Consolidated Financial Results for the First Six Months of the Fiscal Year Ending May 31, 2023 (Japan GAAP)

December 29, 2022

Company name: Pharmarise Holdings Corporation
Listed on: Tokyo Stock Exchange, Prime Market
Code number: 2796
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Scheduled date to file quarterly securities report: January 12, 2023
Scheduled date to commence dividend payments: —
Preparation of supplementary material on quarterly financial results: None
Holding of quarterly financial results briefing: Yes (for analysts and institutional investors)

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

1. Consolidated financial results for the first six months of the fiscal year ending May 31, 2023 (from June 1, 2022 to November 30, 2022)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
November 30, 2022	25,745	(0.6)	573	(27.3)	566	(30.4)	72	(71.0)
November 30, 2021	25,903	0.9	788	50.1	814	51.8	250	96.5

(Note) Comprehensive income Six months ended November 30, 2022: 77 million yen [-69.5%]
Six months ended November 30, 2021: 252 million yen [105.9%]

	Earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
November 30, 2022	7.76	5.93
November 30, 2021	26.94	20.34

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
November 30, 2022	23,306	6,692	27.4
May 31, 2022	23,746	6,699	26.9

(Reference) Equity As of November 30, 2022: 6,388 million yen As of May 31, 2022: 6,399 million yen

2. Cash dividends

	Dividend per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended May 31, 2022	–	0.00	–	14.00	14.00
Fiscal year ending May 31, 2023	–	0.00			
Fiscal year ending May 31, 2023 (forecast)			–	14.00	14.00

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

3. Consolidated earnings forecasts for the fiscal year ending May 31, 2023 (from June 1, 2022 to May 31, 2023)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	51,794	0.4	1,411	(7.2)	1,379	(9.1)	397	(11.3)	42.27

(Note) Revision to the financial results forecast announced most recently: Yes

* Notes

(1) Changes in significant subsidiaries during the first six months of the fiscal year under review (changes in specified subsidiaries accompanying changes in the scope of consolidation): No

New: — (company name) Exception: — (company name)

(2) Application of accounting procedures specific to preparation of the consolidated quarterly financial statements: Yes

Note: Please see "2. Consolidated Financial Statements and Notes on Important Matters, (4) Notes on quarterly consolidated financial statements" on page 12 of the Supplementary Information for more details.

(3) Changes in accounting policies, changes in accounting estimates, and restatement

(i)	Changes in accounting policies due to the revision of accounting standards:	No
(ii)	Changes in accounting policies other than (i):	No
(iii)	Changes in accounting estimates:	No
(iv)	Retrospective restatement:	No

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares):

As of November 30, 2022	9,746,645 shares	As of May 31, 2022	9,673,785 shares

(ii) Total number of treasury shares at the end of the period:

As of November 30, 2022	321,100 shares	As of May 31, 2022:	321,100 shares

(iii) Average number of shares issued and outstanding in each period (cumulative from the beginning of the fiscal year)

Six months ended November 30, 2022	9,375,777 shares	Six months ended November 30, 2021	9,310,100 shares

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

* Explanation regarding appropriate use of business forecasts and other special instructions

The forward-looking statements such as the forecasts of financial results stated in this document are based on the information currently available to the Company and certain assumptions that the Company judges as rational. These statements are not guarantees of future performance. Actual results may differ materially, depending on a range of factors. For assumed conditions underlying the earnings forecast and cautionary statements in using the earnings forecast, please refer to "Explanation about the future outlook, including forecast for consolidated earnings" on page 6.

Accompanying Materials – Contents

1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation regarding operating results

During the first six months of the consolidated fiscal year under review (June 1, 2022 through November 30, 2022), the Japanese economy was expected to begin improving under coexisting with COVID-19. Nevertheless, there is a risk of downward pressure on the Japanese economy due to the weakening of overseas economies, caused by continued global monetary tightening, etc. Moreover, close attention needs to be paid to effects of price rises, supply-side constraints and fluctuations in the financial and capital markets, among other issues.

In this environment, Pharmarise Holdings Corporation ("the Company") and its consolidated subsidiaries ("the Group") announced the Medium-term Management Plan LSG (Leading to Sustainable Growth) 2024 on December 24, 2021. Under Medium-term Management Plan LSG 2024, the Group will endeavor to strengthen competitiveness and achieve growth to enhance shareholder value by (i) increasing efforts to become the corporate group preferred by investors, (ii) developing business, primarily the dispensing business, to enhance revenue, and (iii) enhancing the profit structure by strengthening the management infrastructure.

