

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



January 10, 2023

Company name: WELCIA HOLDINGS CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 3141

URL: <https://www.welcia.co.jp/>

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Scheduled date of filing quarterly securities report: January 10, 2023

Scheduled date of commencing dividend payments: –

Availability of supplementary briefing material on quarterly financial results: Available

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

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

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

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended November 30, 2022	845,986	11.8	31,468	5.5	36,568	11.0	21,136	4.6
November 30, 2021	756,403	6.5	29,815	(9.6)	32,943	(6.1)	20,208	(6.8)

(Note) Comprehensive income: Nine months ended November 30, 2022: ¥21,633 million [7.2%]

Nine months ended November 30, 2021: ¥20,184 million [(7.6)%]

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended November 30, 2022	101.21	101.14
November 30, 2021	97.04	96.96

(Note) The “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 31, 2020), etc. have been adopted from the beginning of the first quarter of the current fiscal year. The figures for the nine months ended November 30, 2022 reflect the accounting standard, etc.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of November 30, 2022	537,577	225,214	40.7
As of February 28, 2022	463,048	207,886	43.5

(Reference) Equity: As of November 30, 2022: ¥218,789 million

As of February 28, 2022: ¥201,602 million

(Note) The “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 31, 2020), etc. have been adopted from the beginning of the first quarter of the current fiscal year. The figures as of November 30, 2022 reflect the accounting standard, etc.

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 28, 2022	–	15.00	–	15.00	30.00
Fiscal year ending February 28, 2023	–	16.00	–		
Fiscal year ending February 28, 2023 (Forecast)				16.00	32.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2023 (March 1, 2022 - February 28, 2023)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	1,110,000	8.2	47,000	9.3	51,600	8.4	28,400	7.4	136.17

(Notes) 1. Revision to the financial results forecast announced most recently: None

2. The “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 31, 2020), etc. have been adopted from the beginning of the first quarter of the current fiscal year. The above consolidated results forecast figures reflect the accounting standard, etc.

*** Notes:**

- (1) Changes in significant subsidiaries during the period under review: None
(Changes in specified subsidiaries resulting in changes in scope of consolidation):
Newly included: – (), Excluded: – ()
- (2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
- 1) Changes in accounting policies due to the revision of accounting standards: Yes
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (Note) For details, please refer to “2. Quarterly Consolidated Financial Statements and Principal Notes (3) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies)” on page 9 of the attached document.

- (4) Total number of issued and outstanding shares (common shares)
- 1) Total number of issued and outstanding shares at the end of the period (including treasury stock):

November 30, 2022:	209,652,876 shares
February 28, 2022:	209,633,676 shares

 - 2) Total number of treasury stock at the end of the period:

November 30, 2022:	557,689 shares
February 28, 2022:	1,077,900 shares

 - 3) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year):

Nine months ended November 30, 2022:	208,832,107 shares
Nine months ended November 30, 2021:	208,256,343 shares
- (Notes) The number of shares of the Company held in the Employees’ Stock Ownership ESOP Trust (February 28, 2022: 624,800 shares; November 30, 2022: 132,300 shares) and the number of shares of the Company held in the Directors’ Remuneration BIP Trust (February 28, 2022: 440,442 shares; November 30, 2022: 412,219 shares) were included in the total number of treasury stock at the end of the period. The number of shares of the Company held in the Employees’ Stock Ownership ESOP Trust and the Directors’ Remuneration BIP Trust was included in the number of treasury stock, which was to be deducted from the calculation of the average number of shares outstanding during the period (November 30, 2021: 1,356,609 shares; November 30, 2022: 801,394 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 earnings forecasts and other forward-looking statements provided herein are based on information available to the Company and certain assumptions deemed reasonable, and the Company does not promise the achievement of those forecasts. Actual results may differ significantly from these forecasts due to a wide range of factors. For the assumptions underlying the forecasts and the notes on the use of the forecasts, please refer to “1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” on page 4 of the attached document.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the nine months ended November 30, 2022 (from March 1, 2022 to November 30, 2022), as severe restrictions due to the COVID-19 pandemic were eased, there were progress in returning to normalcy in the economic and social activity and a gradual recovery in consumer spending in Japan. However, the outlook for the Japanese economy still remains uncertain due to factors including a downside risk associated with the ongoing depreciation of the yen and the appreciation of the dollar, and fluctuations in financial and capital markets as well as the influence of a price hike on consumer spending against the background of cost-push inflation.

