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Consolidated Financial Results for the Six Months Ended November 30, 2022 [Japanese GAAP]



January 13, 2023

Company name: Cosmos Pharmaceutical Corporation

Stock exchange listing: Tokyo Stock Exchange

Code number: 3349

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Scheduled date of filing quarterly securities report: January 16, 2023

Scheduled date of commencing dividend payments: February 13, 2023

Availability of supplementary explanatory materials on quarterly financial results: Available

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

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

1. Consolidated Financial Results for the Six Months Ended November 30, 2022 (June 1, 2022 - November 30, 2022)

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

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|------------------------------------|-------------|-----|------------------|-----|-----------------|-----|---|-----|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Six months ended November 30, 2022 | 404,016 | 8.9 | 15,385 | 2.7 | 16,900 | 2.5 | 11,299 | 0.5 |
| November 30, 2021 | 371,138 | – | 14,979 | – | 16,494 | – | 11,245 | – |

(Note) Comprehensive income: Six months ended November 30, 2022: ¥11,304 million [0.5%]

Six months ended November 30, 2021: ¥11,253 million [–%]

| | Basic earnings per share | Diluted earnings per share |
|------------------------------------|--------------------------|----------------------------|
| | Yen | Yen |
| Six months ended November 30, 2022 | 285.34 | – |
| November 30, 2021 | 283.99 | – |

(Note) The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2022) and other standards from the beginning of the first quarter ended August 31, 2021. The figures for the six months ended November 30, 2021 reflect these accounting standards, and therefore, changes from the previous corresponding period are not shown.

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio |
|-------------------------|--------------|-------------|--------------|
| | Million yen | Million yen | % |
| As of November 30, 2022 | 378,885 | 200,226 | 52.8 |
| As of May 31, 2022 | 363,052 | 190,507 | 52.5 |

(Reference) Equity: As of November 30, 2022: ¥200,226 million

As of May 31, 2022: ¥190,507 million

2. Dividends

| | Annual dividends | | | | |
|--|------------------|-----------------|-----------------|----------|-------|
| | 1st quarter-end | 2nd quarter-end | 3rd quarter-end | Year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal year ended May 31, 2022 | – | 40.00 | – | 40.00 | 80.00 |
| Fiscal year ending May 31, 2023 | – | 42.50 | | | |
| Fiscal year ending May 31, 2023 (Forecast) | | | – | 42.50 | 85.00 |

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending May 31, 2023 (June 1, 2022 - May 31, 2023)

(% indicates changes from the previous corresponding period.)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Basic earnings per share |
|-----------|-------------|-----|------------------|-----|-----------------|-----|---|-----|--------------------------|
| Full year | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| | 813,500 | 7.7 | 30,000 | 0.7 | 33,000 | 0.4 | 23,200 | 0.2 | 585.87 |

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

* Notes:

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

| | |
|--------------------|-------------------|
| November 30, 2022: | 40,000,800 shares |
| May 31, 2022: | 40,000,800 shares |
 - 2) Total number of treasury shares at the end of the period:

| | |
|--------------------|----------------|
| November 30, 2022: | 401,942 shares |
| May 31, 2022: | 401,885 shares |
 - 3) Average number of shares during the period:

| | |
|-------------------------------------|-------------------|
| Six months ended November 30, 2022: | 39,598,888 shares |
| Six months ended November 30, 2021: | 39,599,049 shares |

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

* Explanation of the proper use of financial results forecast and other notes

The statements about future projections contained in this document, including the outlook for financial results, are based on information currently available to the Company and certain assumptions that the Company considers reasonable, and actual financial results etc. may significantly differ from the projections due to various factors. As for matters concerning the financial results forecast, please see “(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” on page 3 of the attachments.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the six months ended November 30, 2022, the outlook of the Japanese economy remained uncertain, with prices of raw materials and crude oil surging, primarily due to the impacts of the sharp weakening of the yen and Russia's protracted war against Ukraine. In particular, rising energy costs had a significant impact on the Japanese economy as a whole. Consequently, the prices of a variety of goods and services increased, resulting in consumers being increasingly budget-minded.

It was exactly because of these circumstances that the Group endeavored to make our drugstores "low priced, close and convenient" for consumers by strengthening price competitiveness through further pursuing low cost-operations.

As for the Group's store opening strategy, the Group deployed new stores one after another with no concern about stores cannibalizing each other's sales that may result in a temporary decline in profitability. At the same time, the Group also expanded its store networks in new catchment areas. The number of newly opened stores stood at 16 in Kanto region, 10 in Chubu region, 2 in Kansai region, 4 in Chugoku region, 2 in Shikoku region, and 17 in Kyushu region, totaling 51. As 3 stores were closed in line with a scrap-and-build approach and other factors, the number of stores at the end of the six months ended November 30, 2022 became 1,292 in total.

