

Consolidated Financial Results for the Fiscal Year Ended February 28, 2023 [Japanese GAAP]



April 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 general shareholders' meeting: May 25, 2023

Scheduled date of commencing dividend payments: May 9, 2023

Scheduled date of filing securities report: May 26, 2023

Availability of supplementary briefing material on annual financial results: Available

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

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

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

(1) Consolidated Operating Results (% 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	%
Fiscal year ended February 28, 2023	1,144,278	11.5	45,635	6.1	52,149	9.6	27,030	2.2
February 28, 2022	1,025,947	8.0	43,018	0.1	47,590	3.9	26,453	(5.5)

(Note) Comprehensive income: Fiscal year ended February 28, 2023: ¥27,841 million [5.4%]

Fiscal year ended February 28, 2022: ¥26,423 million [(5.7)%]

	Net income per share	Diluted net income per share	Return on equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
Fiscal year ended	Yen	Yen	%	%	%
February 28, 2023	129.38	129.29	12.7	10.4	4.0
February 28, 2022	126.99	126.88	13.9	10.6	4.2

(Reference) Equity in earnings of affiliated companies: Fiscal year ended February 28, 2023: ¥(47) million
Fiscal year ended February 28, 2022: ¥(11) million

(Note) The "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 31, 2020), etc. have been adopted from the beginning of the current fiscal year. The figures for the fiscal year ended February 28, 2023 reflect the accounting standard, etc.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of February 28, 2023	537,362	232,384	42.0	1,078.97
As of February 28, 2022	463,048	207,886	43.5	966.66

(Reference) Equity: As of February 28, 2023: ¥225,750 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 current fiscal year. The figures as of February 28, 2023 reflect the accounting standard, etc.

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at year-end
Fiscal year ended February 28, 2023	Million yen 60,296	Million yen (36,068)	Million yen (14,849)	Million yen 32,307
February 28, 2022	16,228	(37,088)	(7,282)	22,837

2. Dividends

	Annual dividends					Total dividends (annual)	Payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended February 28, 2022	Yen –	Yen 15.00	Yen –	Yen 15.00	Yen 30.00	Million yen 6,288	% 23.6	% 3.3
Fiscal year ended February 28, 2023	–	16.00	–	16.00	32.00	6,708	24.7	3.1
Fiscal year ending February 29, 2024 (Forecast)	–	17.00	–	17.00	34.00		25.4	

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 29, 2024 (March 1, 2023 - February 29, 2024)

(% 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
Six months ending August 31, 2023	612,220	8.8	25,740	7.3	28,030	0.2	16,700	(2.3)	79.82
Full year	1,230,000	7.5	48,000	5.2	52,500	0.7	28,000	3.6	133.83

*** Notes:**

(1) Changes in significant subsidiaries during the fiscal year under review: None
(Changes in specified subsidiaries resulting in changes in scope of consolidation)
Newly included: – (), Excluded: – ()

(2) 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 “3. Consolidated Financial Statements and Principal Notes, (5) Notes to Consolidated Financial Statements, (Changes in accounting policies)” on page 16 of the attached document.

(3) Total number of issued and outstanding shares (common shares)

1) Total number of issued and outstanding shares at the end of the year (including treasury stock):

February 28, 2023:	209,652,876 shares
February 28, 2022:	209,633,676 shares

2) Total number of treasury stock at the end of the year:

February 28, 2023:	425,469 shares
February 28, 2022:	1,077,900 shares

3) Average number of shares outstanding during the year:

Year ended February 28, 2023:	208,916,426 shares
Year ended February 28, 2022:	208,320,037 shares

(Note) The number of shares of the Company held in the Employees’ Stock Ownership ESOP Trust (February 28, 2022: 624,800 shares) and the number of shares of the Company held in the Directors’ Remuneration BIP Trust (February 28, 2022: 440,442 shares; February 28, 2023: 412,219 shares) were included in the total number of treasury stock at the end of the year. 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 year (February 28, 2022: 1,294,907 shares; February 28, 2023: 718,595 shares). Please note that the Employees’ Stock Ownership ESOP Trust was discontinued in February 2023.

(Reference) Summary of Non-consolidated Financial Results**Non-consolidated Financial Results for the Fiscal Year Ended February 28, 2023 (March 1, 2022 - February 28, 2023)****(1) Non-consolidated Operating Results** (% indicates changes from the previous corresponding period.)