During the first six months of the consolidated fiscal year under review, net sales totaled 25,745 million yen (down 0.6% year on year), with operating profit of 573 million yen (down 27.3%) and ordinary profit of 566 million yen (down 30.4%). Profit attributable to owners of parent came to 72 million yen (down 71.0%).

Net sales decreased year on year due to a fall in average prescription price caused by a drug price revision, offsetting an increase in the number of prescriptions.

In terms of profits, both operating profit and ordinary profit declined year on year mainly due to the above factors, as well as budget variances related to procurement conditions in the Dispensing Pharmacy Business, an increase in SG&A expenses due to new pharmacy openings and M&A implemented in the current fiscal year, and the drugstore section of the Drug/Convenience Store Business which did not achieve its net sales plan. In addition, profit attributable to owners of parent decreased year on year, mainly due to the posting of extraordinary losses as a result of the cancellation of fixed-term lease agreements in light of the efficient operation of the head office-related business places.

Segment performance was as follows.

In the first quarter of the current fiscal year, the Group changed the business segments to be listed as reportable segments, and comparison and analysis for the first six months of the fiscal year under review were made based on new segments. For details of the change, please refer to "2. Matters relating to changes in reportable segments, etc." for the first six months ended November 30, 2022 under "2. Consolidated Financial Statements and Notes on Important Matters (4) Notes on quarterly consolidated financial statements (Segment information, etc.) (Segment information)."

Dispensing Pharmacy Business

In the first six months of the fiscal year under review, net sales in the Dispensing Pharmacy Business declined to 20,932 million yen (down 0.3% year on year) due to a drug price revision, and segment profit decreased to 744 million yen (down 20.6% year on year) mainly due to budget variances related to procurement conditions and an increase in SG&A expenses due to new pharmacy openings and M&A implemented in the current fiscal year, despite signs of recovery in the number of prescriptions against a backdrop of the easing of restrictions on hospital visits due to COVID-19 and a rise in dispensing technical fees received. In the first six months of the fiscal year under review, five pharmacies were opened, and one pharmacy was closed. The number of pharmacies operated by the Group was 305. The new additions were two pharmacies (Kanagawa Prefecture) under Eiso Pharmacy LLC, which the Group acquired through share transfer, one dispensing pharmacy (Mie Prefecture) under Kusuki Dispensing Pharmacy Co., Ltd., one pharmacy (Hokkaido) under Ikemoto Pharmacy LLC and one pharmacy (Osaka Prefecture) opening under Pharmarise Co., Ltd.

In operating pharmacies, the Group continues to pursue the following initiatives to make family pharmacies the pharmacies of choice: (i) providing community health care (home medical care, dispensing of pharmaceuticals at facilities, pharmacies cooperating with local health care facilities, and pharmacies cooperating with specialized medical institutions) (ii) promoting generic drugs, (iii) promoting the use of Pocket Pharmacy, an electronic medicine notebook, to centrally manage patient information, address double dosing, identify combinations of drugs, and check the amount of remaining drugs more accurately, (iv) promoting the Company's unique "Continual Support Program," a program to extend the healthy life expectancy, for the purpose of continuously supporting efforts to prevent lifestyle-related diseases, (v) launching a "concept pharmacy" initiative, in which each pharmacy brings out its own characteristics and action plan, with support from headquarters as needed and (vi) continuously promoting health support pharmacies that people can casually consult for matters, ranging from non-prescription drugs and health food products to nursing care, meals and nutrition intake, in addition to functions of family pharmacists and pharmacies.

The number of health support pharmacies was 76 at the end of the first six months of the fiscal year under review (increasing 5 from the end of the previous fiscal year), and the number of the Group's pharmacies cooperating with local health care facilities steadily increased to 122 (increasing 26 from the end of the previous fiscal year). The Group is also making preparations for pharmacies cooperating with specialized medical institutions to achieve certification.

Drug/Convenience Store Business

In the first six months of the fiscal year under review, sales for the Drug/Convenience Store Business decreased 0.1% year on year, to 3,857 million yen, and the segment loss was 129 million yen (compared to a segment loss of 101 million yen a year ago). This was mainly due to a decrease in demand for COVID-19-related products such as masks and other hygiene materials in the drugstore section, although sales of mainstay pharmaceutical products were recovering. In the future, the Group will also promote DX and e-commerce initiatives in this section.

In addition, the number of the Group’s stores without any pharmacy section was 46, an increase of 1, at the end of the first six months of the fiscal year under review.

