



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

March 17, 2023

Company name: SATUDORA HOLDINGS CO., LTD. Listing: Tokyo Stock Exchange, Sapporo Securities Exchange
 Securities code: 3544 URL: <https://satudora-hd.co.jp>
 Representative: Hiroki Tomiyama, President, CEO
 Contact: Daisuke Kagaya, Group Leader of Business Management Group, TEL 011-788-5166
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 Holding of quarterly financial results explanation meeting: No

(Rounded down to the nearest million yen)

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

(1) Consolidated operating results (cumulative)

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

	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	%
Nine months ended								
February 15, 2023	65,557	4.9	340	△16.9	361	△21.1	203	△24.0
February 15, 2022	62,520	△1.3	409	7.5	457	1.5	267	△41.7

(Note) Comprehensive income
 Nine months ended February 15, 2023: 212 million yen (△17.7%)
 Nine months ended February 15, 2022: 257 million yen (△41.5%)

	Quarterly net income per share	Diluted quarterly net income per share
Nine months ended	Yen	Yen
February 15, 2023	14.72	14.72
February 15, 2022	19.39	19.39

(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

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
February 15, 2023	42,827	8,979	20.7
May 15, 2022	41,398	8,888	21.2

(Note) Equity
 As of February 15, 2023: 8,875 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) Notes to quarterly consolidated financial statements (Application of special accounting methods in preparation of the quarterly consolidated financial statements)" 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) Notes to quarterly consolidated financial statements (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 February 15, 2023	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 February 15, 2023	432,803 shares	As of May 15, 2022	432,747 shares
③ Average number of shares outstanding during the period (quarterly cumulative)	Nine months ended February 15, 2023	13,798,833 shares	Nine months ended February 15, 2022	13,788,415 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

During the first nine months of the current consolidated fiscal year (May 16, 2022 to February 15, 2023), the Japanese economy showed signs of recovery in socioeconomic 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 such factors as the impact of rising energy and raw material prices on consumer spending.

In the drugstore industry, in which the Group mainly operates, the business environment surrounding the Group continues to be challenging due to 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.

In the integrated lifestyle store strategy, the number of stores handling fresh foods increased by 11 this fiscal year as part of our line-robbing effort to expand product categories. In addition, we are working to create stores that are supported by local residents through comprehensive efforts to provide lifestyle services, such as expanding the number of stores with dispensing facilities and continuing to hold in-store nutritional consultation sessions with nutritionists.

As for the regional platform strategy, the number of members of Hokkaido's common point card "EZOCA" surpassed 2.1 million as of the end of January 2023. The EZOCA ecosystem continues to grow, with the number of partner stores also expanding to 894 stores with 214 companies. The "Esashi EZOCA," which was launched as part of the initiatives based on a comprehensive cooperation agreement with Esashi Town, incorporates a system whereby a portion of the customer's purchase price is returned to the town with the aim of contributing to the revitalization of the local economy. Together with the town, we are also engaged in a MaaS demonstration experiment to improve transportation convenience to implement a revenue cycle model within society by utilizing and verifying data acquired from the Esashi EZOCA.

As part of our collaboration strategy, we have newly concluded various agreements with Sapporo Jikei Gakuen Sapporo Shinyo High School, Hokkaido Bunkyo University, Kamikawa Town, Koshimizu Town, Tobetsu Town, Tokachi Mainichi Newspaper, Inc. and NisekoMachi Co., Ltd. to contribute to the sustainable development of the region and resolution of social issues. As of February 2023, we have signed more than 40 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 third quarter of the current fiscal year were 65,557 million yen (up 4.9%, or 3,037 million yen, year on year), operating profit was 340 million yen (down 16.9%, or 69 million yen, year on year), ordinary profit was 361 million yen (down 21.1%, or 96 million yen, year on year), and profit attributable to owners of parent was 203 million yen (down 24.0%, or 64 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) Notes to quarterly consolidated financial statements (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.

During the period under review, the number of customers decreased due to a decline in the frequency of customer visits, as customers became increasingly aware of the need to protect their lives in the face of rising prices. However, sales were higher than the previous year due to the increased sales from the implementation of vaccine and test packages and medical antigen test kits, as well as the reopening of inbound-format stores, that had been temporarily closed, in response to the recovery in the number of foreign visitors to Japan. However, profit was a lower year on year due to the recording of valuation loss on some products.

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 February 15, 2023
Drugstores	Drugstore format	175 stores	7 stores	5 stores	177 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	1 store	-	3 stores
Total		201 stores	8 stores	6 stores	203 stores

As a result of the above, sales in the retail business segment amounted to 64,737 million yen (up 4.6%, or 2,829 million yen year on year), and segment profit amounted to 315 million yen (down 2.5%, or 8 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 January 2023, the number of members of "EZOCA," Hokkaido's common point card, which is our Group's strength, surpassed 2.1 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 1,117 million yen (up 25.1%, or 224 million yen year on year) and segment profit of 2 million yen (down 94.8%, or 43 million yen year on year).