Fiscal year ended	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
February 28, 2023	11,623	8.1	8,772	7.4	8,741	6.2	7,119	(13.0)
February 28, 2022	10,752	6.3	8,164	9.8	8,228	9.4	8,183	13.6

Fiscal year ended	Net income per share	Diluted net income per share
	Yen	Yen
February 28, 2023	34.08	34.05
February 28, 2022	39.28	39.25

(2) Non-consolidated Financial Position

As of	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
February 28, 2023	142,180	82,608	58.0	394.05
February 28, 2022	111,137	79,230	71.1	379.02

(Reference) Equity: As of February 28, 2023: ¥82,446 million

As of February 28, 2022: ¥79,047 million

* These consolidated financial results are outside the scope of audit 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. Overview of Operating Results, etc., (4) Future Outlook” on page 5 of the attached document.

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1. Overview of Operating Results, etc.

(1) Overview of Operating Results for the Fiscal Year under Review

During the fiscal year ended February 28, 2023 (March 1, 2022 to February 28, 2023), the Japanese economy experienced repeated waves of COVID-19 outbreaks. However, as the outbreaks subsided, severe restrictions were eased toward the end of the year, and the economy gradually recovered due in part to the effects of various policies taken under the catchword “With Corona.” While nominal wages increased with the resumption of economic activity, real wages fell short of the rate of increase in consumer prices, which was caused by soaring energy and raw material prices. Despite recent signs of wage increases, there is concern that the declining purchasing power of households will exert downward pressure on the economy.

The drugstore industry, the primary area of the Group’s business, has seen an intensification in competition across industries and business formats as can be seen in, for example, the expansion in scale due to the opening of new stores by major players in the same industry and industry restructuring. While the waves of outbreaks brought about an increase in the demand for COVID-19 infection control products such as masks and antigen test kits and for PCR and other testing services, the recent decrease in the infections have caused a decline in the demand. On the other hand, there are signs of recovery in cosmetics, reflecting increased opportunities for people to go out, and in inbound demand, reflecting the relaxation of behavioral restrictions in many countries.

Under such circumstances, the Group strove to sell products and provide services in response to customer needs. In sales of goods, there was an increase especially in the area of OTC products for people who recuperated at home such as medicines for the common cold. In the dispensing division, notwithstanding the effects of severe compensation revisions, the number of prescriptions handled increased due primarily to an increase in the number of stores with dispensing pharmacies (2,024 stores as of February 28, 2023) as well as the business being not greatly affected by the public sentiment against visiting a hospital even during the pandemic. The Group also managed to optimize selling expenses, mainly in terms of labor costs by such measures as optimizing store operational efficiency through the promotion of automatic ordering and managing store man-hours, although utilities expenses were significantly increased by soaring fuel prices.

The Group converted Kokumin Co., Ltd. (162 stores) and French Co., Ltd. (3 stores), as of June 1, 2022, and Fukuyakuhin (25 stores), as of December 1, 2022, into subsidiaries through the acquisition of shares. The Group as a whole opened 140 stores and closed 36 stores, for a total of 2,763 stores Group-wide as of February 28, 2023.

As a result of the above, the consolidated operating results for the fiscal year ended February 28, 2023 were ¥1,144,278 million in net sales, ¥45,635 million in operating income, ¥52,149 million in ordinary income, and ¥27,030 million in net income attributable to owners of parent.

(Unit: No. of Stores)

	No. of stores as of February 28, 2022	Increase resulting from conversion into subsidiary or transfer of business	Increase/decrease resulting from mergers	Openings	Closures	No. of stores as of February 28, 2023
WELCIA YAKKYOKU (Notes 1, 2)	2,023	1	26	116	21	2,145
Kokumin (Note 3)	–	162	–	3	9	156
Pupule Himawari	132	–	–	3	1	134
Marudai Sakurai Pharmacy	92	–	–	4	–	96
SHIMIZU YAKUHIN	65	–	–	5	2	68
Marue Drug	58	–	–	4	2	60
YODOYA	25	–	–	–	–	25
Fukuyakuhin (Note 4)	–	25	–	1	1	25
French (Note 3)	–	3	–	–	–	3
MASAYA	36	–	–	3	–	39
Kanamitsu Yakuhin (Note 2)	26	–	(26)	–	–	–
Total in Japan	2,457	191	–	139	36	2,751
Welcia-BHG (Singapore)	11	–	–	1	–	12
Total	2,468	191	–	140	36	2,763

