gross profit	9,819	10,547
Selling, general and administrative expenses	9,553	10,213
Operating profit	266	334
Non-operating income		
Interest and dividend income	9	9
Gain on donation of non-current assets	18	9
Foreign exchange gains	25	5
Other	24	59
Total non-operating income	77	84
Non-operating expenses		
Interest expenses	36	61
Other	3	1
Total non-operating expenses	40	62
Ordinary profit	303	357
Extraordinary income		
Gain on sales of non-current assets	41	-
Gain on sale of investment securities	-	29
Total extraordinary income	41	29
Extraordinary losses		
Loss on store closings	5	2
Loss on retirement of non-current assets	7	-
Total extraordinary losses	12	2
Quarterly profit before income taxes	331	384
Total income taxes	143	155
Quarterly profit	188	228
Quarterly profit attributable to non-controlling interests	10	4
Quarterly profit attributable to owners of parent	177	224

Quarterly consolidated statement of comprehensive income

Consolidated cumulative second quarter

(Millions of yen)

	Six months ended November 15, 2021	Six months ended November 15, 2022
Quarterly profit	188	228
Other comprehensive income		
Valuation difference on available-for-sale securities	△0	0
Foreign currency translation adjustment	△23	1
Remeasurements of defined benefit plans	1	0
Total other comprehensive income	△22	1
Quarterly comprehensive income	165	230
Comprehensive income attributable to:		
Comprehensive quarterly income attributable to owners of parent	154	226
Comprehensive quarterly income attributable to non-controlling interests	10	4

(3) Quarterly consolidated financial statements and notes

(Going concern assumption)

Not applicable.

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

No applicable items.

(Application of special accounting methods in the preparation of the quarterly consolidated financial statement)

(Calculation of income tax expense)

Income tax expense is calculated by making a reasonable estimate of the effective tax rate after the application of tax effect accounting to the profit before income taxes for the consolidated fiscal year, including the current second quarter consolidated accounting period, and multiplying the quarterly net profit before income taxes by the relevant estimated effective tax rate.

(Changes in accounting policies)

(Application of the Guidance on Accounting Standard for Fair Value Measurement)

The "Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021. Hereinafter, the "Guidance on Fair Value Measurement Accounting Standard") will be applied from the beginning of the current consolidated first quarter, and the new accounting policies stipulated by the Guidance on Fair Value Measurement Accounting Standard will be applied prospectively following transitional treatment based on Paragraph 27-2 of the Guidance on Fair Value Measurement Accounting Standard. This change has no impact on the quarterly consolidated financial statements.

(Additional information)

(Accounting estimates concerning the impact of the spread of the COVID-19 infection)

There have been no major changes to the assumptions, including those regarding the future spread of the COVID-19 infection and the timing of its end, that were described in the Annual Securities Report (Significant Accounting Estimates) for the previous consolidated fiscal year.

(Segment information)

【Segment Information】

Previous consolidated cumulative second quarter (May 16, 2021 - November 15, 2021)

1. Information on net sales and profits(losses) for each reportable segment, and information on revenue breakdown

(Millions of yen)

	Reportable Segment	Other (Note) 1	Total	Adjustments (Note)2	Amount shown in the quarterly consolidated statement of income (Note) 3
	Retail Business				
Net sales					
Drugstore	38,819	—	38,819	—	38,819
Inbound	206	—	206	—	206
Pharmacy	1,841	—	1,841	—	1,841
Other	254	409	664	—	664
Revenue arising from contracts with customers	41,122	409	41,532	—	41,532
Other revenues	325	7	333	—	333
External sales	41,448	417	41,865	—	41,865
Inter-segment sales and transfers	26	161	188	△188	—
Total	41,474	579	42,053	△188	41,865
Segment profit	204	43	247	18	266

(Notes)

1. The “Other” category is a business segment that is not included in the reportable segments and includes the IT Solutions business, the marketing business, the education business, etc.
2. The adjustments include the elimination of reportable inter-segment profit and loss transactions and expenses related to the operation of the holding company.
3. Segment profit is adjusted to be consistent with operating profit in the quarterly consolidated statement of income.

Current consolidated cumulative second quarter (May 16, 2022 - November 15, 2022)

1. Information on net sales and profits (losses) for each reportable segment, and information on revenue breakdown

(Millions of yen)

	Reportable Segment	Other (Note) 1	Total	Adjustments (Note)2	Amount shown in the quarterly consolidated statement of income (Note) 3
	Retail Business				
Net sales					
Drugstore	39,275	—	39,275	—	39,275
Inbound	317	—	317	—	317
Pharmacy	2,101	—	2,101	—	2,101
Other	346	524	870	—	870
Revenue arising from contracts with customers	42,040	524	42,564	—	42,564
Other revenues	365	22	388	—	388
External sales	42,406	546	42,952	—	42,952
Inter-segment sales and transfers	26	169	195	△195	—
Total	42,433	715	43,148	△195	42,952
Segment profit or loss	330	△0	329	4	334

(Notes)

1. The “Other” category is a business segment that is not included in the reportable segments and includes the IT Solutions business, the marketing business, the education business, etc.
2. The adjustments include the elimination of reportable inter-segment profit and loss transactions and expenses related to the operation of the holding company.
3. Segment profit or loss is adjusted to be consistent with operating profit in the quarterly consolidated statement of income.

2. Notes related to changes in reportable segments, etc.

Effective from the current consolidated first quarter, the “IT Solutions Business” has been reclassified from a reportable segment to “Other” due to its low quantitative materiality.

The segment information for the previous consolidated second quarter is disclosed based on the reportable segment classification for the current consolidated second quarter.