In the drugstore industry, the primary area of the Group's business, the business environment surrounding the Company still continues to be challenging due to such factors as aggressive store openings by competitors, major players expanding their scales of business and satisfying customer needs through mergers and acquisitions, and competition involving players from across different industrial sectors and business formats.

Under such circumstances, the Group continued to operate its business and strove to provide products and services that met customer needs while implementing measures to prevent infections and thorough hygiene management, and also continued to actively engage in the free PCR and other testing programs. In sales of goods, related products in the OTC segment were strong as measures against the infection of COVID-19. The cosmetics segment also showed growth owing to increased opportunities for people to go out. In the dispensing division, despite the effects of the revision of drug dispensing fees, the number of prescriptions handled increased due to the increase in the number of stores with dispensing pharmacies (1,982 stores as of November 30, 2022) as well as the business being not greatly affected by the public sentiment against visiting a hospital even under the pandemic. The Group managed to optimize selling, general and administrative expenses, mainly in terms of its labor costs by conserving electricity through the use of light dimming functions, continuing efforts to optimize store man-hours, and improving store operational efficiency through the promotion of automatic ordering, although utilities expenses were increased by soaring fuel prices.

The Group also made efforts toward the improvement of business efficiency by carrying out an absorption-type merger, effective June 1, 2022, whereby a subsidiary of the Company, Kanamitsu Yakuhin Co., Ltd., was absorbed and WELCIA YAKKYOKU CO., LTD., a subsidiary of the Company, became the surviving company. On the same date, the Group converted Kokumin Co., Ltd. (162 stores) and French Co., Ltd. (three stores), which are based in Osaka Prefecture and operate stores in the Hokkaido, Kanto, Kansai, and Kyushu areas, into subsidiaries through the acquisition of shares.

As for store openings and closures, the Group as a whole opened 112 stores and closed 29 stores, for a total of 2,716 stores Group-wide as of November 30, 2022.

(Unit: No. of Stores)

	No. of stores as of February 28, 2022	Increase resulting from conversion into subsidiary	Increase/decrease resulting from mergers	Openings	Closures	No. of stores as of November 30, 2022
WELCIA YAKKYOKU (Note 1)	2,023	–	26	94	16	2,127
Kokumin (Note 2)	–	162	–	3	9	156
Pupule Himawari	132	–	–	3	1	134
Marudai Sakurai Pharmacy	92	–	–	3	–	95
SHIMIZU YAKUHIN	65	–	–	3	2	66
Marue Drug	58	–	–	2	1	59
YODOYA	25	–	–	–	–	25
French (Note 2)	–	3	–	–	–	3
MASAYA	36	–	–	3	–	39
Kanamitsu Yakuhin (Note 1)	26	–	(26)	–	–	–
Total in Japan	2,457	165	–	111	29	2,704
Welcia-BHG (Singapore)	11	–	–	1	–	12
Total	2,468	165	–	112	29	2,716

- (Notes) 1. Effective June 1, 2022, WELCIA YAKKYOKU acquired Kanamitsu Yakuhin through a merger by absorption.
2. Effective June 1, 2022, the Company converted Kokumin and French into subsidiaries through the acquisition of shares and made them into consolidated subsidiaries.
3. Of the number of stores as of November 30, 2022, 1,792 stores of WELCIA YAKKYOKU, 46 stores of Kokumin, 20 stores of Pupule Himawari, 42 stores of Marudai Sakurai Pharmacy, 42 stores of SHIMIZU YAKUHIN, 25 stores of Marue Drug, 10 stores of YODOYA, and five stores of Welcia-BHG (Singapore) have dispensing pharmacies, or a total of 1,982 stores have dispensing pharmacies. Of the same number, 1,707 stores of WELCIA YAKKYOKU, 7 stores of Kokumin, 16 stores of Pupule Himawari, 48 stores of Marudai Sakurai Pharmacy, 59 stores of SHIMIZU YAKUHIN, 21 stores of Marue Drug, and 14 stores of YODOYA offer late-night services, or a total of 1,872 stores offer late-night services.

Sales by category were as indicated below.