- (Notes) 1. Effective January 1, 2023, a dispensing pharmacy operated by Yuugen Gaisya Sannefubiruyakkyoku was transferred to WELCIA YAKKYOKU through a transfer of business.
2. Effective June 1, 2022, WELCIA YAKKYOKU acquired Kanamitsu Yakuhin through a merger by absorption.
3. Effective June 1, 2022, the Company converted Kokumin and French into subsidiaries through the acquisition of shares and made them into consolidated subsidiaries.
4. Effective December 1, 2022, the Company converted Fukuyakuhin into a subsidiary through the acquisition of shares and made it into a consolidated subsidiary.
5. Of the number of stores as of February 28, 2023, 1,818 stores of WELCIA YAKKYOKU, 48 stores of Kokumin, 20 stores of Pupule Himawari, 42 stores of Marudai Sakurai Pharmacy, 45 stores of SHIMIZU YAKUHIN, 27 stores of Marue Drug, 10 stores of YODOYA, 9 stores of Fukuyakuhin, and 5 stores of Welcia-BHG (Singapore) have dispensing pharmacies, or a total of 2,024 stores have dispensing pharmacies. Of the same number, 1,721 stores of WELCIA YAKKYOKU, 7 stores of Kokumin, 45 stores of Pupule Himawari, 48 stores of Marudai Sakurai Pharmacy, 61 stores of SHIMIZU YAKUHIN, 24 stores of Marue Drug, 14 stores of YODOYA, and 17 stores of Fukuyakuhin offer late-night services, or a total of 1,937 stores offer late-night services.

Sales by category

Category		Sales (million yen)
	OTC products	233,558
	Cosmetics	176,608
	Household goods	158,615
	Food products	253,863
	Others	92,232
	Total sales of goods other than dispensing	914,878
	Dispensing	228,106
	Subtotal	1,142,984
	Commission income	1,293
	Total	1,144,278

(2) Overview of Financial Position for the Fiscal Year under Review

(Assets)

Current assets increased by ¥34,699 million compared to the end of the previous fiscal year to ¥242,697 million. This was primarily due to increases of ¥9,452 million in cash and deposits, ¥4,566 million in accounts receivable – trade, and ¥12,605 million in merchandise.

Noncurrent assets increased by ¥39,615 million compared to the end of the previous fiscal year to ¥294,665 million. This was primarily due to increases of ¥6,893 million in buildings and structures, net, ¥5,822 million in leased assets, net, ¥13,682 million in goodwill, ¥5,962 million in guarantee deposits, and ¥1,557 million in deferred tax assets.

As a result, total assets as of February 28, 2023 increased by ¥74,314 million compared to the end of the previous fiscal year to ¥537,362 million.

(Liabilities)

Current liabilities increased by ¥27,609 million compared to the end of the previous fiscal year to ¥216,633 million. This was primarily due to increases of ¥19,658 million in accounts payable – trade, ¥3,145 million in short-term loans payable, ¥1,578 million in accounts payable – other, and ¥1,325 million in lease obligations.

Noncurrent liabilities increased by ¥22,207 million compared to the end of the previous fiscal year to ¥88,344 million. This was primarily due to increases of ¥12,089 million in long-term loans payable, ¥7,001 million in lease obligations, ¥1,247 million in asset retirement obligations, and ¥1,067 million in retirement benefits-related liabilities.

As a result, total liabilities as of February 28, 2023 increased by ¥49,816 million compared to the end of the previous fiscal year to ¥304,977 million.

(Net assets)

Net assets as of February 28, 2023 increased by ¥24,497 million compared to the end of the previous fiscal year to ¥232,384 million. This was primarily due to an increase of ¥20,534 million in retained earnings resulting from the payment of dividends and the recording of net income attributable to owners of parent.

As a result, equity ratio decreased by 1.5 percentage points to 42.0%.

(3) Overview of Cash Flows for the Fiscal Year under Review

Cash and cash equivalents (hereinafter referred to as “cash”) at the end of the fiscal year ended February 28, 2023 increased by ¥9,470 million compared to the end of the previous fiscal year to ¥32,307 million.

The status and factors of cash flows in each activity in the fiscal year ended February 28, 2023 are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to ¥60,296 million. This was mainly attributable to inflow factors of depreciation of ¥19,863 million and impairment loss of ¥6,230 million, both of which are non-cash expenses, as well as an increase in trade payables of ¥12,075 million, and to an outflow factor of income taxes paid of ¥20,589 million, against net income before income taxes and minority interests of ¥44,566 million.