Storage and Management of Medical Documents Business

In the first six months of the fiscal year under review, sales for the Storage and Management of Medical Documents Business decreased 5.2% year on year, to 328 million yen, and the segment profit decreased 35.1%, to 38 million yen, mainly affected by cost-cutting efforts at medical institutions to shorten the storage period of paper medical records, etc. On the other hand, needs for storage and management of paper medical records, etc., continue to arise, and we are developing sales activities to acquire these needs and provide new services.

Medical Mall Management Business

Business performance of the Medical Mall Management Business remained stable, with sales increasing 0.0% year on year, to 252 million yen and the segment profit rising 39.1%, to 45 million yen due to a decrease in depreciation in the first six month of the consolidated fiscal year under review.

Other

In the first six months of the fiscal year under review, sales for the businesses in the Other segment decreased 14.3% year on year, to 375 million yen mainly due to decrease in wholesale transaction of drugs, and the segment profit increased 94.7% year on year, to 26 million yen due to higher profits in system integration business and medical IT solutions business, etc.

(2) Explanation regarding financial position

(Assets)

Assets at the end of the first six months of the consolidated fiscal year under review totaled 23,306 million yen, a decrease of 439 million yen from 23,746 million yen at the end of the previous fiscal year. This decrease was attributable chiefly to decreases in accounts receivable - other and goodwill, despite an increase in merchandise and finished goods.

(Liabilities)

Liabilities at the end of the first six months of the fiscal year under review amounted to 16,614 million yen, a decrease of 433 million yen compared to 17,047 million yen at the end of the previous fiscal year. This is attributable mainly to decreases in current portion of long-term borrowings and long-term borrowings.

(Net assets)

Net assets at the end of the first six months of the consolidated fiscal year under review totaled 6,692 million yen, a decrease of 6 million yen from 6,699 million yen at the end of the previous fiscal year. The main factor was a decrease in retained earnings due to dividend payment, which was partly offset by an increase in retained earnings due to profit attributable to owners of parent posted in the first six months of the fiscal year under review.

(3) Explanation regarding cash flows

Cash and cash equivalents (hereinafter “cash”) at the end of the first six months of the fiscal year under review was 4,303 million yen (an increase of 1,049 million yen from the end of the previous fiscal year).

The cash flows in the first six months of the fiscal year under review and factors relating to each are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to 1,553 million yen (up 1,535 million yen year on year). This was attributable chiefly to the posting of profit before income taxes of 394 million yen, depreciation of 295 million yen and amortization of goodwill of 327 million yen and a decrease of 566 million yen in trade receivables, which were partially offset by a decrease of 437 million yen in cash due to income taxes refund (paid).

(Cash flows from investing activities)

Net cash used in investing activities totaled 448 million yen, an increase of 111 million yen from the previous fiscal year. This was attributable mainly to the purchase of property, plant and equipment of 201 million yen chiefly due to the opening of new pharmacies, payments of guarantee deposits of 113 million yen, and the purchase of shares of subsidiaries resulting in change in scope of consolidation of 161 million yen, which were partially offset by proceeds from refund of guarantee deposits of 101 million yen.

(Cash flows from financing activities)

Net cash used in financial activities was 792 million yen (down 239 million yen year on year). This primarily reflected proceeds from long-term borrowings of 700 million yen, repayments of long-term borrowings of 1,243 million yen, repayments of lease liabilities of 115 million yen and dividends paid of 132 million yen.

(4) Explanation about the future outlook, including forecast for consolidated earnings

As announced in the “Notice of Differences between Consolidated Earnings Forecasts and Financial Results for the First Six Months of the Fiscal Year Ending May 31, 2023 and Revisions to Consolidated Earnings Forecasts for the Fiscal Year Ending May 31, 2023” released on December 29, 2022, the Group has revised its consolidated earnings forecasts for the fiscal year ending May 31, 2023 announced on July 8, 2022, based on recent business performance trends and other factors.

2. Consolidated Financial Statements and Notes on Important Matters

(1) Quarterly consolidated balance sheet

(Million yen)

	As of May 31, 2022	As of November 30, 2022
Assets		
Current assets		
Cash and deposits	3,991	4,303
Accounts receivable	484	554
Merchandise and finished goods	2,237	2,444
Raw materials and supplies	65	69
Accounts receivable - other	3,786	3,026
Other	319	329
Allowance for doubtful accounts	(5)	(5)
Total current assets	10,878	10,724
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,121	3,004
Land	2,616	2,603
Other, net	617	607
Total property, plant and equipment	6,355	6,214
Intangible assets		
Goodwill	3,220	3,093
Other	409	399
Total intangible assets	3,629	3,492
Investments and other assets		
Other	3,045	3,027
Allowance for doubtful accounts	(164)	(152)
Total investments and other assets	2,881	2,874
Total non-current assets	12,866	12,581
Deferred assets	1	0
Total assets	23,746	23,306