(2) Explanation of financial position

Total assets at the end of the third quarter of the current consolidated fiscal year were 42,827 million yen, an increase of 1,428 million yen from the end of the previous consolidated fiscal year. This was mainly due to increases of 630 million yen in merchandise and 1,215 million yen in property, plant and equipment, despite a decrease of 593 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 33,848 million yen, an increase of 1,338 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 5,700 million yen in short-term borrowings and a decrease of 3,700 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 300 million yen in other current liabilities, a decrease of 765 million yen in long-term borrowings (including the current portion of long-term borrowings).

Total net assets were 8,979 million yen, an increase of 90 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 203 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 February 15, 2023
Assets		
Current assets		
Cash and deposits	2,957	2,772
Accounts receivable-trade	3,085	2,491
Merchandise	10,771	11,401
Other	3,255	3,214
Total current assets	20,069	19,880
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	7,358	8,401
Land	3,869	3,973
Other, net	1,850	1,919
Total property, plant and equipment	13,077	14,293
Intangible assets	451	408
Investments and other assets		
Leasehold and guarantee deposits	6,222	6,274
Other	1,595	1,988
Allowance for doubtful accounts	△18	△18
Total investment and other assets	7,799	8,244
Total non-current assets	21,329	22,947
Total assets	41,398	42,827

(Millions of yen)

	As of May 15, 2022	As of February 15, 2023
Liabilities		
Current liabilities		
Accounts payable-trade	12,334	8,633
Short-term borrowings	300	6,000
Current portion of long-term borrowings	1,014	994
Income taxes payable	51	50
Provision for bonuses	536	319
Other	4,130	4,430
Total current liabilities	18,366	20,428
Non-current liabilities		
Long-term borrowings	11,734	10,988
Retirement benefit liability	634	679
Asset retirement obligations	532	581
Other	1,241	1,170
Total non-current liabilities	14,143	13,419
Total liabilities	32,510	33,848
Net assets		
Shareholders' equity		
Share capital	1,000	1,003
Capital surplus	2,095	2,098
Retained earnings	6,061	6,135
Treasury shares	△299	△299
Total shareholders' equity	8,857	8,938
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	99
Total net assets	8,888	8,979
Total liabilities and net assets	41,398	42,827

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statement of income

Consolidated cumulative third quarter

(Millions of yen)

	Nine months ended February 15, 2022	Nine months ended February 15, 2023
Net sales	62,520	65,557
Cost of sales	47,731	49,587
Gross profit	14,789	15,970
Selling, general and administrative expenses	14,379	15,630
Operating profit	409	340
Non-operating income		
Interest and dividend income	14	15
Gain on donation of non-current assets	25	17
Foreign exchange gains	25	6
Other	46	74
Total non-operating income	112	113
Non-operating expenses		
Interest expenses	60	91
Other	4	1
Total non-operating expenses	64	93
Ordinary profit	457	361
Extraordinary income		
Gain on sales of non-current assets	41	0
Gain on sale of investment securities	-	29
Total extraordinary income	41	30
Extraordinary losses		
Loss on store closings	12	2
Loss on retirement of non-current assets	7	-
Impairment losses	-	36
Total extraordinary losses	19	38
Quarterly profit before income taxes	479	352
Total income taxes	199	141
Quarterly profit	279	210
Quarterly profit attributable to non-controlling interests	11	7
Quarterly profit attributable to owners of parent	267	203

Quarterly consolidated statement of comprehensive income

Consolidated cumulative third quarter

(Millions of yen)

	Nine months ended February 15, 2022	Nine months ended February 15, 2023
Quarterly profit	279	210
Other comprehensive income		
Valuation difference on available-for-sale securities	△0	0
Foreign currency translation adjustment	△23	0
Remeasurements of defined benefit plans	2	0
Total other comprehensive income	△21	1
Quarterly comprehensive income	257	212
Comprehensive income attributable to:		
Comprehensive quarterly income attributable to owners of parent	245	204
Comprehensive quarterly income attributable to non-controlling interests	11	7

(3) Notes to quarterly consolidated financial statements

(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 statements)

(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 third 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 third quarter (May 16, 2021 - February 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	57,865	—	57,865	—	57,865
Inbound	326	—	326	—	326
Pharmacy	2,804	—	2,804	—	2,804
Other	383	640	1,024	—	1,024
Revenue arising from contracts with customers	61,379	640	62,020	—	62,020
Other revenues	488	12	500	—	500
External sales	61,868	652	62,520	—	62,520
Inter-segment sales and transfers	39	240	279	△279	—
Total	61,907	892	62,800	△279	62,520
Segment profit	323	45	369	40	409

(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 third quarter (May 16, 2022 - February 15, 2023)

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	59,094	—	59,094	—	59,094
Inbound	1,416	—	1,416	—	1,416
Pharmacy	3,169	—	3,169	—	3,169
Other	477	824	1,302	—	1,302
Revenue arising from contracts with customers	64,157	824	64,982	—	64,982
Other revenues	539	36	575	—	575
External sales	64,696	861	65,557	—	65,557
Inter-segment sales and transfers	40	256	296	△296	—
Total	64,737	1,117	65,854	△296	65,557
Segment profit	315	2	317	22	340

(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.

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 third quarter is disclosed based on the reportable segment classification for the current consolidated third quarter.