(Cash flows from investing activities)

Net cash used in investing activities amounted to ¥36,068 million. This was mainly due to an outflow of ¥18,373 million for purchase of property, plant and equipment, an outflow of ¥11,443 million for purchase of shares of subsidiaries resulting in change in scope of consolidation, and an outflow of ¥5,000 million for payments into subsidiaries and affiliates.

(Cash flows from financing activities)

Net cash used in financing activities amounted to ¥14,849 million. This was mainly due to ¥21,740 million in proceeds from long-term loans payable, ¥6,502 million in dividends paid, as well as ¥19,270 million in repayments of long-term loans payable and ¥9,863 million in repayments of finance lease obligations.

(4) Future Outlook

The drugstore industry, the primary area of the Group’s business, has seen an expansion in scale due to the opening of new stores by major players in the same industry as well as industry restructuring, and an intensification in competition across industries and business formats. With the easing of severe restrictions imposed due to the spread of COVID-19, significant changes are expected, under the “With Corona” policy, in consumer needs and the role expected of dispensing services in the healthcare delivery system. In addition, the rise in consumer prices, including those for food products, in response to the weak yen and soaring import prices, has further strengthened the tendency of consumers to economize. In the long term, Japan’s declining birthrate and aging population will also bring us face to face with changes in consumer needs due to a labor shortage and a growing elderly population.

Recognizing that these severe changes in the business environment offer opportunities for growth, the Company formulated its “medium-term management plan for the fiscal year ending February 29, 2024 to the fiscal year ending February 28, 2026” (hereinafter referred to as the “medium-term management plan”). Under the corporate philosophy “To promote higher quality of life and healthy lifestyles for our customers,” the medium-term management plan promotes the Welcia model centered on four key policies (“dispensing pharmacies,” “counseling services,” “late-night services,” and “long-term care”) and aims to realize the goal “No.1 health station in the community” by 2030.

In the next fiscal year, the Company will pursue aggressive store openings, strengthen its counseling and product proposal capabilities, enhance the competitiveness of existing stores through remodeling and other measures, promote the establishment of stores with dispensing pharmacies, and respond to the increasing sophistication of dispensing operations. The initiatives that the Company will actively promote also include the development of private brand products that are unique and have a story to tell as well as the development of new store formats such as food-intensive stores, small urban stores, and mobile stores.

Through such initiatives, in its consolidated financial results forecasts for the fiscal year ending February 29, 2024, the Company projects net sales of ¥1,230,000 million, operating income of ¥48,000 million, ordinary

income of ¥52,500 million, and net income attributable to owners of parent of ¥28,000 million.

(5) Basic Policy for the Distribution of Profit and the Dividend Payout for the Current and Next Fiscal Years

In terms of dividends for the distribution of profits, the Company takes its financial position, profit levels, payout ratios, and other factors into comprehensive consideration, while also ensuring that cash is secured for re-investment and the stable continuation of dividends. In accordance with this policy, the Company plans to issue year-end dividends of ¥16.00 per share for the year ended February 28, 2023. As the Company also issued interim dividends of ¥16.00 per share of common stock, annual dividends are expected to be ¥32.00 per share.

The Company also plans to issue dividends of ¥34.00 per share of common stock (interim dividends of ¥17.00 per share and year-end dividends of ¥17.00 per share) for the fiscal year ending February 29, 2024.

The Company's policy for internal reserves is to allocate them to the equipment fund for the opening of new stores, the refurbishment of existing stores, and other initiatives to further enhance profitability.

2. Basic Approach Concerning Selection of Accounting Standards

The Group has adopted Japanese GAAP for its accounting standards in consideration of comparability of consolidated financial statements across periods and among companies. With regard to applying International Financial Reporting Standards (IFRS), the Company's policy is to respond appropriately after consideration of the situation in Japan and overseas.