(Million yen)

	As of May 31, 2022	As of November 30, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	4,109	4,281
Current portion of bonds payable	–	1,482
Current portion of long-term borrowings	2,276	2,044
Income taxes payable	429	312
Provision for bonuses	46	42
Provision for loss on store closings	50	48
Other	1,564	1,631
Total current liabilities	8,477	9,842
Non-current liabilities		
Bonds payable	1,482	–
Long-term borrowings	5,603	5,356
Retirement benefit liability	781	804
Asset retirement obligations	111	114
Other	592	496
Total non-current liabilities	8,570	6,771
Total liabilities	17,047	16,614
Net assets		
Shareholders' equity		
Share capital	1,274	1,298
Capital surplus	1,529	1,553
Retained earnings	3,811	3,753
Treasury shares	(210)	(210)
Total shareholders' equity	6,405	6,394
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(0)	(0)
Remeasurements of defined benefit plans	(5)	(6)
Total accumulated other comprehensive income	(6)	(6)
Share acquisition rights	208	208
Non-controlling interests	91	96
Total net assets	6,699	6,692
Total liabilities and net assets	23,746	23,306

(2) Quarterly consolidated statements of income and quarterly comprehensive income

Quarterly consolidated statement of income

For six-month period

(Million yen)

	Six months ended November 30, 2021	Six months ended November 30, 2022
Net sales	25,903	25,745
Cost of sales	21,757	21,759
Gross profit	4,145	3,986
Selling, general and administrative expenses	3,357	3,412
Operating profit	788	573
Non-operating income		
Interest income	0	0
Dividend income	1	0
Commission income	8	14
Rental income	9	8
Other	68	11
Total non-operating income	87	35
Non-operating expenses		
Interest expenses	35	28
Cost of lease revenue	4	4
Other	22	9
Total non-operating expenses	61	42
Ordinary profit	814	566
Extraordinary income		
Reversal of provision for loss on store closings	21	–
Subsidy income	–	42
Gain on sale of non-current assets	0	0
Total extraordinary income	21	42
Extraordinary losses		
Loss on sale of non-current assets	–	5
Loss on retirement of non-current assets	18	27
Impairment losses	42	36
Loss on tax purpose reduction entry of non-current assets	–	41
Loss on cancellation of rental contracts	–	103
Total extraordinary losses	60	213
Profit before income taxes	775	394
Income taxes	520	317
Profit	254	77
Profit attributable to non-controlling interests	3	4
Profit attributable to owners of parent	250	72

Quarterly consolidated statement of comprehensive income

For six-month period

(Million yen)

	Six months ended November 30, 2021	Six months ended November 30, 2022
Profit	254	77
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	0
Remeasurements of defined benefit plans, net of tax	(1)	(0)
Total other comprehensive income	(1)	(0)
Comprehensive income	252	77
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	249	72
Comprehensive income attributable to non-controlling interests	3	4

(3) Quarterly consolidated statement of cash flows

(Million yen)

	Six months ended November 30, 2021	Six months ended November 30, 2022
Cash flows from operating activities		
Profit before income taxes	775	394
Depreciation	298	295
Impairment losses	42	36
Amortization of goodwill	353	327
Increase (decrease) in allowance for doubtful accounts	(0)	(11)
Increase (decrease) in provision for loss on store closings	–	(1)
Increase (decrease) in retirement benefit liability	38	20
Interest and dividend income	(2)	(1)
Insurance claim income	(50)	–
Interest expenses	35	28
Subsidy income	–	(42)
Loss (gain) on sale of non-current assets	(0)	4
Loss on retirement of non-current assets	18	27
Loss on cancellation of rental contracts	–	103
Loss on tax purpose reduction entry of non-current assets	–	41
Decrease (increase) in trade receivables	(171)	566
Decrease (increase) in inventories	(302)	(186)
Increase (decrease) in trade payables	(847)	80
Decrease (increase) in consumption taxes refund receivable	226	213
Other	126	79
Subtotal	539	1,976
Interest and dividend income received	1	1
Interest paid	(34)	(28)
Income taxes refund (paid)	(488)	(437)
Subsidies received	–	42
Net cash provided by (used in) operating activities	17	1,553
Cash flows from investing activities		
Purchase of property, plant and equipment	(185)	(201)
Proceeds from sale of property, plant and equipment	0	11
Purchase of intangible assets	(34)	(51)
Purchase of long-term prepaid expenses	(147)	(33)
Payments of guarantee deposits	(59)	(113)
Proceeds from refund of guarantee deposits	27	101
Proceeds from collection of loans receivable	0	0
Guarantee deposits received	0	0
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(161)
Proceeds from cancellation of insurance funds	60	–
Other	(0)	(0)
Net cash provided by (used in) investing activities	(337)	(448)
Cash flows from financing activities		
Proceeds from long-term borrowings	600	700
Repayments of long-term borrowings	(1,339)	(1,243)
Repayments of lease liabilities	(132)	(115)
Redemption of bonds	(27)	–
Purchase of treasury shares	(2)	–
Dividends paid	(129)	(132)
Net cash provided by (used in) financing activities	(1,031)	(792)
Net increase (decrease) in cash and cash equivalents	(1,350)	312
Cash and cash equivalents at beginning of period	4,604	3,991
Cash and cash equivalents at end of period	3,254	4,303