Category	Sales (million yen)
OTC products	171,344
Cosmetics	132,276
Household goods	116,908
Food products	187,918
Others	68,617
Total sales of goods other than dispensing	677,063
Dispensing	168,019
Subtotal	845,082
Commission income	904
Total	845,986

As a result of the above, the consolidated operating results for the nine months ended November 30, 2022, were ¥845,986 million in net sales (an increase of 11.8% year-on-year), ¥31,468 million in operating income (an increase of 5.5% year-on-year), ¥36,568 million in ordinary income (an increase of 11.0% year-on-year), and ¥21,136 million in net income attributable to owners of parent (an increase of 4.6% year-on-year).

The Company has adopted the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the first quarter of the current fiscal year. Therefore, figures based on calculation methods based on different standards are used for year-on-year comparisons. For further details, refer to 2. Quarterly Consolidated Financial Statements and Principal Notes - (3) Notes to Quarterly Consolidated Financial Statements (Changes in accounting policies) (Application of the Accounting Standard for Revenue Recognition, etc.).

(2) Explanation of Financial Position

(Assets)

Total assets as of November 30, 2022 increased by ¥74,529 million compared to the end of the previous fiscal year to ¥537,577 million. This was primarily due to increases of ¥14,652 million in cash and deposits, ¥7,448 million in accounts receivable - trade, ¥17,788 million in merchandise, ¥8,974 million in buildings and structures, net, ¥14,669 million in goodwill, and ¥5,426 million in guarantee deposits.

(Liabilities)

Total liabilities as of November 30, 2022 increased by ¥57,201 million compared to the end of the previous fiscal year to ¥312,362 million. This was primarily due to a decrease of ¥5,351 million in income taxes payable, despite increases of ¥23,233 million in accounts payable - trade, ¥8,929 million in short-term loans payable, and ¥19,853 million in long-term loans payable.

(Net assets)

Net assets as of November 30, 2022 increased by ¥17,327 million compared to the end of the previous fiscal year to ¥225,214 million. This was primarily due to the recording of net income attributable to owners of parent of ¥21,136 million, despite a decrease of ¥6,498 million in retained earnings due to the dividends from surplus.

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

There has been no change from the consolidated financial results forecast announced in the “Consolidated Financial Results for the Fiscal Year Ended February 28, 2022” (on April 7, 2022).

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of February 28, 2022	As of November 30, 2022
Assets		
Current assets		
Cash and deposits	23,401	38,054
Accounts receivable - trade	49,710	57,159
Merchandise	116,230	134,019
Other	18,656	17,024
Allowance for doubtful accounts	(1)	(3)
Total current assets	207,998	246,253
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	100,199	109,174
Land	15,494	20,363
Leased assets, net	45,340	45,233
Other, net	7,363	8,439
Total property, plant and equipment	168,397	183,210
Intangible assets		
Goodwill	22,799	37,469
Other	2,895	3,556
Total intangible assets	25,694	41,025
Investments and other assets		
Guarantee deposits	41,882	47,308
Other	19,097	19,910
Allowance for doubtful accounts	(22)	(131)
Total investments and other assets	60,957	67,088
Total noncurrent assets	255,049	291,324
Total assets	463,048	537,577

(Million yen)

	As of February 28, 2022	As of November 30, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	133,524	156,758
Short-term loans payable	8,991	17,921
Lease obligations	8,962	9,451
Accounts payable - other	10,362	13,479
Income taxes payable	9,944	4,593
Provision for bonuses	4,898	2,263
Provision for bonuses for directors (and other officers)	51	63
Provision for point card certificates	155	–
Contract liabilities	–	285
Provision for loss on guarantees	–	1,120
Other	12,134	16,600
Total current liabilities	189,024	222,537
Noncurrent liabilities		
Long-term loans payable	17,560	37,414
Lease obligations	26,996	26,668
Asset retirement obligations	11,418	12,521
Retirement benefits-related liabilities	6,457	8,221
Allowance for executive stock benefit	722	747
Other	2,981	4,251
Total noncurrent liabilities	66,136	89,825
Total liabilities	255,161	312,362
Net assets		
Shareholders' equity		
Capital stock	7,736	7,747
Capital surplus	51,670	51,681
Retained earnings	146,032	160,672
Treasury stock	(3,841)	(1,652)
Total shareholders' equity	201,597	218,447
Accumulated other comprehensive income		
Other valuation difference on available-for-sale securities	295	486
Foreign currency translation adjustment	41	139
Accumulated adjustment related to retirement benefits	(332)	(283)
Total accumulated other comprehensive income	4	341
Subscription rights to shares	183	161
Minority interests	6,101	6,263
Total net assets	207,886	225,214
Total liabilities and net assets	463,048	537,577