3. Consolidated Financial Statements and Principal Notes

(1) Consolidated Balance Sheets

(Million yen)

	As of February 28, 2022	As of February 28, 2023
Assets		
Current assets		
Cash and deposits	23,401	32,854
Accounts receivable - trade	49,710	54,276
Merchandise	116,230	128,835
Other	18,656	26,740
Allowance for doubtful accounts	(1)	(10)
Total current assets	207,998	242,697
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	190,624	211,218
Accumulated depreciation	(90,425)	(104,124)
Buildings and structures, net	100,199	107,093
Land	15,494	20,451
Leased assets	80,984	92,855
Accumulated depreciation	(35,643)	(41,692)
Leased assets, net	45,340	51,163
Other	24,729	28,872
Accumulated depreciation	(17,366)	(21,740)
Other, net	7,363	7,132
Total property, plant and equipment	168,397	185,840
Intangible assets		
Goodwill	22,799	36,482
Other	2,895	3,765
Total intangible assets	25,694	40,248
Investments and other assets		
Investment securities	902	1,461
Long-term loans receivable	44	53
Guarantee deposits	41,882	47,844
Deferred tax assets	14,523	16,080
Other	3,626	3,266
Allowance for doubtful accounts	(22)	(130)
Total investments and other assets	60,957	68,576
Total noncurrent assets	255,049	294,665
Total assets	463,048	537,362

(Million yen)

	As of February 28, 2022	As of February 28, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	133,524	153,182
Short-term loans payable	8,991	12,137
Lease obligations	8,962	10,288
Accounts payable - other	10,362	11,941
Income taxes payable	9,944	10,796
Provision for bonuses	4,898	5,361
Provision for bonuses for directors (and other officers)	51	94
Provision for point card certificates	155	–
Contract liabilities	–	143
Other	12,134	12,686
Total current liabilities	189,024	216,633
Noncurrent liabilities		
Long-term loans payable	17,560	29,649
Lease obligations	26,996	33,997
Asset retirement obligations	11,418	12,665
Retirement benefits-related liabilities	6,457	7,524
Deferred tax liabilities	110	523
Allowance for executive stock benefit	722	781
Other	2,871	3,201
Total noncurrent liabilities	66,136	88,344
Total liabilities	255,161	304,977
Net assets		
Shareholders' equity		
Capital stock	7,736	7,747
Capital surplus	51,670	51,681
Retained earnings	146,032	166,566
Treasury stock	(3,841)	(1,084)
Total shareholders' equity	201,597	224,909
Accumulated other comprehensive income		
Other valuation difference on available-for-sale securities	295	373
Foreign currency translation adjustment	41	139
Accumulated adjustment related to retirement benefits	(332)	327
Total accumulated other comprehensive income	4	840
Subscription rights to shares	183	161
Minority interests	6,101	6,472
Total net assets	207,886	232,384
Total liabilities and net assets	463,048	537,362

(2) Consolidated Statements of Income and Comprehensive Income
Consolidated Statements of Income

(Million yen)

	For the fiscal year ended February 28, 2022	For the fiscal year ended February 28, 2023
Net sales	1,025,947	1,144,278
Cost of sales	705,002	795,023
Gross profit	320,944	349,254
Selling, general and administrative expenses		
Advertising expenses	20,603	5,077
Salaries	109,411	122,018
Bonuses	4,777	5,216
Provision for bonuses	4,849	5,324
Provision for share awards for directors (and other officers)	139	126
Retirement benefit expenses	1,904	2,177
Rent expenses on real estate	43,809	52,483
Depreciation	16,713	19,558
Commission expenses	20,106	22,832
Rent expenses	774	751
Amortization of goodwill	1,973	3,362
Other	52,862	64,690
Total selling, general and administrative expenses	277,925	303,619
Operating income	43,018	45,635
Non-operating income		
Interest income	5	4
Dividend income	9	16
Rental income from real estate	969	1,499
Gain on receipt of donated noncurrent assets	174	133
Commission income	546	468
Subsidy income	1,629	2,029
Sponsorship money income	426	883
Other	1,712	2,492
Total non-operating income	5,474	7,527
Non-operating expenses		
Interest expenses	468	600
Share of loss of entities accounted for using equity method	11	47
Rent cost of real estate	166	274
Other	256	92
Total non-operating expenses	902	1,014
Ordinary income	47,590	52,149

(Million yen)

	For the fiscal year ended February 28, 2022	For the fiscal year ended February 28, 2023
Extraordinary income		
Gain on sale of noncurrent assets	6	42
Gain on sale of investment securities	–	163
Compensation income	54	–
Other	33	–
Total extraordinary income	94	205
Extraordinary loss		
Loss on sale of noncurrent assets	1	48
Loss on retirement of noncurrent assets	206	115
Impairment loss	4,989	6,230
COVID-related loss	11	–
Loss on guarantees	–	1,110
Other	65	283
Total extraordinary losses	5,274	7,787
Net income before income taxes and minority interests	42,410	44,566
Income taxes - current	17,443	19,603
Income taxes - deferred	(1,485)	(2,098)
Total income taxes	15,957	17,505
Net income	26,452	27,061
Profit (loss) attributable to non-controlling interests	(0)	31
Net income attributable to owners of parent	26,453	27,030