As a result of the above measures, the Group's consolidated operating results for the six months ended November 30, 2022 were net sales of 404,016 million yen (108.9% of those for the same period a year earlier), operating profit of 15,385 million yen (102.7% of that for the same period a year earlier), ordinary profit of 16,900 million yen (102.5% of that for the same period a year earlier) and profit attributable to owners of parent of 11,299 million yen (100.5% of that for the same period a year earlier).

Segment information is omitted because the Group is comprised of a single business segment.

(2) Explanation of Financial Position

(i) Assets, Liabilities and Net Assets

Total assets as of November 30, 2022 amounted to 378,885 million yen, an increase of 15,832 million yen from the end of the previous fiscal year. This was mainly due to a decrease of 7,688 million yen in cash and deposits, and increases of 5,138 million yen in merchandise, 3,353 million yen in other under current assets (including accounts receivable - other), and 14,189 million yen in property, plant and equipment.

Total liabilities amounted to 178,658 million yen, an increase of 6,113 million yen from the end of the previous fiscal year. This was mainly due to increases of 1,321 million yen in accounts payable - trade, 1,439 million yen in income taxes payable, and 3,853 million yen in other under current liabilities (including accounts payable - other), and a decrease of 737 million yen in long-term borrowings and current portion of long-term borrowings.

Total net assets amounted to 200,226 million yen, an increase of 9,719 million yen from the end of the previous fiscal year. This was mainly due to an increase in retained earnings.

(ii) Cash Flows

The balance of cash and cash equivalents (hereinafter "cash") at the end of the six months ended November 30, 2022 decreased by 7,688 million yen from the end of the previous fiscal year to 29,674 million yen (down 28.5% year-on-year).

The status of consolidated cash flows for the six months ended November 30, 2022 and contributing factors were as follows.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to 16,848 million yen (up 138.3% year-on-year).

This was mainly due to positive factors such as profit before income taxes of 16,764 million yen, depreciation of 8,243 million yen, and an increase in trade payables of 1,321 million yen, and negative factors such as an increase in inventories of 5,155 million yen and income taxes paid of 4,134 million yen.

(Cash Flows from Investing Activities)

Net cash used in investing activities amounted to 21,295 million yen (up 22.6% year-on-year).

This was mainly due to purchase of property, plant and equipment of 20,289 million yen and payments of leasehold and guarantee deposits of 694 million yen.

(Cash Flows from Financing Activities)

Net cash used in financing activities amounted to 3,240 million yen (down 1.7% year-on-year).

This was mainly due to repayments of long-term borrowings of 737 million yen, repayments of finance lease liabilities of 918 million yen, and dividends paid of 1,583 million yen.

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

Regarding the consolidated financial results forecast for the fiscal year ending May 31, 2023, there is no change from the consolidated financial results forecast released on July 11, 2022.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Million yen)

| | As of May 31, 2022 | As of November 30, 2022 |
|--|--------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 37,362 | 29,674 |
| Accounts receivable - trade | 198 | 347 |
| Merchandise | 66,151 | 71,290 |
| Supplies | 212 | 189 |
| Other | 11,546 | 14,900 |
| Total current assets | 115,471 | 116,400 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 174,662 | 184,800 |
| Land | 31,517 | 32,245 |
| Other, net | 19,106 | 22,428 |
| Total property, plant and equipment | 225,286 | 239,475 |
| Intangible assets | 433 | 488 |
| Investments and other assets | | |
| Leasehold and guarantee deposits | 13,748 | 14,346 |
| Construction assistance fund receivables | 4,175 | 4,220 |
| Other | 3,936 | 3,953 |
| Total investments and other assets | 21,861 | 22,520 |
| Total non-current assets | 247,581 | 262,484 |
| Total assets | 363,052 | 378,885 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 139,224 | 140,546 |
| Current portion of long-term borrowings | 1,387 | 1,299 |
| Income taxes payable | 4,773 | 6,213 |
| Provision for loss on store closings | 157 | 179 |
| Other | 16,520 | 20,373 |
| Total current liabilities | 162,063 | 168,611 |
| Non-current liabilities | | |
| Long-term borrowings | 3,000 | 2,350 |
| Retirement benefit liability | 1,482 | 1,579 |
| Asset retirement obligations | 1,893 | 1,961 |
| Other | 4,105 | 4,155 |
| Total non-current liabilities | 10,481 | 10,046 |
| Total liabilities | 172,545 | 178,658 |

(Million yen)

| | As of May 31, 2022 | As of November 30, 2022 |
|---|--------------------|-------------------------|
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 4,178 | 4,178 |
| Capital surplus | 4,610 | 4,610 |
| Retained earnings | 181,954 | 191,669 |
| Treasury shares | (241) | (242) |
| Total shareholders' equity | 190,501 | 200,216 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1 | 1 |
| Remeasurements of defined benefit plans | 4 | 8 |
| Total accumulated other comprehensive income | 5 | 10 |
| Total net assets | 190,507 | 200,226 |
| Total liabilities and net assets | 363,052 | 378,885 |