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

(Million yen)

	For the nine months ended November 30, 2021	For the nine months ended November 30, 2022
Net sales	756,403	845,986
Cost of sales	522,782	590,735
Gross profit	233,620	255,251
Selling, general and administrative expenses	203,804	223,783
Operating income	29,815	31,468
Non-operating income		
Interest and dividend income	7	13
Rental income from real estate	719	1,127
Sponsorship money income	252	635
Subsidy income	979	1,903
Other	1,768	2,160
Total non-operating income	3,728	5,840
Non-operating expenses		
Interest expenses	335	441
Share of loss of entities accounted for using equity method	6	17
Rent cost of real estate	123	201
Other	135	80
Total non-operating expenses	600	740
Ordinary income	32,943	36,568
Extraordinary income		
Gain on sale of noncurrent assets	6	35
Other	5	–
Total extraordinary income	12	35
Extraordinary loss		
Loss on sale of noncurrent assets	1	48
Loss on retirement of noncurrent assets	190	51
Impairment loss	177	541
COVID-related loss	11	–
Provision for loss on guarantees	–	1,120
Other	49	189
Total extraordinary losses	430	1,951
Net income before income taxes and minority interests	32,524	34,652
Income taxes - current	11,640	13,321
Income taxes - deferred	735	124
Total income taxes	12,375	13,445
Net income	20,148	21,207
Profit (loss) attributable to non-controlling interests	(59)	70
Net income attributable to owners of parent	20,208	21,136

Quarterly Consolidated Statements of Comprehensive Income

Nine Months Ended November 30

(Million yen)

	For the nine months ended November 30, 2021	For the nine months ended November 30, 2022
Net income	20,148	21,207
Other comprehensive income		
Other valuation difference on available-for-sale securities	(51)	191
Foreign currency translation adjustment	45	190
Remeasurements of defined benefit plans	41	45
Total other comprehensive income	35	426
Comprehensive income	20,184	21,633
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	20,222	21,473
Comprehensive income attributable to non-controlling interests	(37)	160

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

Not applicable.

(Changes in accounting policies)

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

The Company has adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 31, 2020; hereinafter "Revenue Recognition Standard") and other standards from the beginning of the first quarter of the current fiscal year. 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 Revenue Recognition Standard, etc. are described below.

The Company has changed its method of accounting regarding points awarded with the sale of merchandise to customers under a point program operated by another company. The Company previously presented the amount equivalent to the points awarded under "selling, general and administrative expenses," but now it recognizes as revenue only the transaction price minus the amount equivalent to the points awarded. The Company has also changed its method of accounting regarding transactions in which the Company acts as an agent in the provision of a good or service. The Company previously recognized the total amount of consideration received from the customer as revenue, but now it recognizes the net amount of consideration received from the customer less the amount to be paid to the other party concerned.

The Company applies the Revenue Recognition Standard and other standards 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 first quarter of the current fiscal year, with the new accounting policies applied from the beginning balance.

As a result of this change, for the nine months ended November 30, 2022, net sales decreased by 16,583 million yen, cost of sales decreased by 3,897 million yen, selling, general and administrative expenses decreased by 12,692 million yen, and operating profit, ordinary profit, and net income before income taxes and minority interests increased by 6 million yen, respectively. The beginning balance of retained earnings increased by 4 million yen.

With the application of the Revenue Recognition Standard and other standards, "provision for point card certificates," which was presented under "current liabilities" in the consolidated balance sheet of the previous period, has been presented as "contract liabilities" since the first quarter of the current fiscal year.

However, in accordance with the transitional treatment set forth in Paragraph 89-2 of the Revenue Recognition Standard, figures for the previous period have not been reclassified based on the new presentation method.

Furthermore, 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), information on the disaggregation of revenue from contracts with customers for the first nine months of the previous fiscal year is not presented.

(Application of the Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter “Fair Value Measurement Standard”) and other standards from the beginning of the first quarter of the current fiscal year, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard and other standards 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 consolidated quarterly financial statements.