Consolidated Statements of Comprehensive Income

(Million yen)

	For the fiscal year ended February 28, 2022	For the fiscal year ended February 28, 2023
Net income	26,452	27,061
Other comprehensive income		
Other valuation difference on available-for-sale securities	(61)	(72)
Foreign currency translation adjustment	76	190
Remeasurements of defined benefit plans	(43)	661
Total other comprehensive income	(29)	780
Comprehensive income	26,423	27,841
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	26,386	27,714
Comprehensive income attributable to non-controlling interests	37	127

(3) Consolidated Statements of Changes in Equity

Fiscal year ended February 28, 2022 (from March 1, 2021 to February 28, 2022)

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of period	7,736	51,672	125,866	(5,855)	179,419
Changes during period					
Dividends of surplus			(6,288)		(6,288)
Net income attributable to owners of parent			26,453		26,453
Purchase of treasury stock				(2)	(2)
Disposal of treasury stock		19		2,017	2,036
Change in ownership interest of parent due to transactions with non-controlling interests		(21)			(21)
Net changes in items other than shareholders' equity					
Total changes during period	–	(2)	20,165	2,014	22,178
Balance at end of period	7,736	51,670	146,032	(3,841)	201,597

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Accumulated adjustment related to retirement benefits	Total accumulated other comprehensive income			
Balance at beginning of period	357	3	(289)	70	230	630	180,351
Changes during period							
Dividends of surplus							(6,288)
Net income attributable to owners of parent							26,453
Purchase of treasury stock							(2)
Disposal of treasury stock							2,036
Change in ownership interest of parent due to transactions with non-controlling interests							(21)
Net changes in items other than shareholders' equity	(61)	38	(43)	(66)	(47)	5,471	5,357
Total changes during period	(61)	38	(43)	(66)	(47)	5,471	27,535
Balance at end of period	295	41	(332)	4	183	6,101	207,886

Fiscal year ended February 28, 2023 (from March 1, 2022 to February 28, 2023)

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of period	7,736	51,670	146,032	(3,841)	201,597
Cumulative effects of changes in accounting policies			2		2
Restated balance	7,736	51,670	146,034	(3,841)	201,599
Changes during period					
Issuance of new shares	10	10			21
Dividends of surplus			(6,498)		(6,498)
Net income attributable to owners of parent			27,030		27,030
Purchase of treasury stock				(1)	(1)
Disposal of treasury stock		0		2,758	2,758
Net changes in items other than shareholders' equity					
Total changes during period	10	10	20,531	2,756	23,310
Balance at end of period	7,747	51,681	166,566	(1,084)	224,909

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Accumulated adjustment related to retirement benefits	Total accumulated other comprehensive income			
Balance at beginning of period	295	41	(332)	4	183	6,101	207,886
Cumulative effects of changes in accounting policies						1	4
Restated balance	295	41	(332)	4	183	6,103	207,891
Changes during period							
Issuance of new shares							21
Dividends of surplus							(6,498)
Net income attributable to owners of parent							27,030
Purchase of treasury stock							(1)
Disposal of treasury stock							2,758
Net changes in items other than shareholders' equity	78	97	659	835	(21)	369	1,183
Total changes during period	78	97	659	835	(21)	369	24,493
Balance at end of period	373	139	327	840	161	6,472	232,384