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

(Million yen)

| | For the six months ended November 30, 2021 | For the six months ended November 30, 2022 |
|---|---|---|
| Net sales | 371,138 | 404,016 |
| Cost of sales | 296,944 | 320,803 |
| Gross profit | 74,193 | 83,213 |
| Selling, general and administrative expenses | 59,214 | 67,827 |
| Operating profit | 14,979 | 15,385 |
| Non-operating income | | |
| Interest income | 25 | 23 |
| Commission income | 629 | 666 |
| Rental income from real estate | 630 | 594 |
| Gain on receipt of donated non-current assets | 278 | 248 |
| Other | 283 | 285 |
| Total non-operating income | 1,847 | 1,817 |
| Non-operating expenses | | |
| Interest expenses | 27 | 23 |
| Rental costs on real estate | 220 | 232 |
| Other | 84 | 46 |
| Total non-operating expenses | 332 | 302 |
| Ordinary profit | 16,494 | 16,900 |
| Extraordinary income | | |
| Gain on sale of non-current assets | 265 | — |
| Insurance claim income | 3 | — |
| Compensation income | — | 26 |
| Total extraordinary income | 268 | 26 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 50 | 65 |
| Loss on disaster | 27 | 44 |
| Loss on store closings | 6 | 11 |
| Provision for loss on store closings | 42 | 39 |
| Total extraordinary losses | 127 | 161 |
| Profit before income taxes | 16,636 | 16,764 |
| Income taxes | 5,390 | 5,465 |
| Profit | 11,245 | 11,299 |
| Profit attributable to owners of parent | 11,245 | 11,299 |

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended November 30

(Million yen)

| | For the six months ended November 30, 2021 | For the six months ended November 30, 2022 |
|---|---|---|
| Profit | 11,245 | 11,299 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (0) | 0 |
| Remeasurements of defined benefit plans, net of tax | 7 | 4 |
| Total other comprehensive income | 7 | 5 |
| Comprehensive income | 11,253 | 11,304 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 11,253 | 11,304 |

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

| | For the six months ended November 30, 2021 | For the six months ended November 30, 2022 |
|--|---|---|
| Cash flows from operating activities | | |
| Profit before income taxes | 16,636 | 16,764 |
| Depreciation | 7,091 | 8,243 |
| Increase (decrease) in retirement benefit liability | 101 | 104 |
| Increase (decrease) in provision for loss on store closings | 42 | 39 |
| Interest and dividend income | (25) | (23) |
| Interest expenses | 27 | 23 |
| Loss on disaster | 27 | 44 |
| Loss (gain) on sale of non-current assets | (265) | — |
| Insurance claim income | (3) | — |
| Compensation income | — | (26) |
| Loss on retirement of non-current assets | 50 | 65 |
| Loss on store closings | 6 | 11 |
| Decrease (increase) in trade receivables | (20) | (149) |
| Decrease (increase) in inventories | (3,846) | (5,155) |
| Increase (decrease) in trade payables | (2,321) | 1,321 |
| Other, net | (3,177) | (280) |
| Subtotal | 14,322 | 20,984 |
| Interest and dividends received | 0 | 0 |
| Interest paid | (27) | (23) |
| Income taxes paid | (7,248) | (4,134) |
| Payments associated with disaster loss | (21) | (3) |
| Proceeds from insurance income | 44 | — |
| Proceeds from compensation | — | 26 |
| Net cash provided by (used in) operating activities | 7,069 | 16,848 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (18,158) | (20,289) |
| Proceeds from sale of property, plant and equipment | 1,519 | — |
| Payments of construction assistance fund receivables | (484) | (214) |
| Proceeds from collection of construction assistance fund receivables | 200 | 214 |
| Payments of leasehold and guarantee deposits | (571) | (694) |
| Proceeds from refund of leasehold and guarantee deposits | 467 | 105 |
| Other, net | (345) | (417) |
| Net cash provided by (used in) investing activities | (17,371) | (21,295) |
| Cash flows from financing activities | | |
| Repayments of long-term borrowings | (743) | (737) |
| Purchase of treasury shares | (1) | (0) |
| Repayments of finance lease liabilities | (870) | (918) |
| Dividends paid | (1,682) | (1,583) |
| Net cash provided by (used in) financing activities | (3,297) | (3,240) |
| Effect of exchange rate change on cash and cash equivalents | — | — |
| Net increase (decrease) in cash and cash equivalents | (13,599) | (7,688) |
| Cash and cash equivalents at beginning of period | 55,108 | 37,362 |
| Cash and cash equivalents at end of period | 41,508 | 29,674 |