(4) Notes on quarterly consolidated financial statements

(Note on going concern premise)

Not applicable.

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

Not applicable.

(Application of particular accounting treatments concerning preparation of quarterly consolidated financial statements)

(Calculation of tax expense)

Taxes are calculated by multiplying profit before income taxes by a reasonable estimate of the effective tax rate after adjustments for tax-effect accounting for profit before income taxes in the current fiscal year. However, in cases where the calculation of taxes using such estimated effective tax rate yields a result that is not reasonable to a significant extent, the effective statutory tax rate is used.

(Segment information, etc.)

(Segment information)

First six months ended November 30, 2021

1. Reportable segment sales, profit or loss

(Million yen)

	Reportable segments					Other (Note 1)	Total	Adjustments (Note 2)	Amount in quarterly consolidated statement of income (Note 3)
	Dispensing Pharmacy	Drug/ Convenience Store	Storage and Management of Medical Documents	Medical Mall Management	Total				
Net sales									
Sales to external customers	21,005	3,860	346	252	25,465	437	25,903	–	25,903
Inter-segment net sales or transfers	–	–	–	–	–	–	–	–	–
Total	21,005	3,860	346	252	25,465	437	25,903	–	25,903
Segment profit (loss)	938	(101)	59	32	929	13	943	(155)	788

(Notes) 1. The Other segment includes the temporary help business and the system integration business for pharmaceutical companies.

2. The adjustment to segment profit (loss), (155 million yen), is corporate costs that are not allocated to any of the reportable segments.

3. Segment profit (loss) is adjusted to be consistent with the operating profit reported in the consolidated statements of income.

2. Information on impairment loss in non-current assets and goodwill by reported segment

(Important impairment loss on non-current assets)

The Dispensing Pharmacy Business and the businesses in the Other segment posted impairment losses of 0 million yen and 42 million yen, respectively. The amount of the posted impairment losses was 42 million yen for the first six months of the fiscal year under review.

First six months ended November 30, 2022

1. Reportable segment sales, profit or loss

(Million yen)

	Reportable segments					Other (Note 1)	Total	Adjustments (Note 2)	Amount in quarterly consolidated statement of income (Note 3)
	Dispensing Pharmacy	Drug/ Convenience Store	Storage and Management of Medical Documents	Medical Mall Management	Total				
Net sales									
Sales to external customers	20,932	3,857	328	252	25,370	375	25,745	–	25,745
Inter-segment net sales or transfers	–	–	–	–	–	–	–	–	–
Total	20,932	3,857	328	252	25,370	375	25,745	–	25,745
Segment profit (loss)	744	(129)	38	45	699	26	726	(153)	573

(Notes) 1. The Other segment includes the temporary help business and the system integration business for pharmaceutical companies.

2. The adjustment to segment profit (loss), (153 million yen), is corporate costs that are not allocated to any of the reportable segments.

3. Segment profit (loss) is adjusted to be consistent with the operating profit reported in the consolidated statements of income.

2. Matters relating to changes in reportable segments, etc.

Starting in the first three months of the fiscal year under review, wholesale transactions that previously have been included in the Dispensing Pharmacy Business and the Drug/Convenience Store Business are integrated in the Other segment. This was because the Company has determined that it is appropriate to separate the said transactions from the previous segments, reflecting management decisions and a review of operational performance by segment.

The segment information for the cumulative first six months of the previous consolidated fiscal year shown here was prepared based on the revised reporting segments.

3. Information on impairment loss in non-current assets and goodwill by reportable segment

(Important impairment loss on non-current assets)

The Dispensing Pharmacy Business posted an impairment loss of 36 million yen. The amount of the posted impairment loss was 36 million yen for the first six months of the fiscal year under review.