(4) Consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended February 28, 2022	For the fiscal year ended February 28, 2023
Cash flows from operating activities		
Net income before income taxes and minority interests	42,410	44,566
Depreciation	16,988	19,863
Impairment loss	4,989	6,230
Amortization of goodwill	1,973	3,362
Increase (decrease) in allowance for doubtful accounts	(0)	(14)
Increase (decrease) in provision for bonuses	205	157
Increase (decrease) in retirement benefits-related liabilities	911	1,013
Increase (decrease) in allowance for executive stock benefit	4	59
Increase (decrease) in provision for point card certificates	(1)	(447)
Increase (decrease) in provision for bonuses for directors (and other officers)	(91)	43
Interest and dividend income	(14)	(21)
Interest expenses	468	600
Loss (gain) on sale of investment securities	–	(154)
Rent expenses offset by construction assistance fund receivables	1,071	1,262
Loss on sale of noncurrent assets	1	48
Loss on retirement of noncurrent assets	206	115
Gain on receipt of donated noncurrent assets	(174)	(133)
Decrease (increase) in trade receivables	(4,128)	(924)
Decrease (increase) in inventories	(5,703)	(7,941)
Increase (decrease) in trade payables	(21,903)	12,075
Increase (decrease) in accounts payable - other	(3,453)	928
Increase (decrease) in accrued consumption taxes	1,239	1,600
Other, net	(2,913)	(2,553)
Subtotal	32,086	79,738
Interest and dividends received	14	22
Interest paid	(493)	(582)
Income taxes paid	(16,987)	(20,589)
Income taxes refund	1,608	1,706
Net cash provided by (used in) operating activities	16,228	60,296
Cash flows from investing activities		
Payments into time deposits	(1,001)	(711)
Proceeds from withdrawal of time deposits	1,421	816
Purchase of property, plant and equipment	(19,129)	(18,373)
Proceeds from sale of property, plant and equipment	13	183
Purchase of intangible assets	(1,024)	(1,428)
Purchase of shares of subsidiaries and associates	–	(441)
Payments into subsidiaries and affiliates	–	(5,000)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(11,545)	(11,443)
Payments of leasehold deposits	(5,808)	(4,832)
Proceeds from refund of leasehold deposits	426	4,049
Other, net	(440)	1,113
Net cash provided by (used in) investing activities	(37,088)	(36,068)

(Million yen)

	For the fiscal year ended February 28, 2022	For the fiscal year ended February 28, 2023
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	40	(3,660)
Proceeds from long-term loans payable	10,580	21,740
Repayments of long-term loans payable	(5,291)	(19,270)
Redemption of bonds	(110)	(50)
Proceeds from issuance of shares	–	0
Dividends paid	(6,287)	(6,502)
Repayments of finance lease obligations	(8,574)	(9,863)
Proceeds from sale of treasury shares	1,988	2,758
Purchase of treasury shares	(2)	(1)
Other, net	375	–
Net cash provided by (used in) financing activities	(7,282)	(14,849)
Effect of exchange rate change on cash and cash equivalents	43	92
Net increase (decrease) in cash and cash equivalents	(28,099)	9,470
Cash and cash equivalents at beginning of period	50,937	22,837
Cash and cash equivalents at end of period	22,837	32,307

(5) Notes to Consolidated Financial Statements

(Notes on going concern assumption)

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 the “Revenue Recognition Standard”) and other standards from the beginning 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 the good or service.

Major changes due to the application of the 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 current fiscal year, with the new accounting policies applied from the beginning balance.

As a result of this change, for the fiscal year ended February 28, 2023, net sales decreased by ¥22,306 million, cost of sales decreased by ¥5,220 million, selling, general and administrative expenses decreased by ¥17,093 million, compared to before the adoption of the Revenue Recognition Standard and other standards, but the impact on operating income, ordinary income, and net income before income taxes and minority interests was minimal. The impact on the beginning balance of retained earnings was also minimal.

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 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.

(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 the “Fair Value Measurement Standard”) and other standards from the beginning 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 financial statements.

(Segment information, etc.)

[Segment information]

Segment information is omitted as the Company has only one segment, namely retail business centered on OTC products, dispensing, cosmetics, etc.

(Per share information)

	Fiscal year ended Feb. 28, 2022 (Mar. 1, 2021 – Feb. 28, 2022)	Fiscal year ended Feb. 28, 2023 (Mar. 1, 2022 – Feb. 28, 2023)
Net assets per share	¥966.66	¥1,078.97
Net income per share	¥126.99	¥129.38
Diluted net income per share	¥126.88	¥129.29

(Notes) 1. The number of shares of the Company held in the Employees' Stock Ownership ESOP Trust (February 28, 2022: 624,800 shares) and the number of shares of the Company held in the Directors' Remuneration BIP Trust (February 28, 2022: 440,442 shares; February 28, 2023: 412,219 shares) were included in the total number of treasury stock at the end of the year. 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 year (February 28, 2022: 1,294,907 shares; February 28, 2023: 718,595 shares). Please note that the Employees' Stock Ownership ESOP Trust was discontinued in February 2023.

2. The basis for the calculation of basic earnings and diluted earnings per share is as follows.

Item	Fiscal year ended Feb. 28, 2022 (Mar. 1, 2021 – Feb. 28, 2022)	Fiscal year ended Feb. 28, 2023 (Mar. 1, 2022 – Feb. 28, 2023)
Net income per share		
Net income attributable to owners of parent (Million yen)	26,453	27,030
Amount not attributable to common shareholders (Million yen)	–	–
Net income attributable to owners of parent relating to common shares (Million yen)	26,453	27,030
Average number of common shares outstanding during the fiscal year (Thousand shares)	208,320	208,916
Diluted net income per share		
Adjustment for net income attributable to owners of parent (Million yen)	–	–
(of which, interest paid after adjustment for income taxes) (Million yen)	–	–
Increase in number of common shares (Thousand shares)	167	155
(of which, share acquisition rights) (Thousand shares)	(167)	(155)
Overview of residual shares not included in the calculation of diluted net income per share due to their non-dilutive effect		–

(Significant subsequent events)

(Reintroduction of employee incentive plan)

At the Board of Directors meeting held on April 10, 2023, the Company resolved to reintroduce the “Stock Benefit Trust (Employee Stock Ownership Association Purchase-type)” (an incentive plan similar to the “Employees’ Stock Ownership ESOP Trust” introduced in October 2015 and October 2020; hereinafter referred to as the “Plan”) for the purpose of enhancing the welfare of its employees and providing incentives to increase the corporate value.

1. Purposes of introduction of the Plan

The purposes of the Plan are to provide a stable supply of the Company’s shares to the Employee Stock Ownership Association as well as to further raise the awareness of employees about the Company’s performance and stock value to improve the corporate value over the medium term through the Plan, in which earnings from the management and disposal of trust assets are distributed to employees.

2. Outline of the Plan

This is an incentive plan that returns the benefits of an increase in the Company’s stock price to all the employees who are members of the “Welcia Holdings’ Employee Stock Ownership Association” (hereinafter referred to as the “Stock Ownership Association”). Upon the introduction of the Plan, the Company will enter into a “Stock Benefit Trust (Employee Stock Ownership Association Purchase-type) Agreement” (hereinafter referred to as the “Trust Agreement”) with the Company as trustor and Mizuho Trust & Banking Co., Ltd. (hereinafter referred to as the “Trustee”) as trustee (the trust established under the Trust Agreement is hereinafter referred to as the “Trust”).

The Trust will acquire, during a pre-determined acquisition period, the number of the Company’s shares expected to be acquired by the Stock Ownership Association over the next five years. Thereafter, the Trust will sell the Company’s shares to the Stock Ownership Association on a certain date each month. At the time of termination of the trust, any trust income due to an increase in the stock price will be distributed among the beneficiary employees in accordance with their contribution ratios. In the event that a transfer loss occurs due to a decline in the stock price with a liability for the trust assets remaining, the Company will repay the bank in a lump sum in accordance with the guarantee clause in the loan agreement, and thus there will be no additional burden on the employees.

3. Contents of Trust Agreement

- | | |
|-----------------------|--|
| (1) Type of trust | Independently managed monetary trust (third-party benefit trust) |
| (2) Purposes of trust | To provide the Stock Ownership Association with a stable supply of the Company’s shares and to provide beneficiaries with profits obtained from the management and disposal of trust assets. |
| (3) Trustor | The Company |

(4) Trustee	Mizuho Trust & Banking Co., Ltd. (Re-trustee: Custody Bank of Japan, Ltd.)
(5) Beneficiaries	Members of the Stock Ownership Association who fulfill the requirements for beneficiaries
(6) Trust administrator	Chairperson of the Employee Stock Ownership Association
(7) Trust agreement date	April 28, 2023 (scheduled)
(8) Trust establishment date	April 28, 2023 (scheduled)
(9) Trust period	April 28, 2023 to May 10, 2028 (scheduled)
(10) Exercise of voting rights	The trustee will exercise the voting rights for the Company's shares in accordance with the instructions of the trust administrator, which reflect the status of exercise of the voting rights of the Stock Ownership Association.
(11) Shares to be acquired	Common stock of the Company
(12) Total acquisition price	¥9,443 million
(13) Stock acquisition period	April 28, 2023 to June 30, 2023 (scheduled)
(14) Stock acquisition method	Acquired from the stock exchange market