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Consolidated Financial Results for the Fiscal Year Ended May 31, 2023 [Japanese GAAP]



July 10, 2023

Company name: Cosmos Pharmaceutical Corporation

Stock exchange listing: Tokyo Stock Exchange

Code number: 3349

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Scheduled date of general shareholders' meeting: August 22, 2023

Scheduled date of commencing dividend payments: August 3, 2023

Scheduled date of filing securities report: August 30, 2023

Availability of supplementary explanatory materials on annual financial results: Available

Schedule of annual 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 Fiscal Year Ended May 31, 2023 (June 1, 2022 - May 31, 2023)

(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	%
Fiscal year ended May 31, 2023	827,697	9.6	30,128	1.1	33,086	0.7	23,797	2.8
May 31, 2022	755,414	–	29,796	–	32,861	–	23,155	–

(Note) Comprehensive income: Fiscal year ended May 31, 2023: ¥23,832 million [2.7%]

Fiscal year ended May 31, 2022: ¥23,198 million [–%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended May 31, 2023	600.96	–	11.9	8.4	3.6
May 31, 2022	584.76	–	12.8	9.3	3.9

(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 fiscal year ended May 31, 2022. The figures for the fiscal year ended May 31, 2022 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	Net assets per share
	Million yen	Million yen	%	Yen
As of May 31, 2023	420,967	211,072	50.1	5,330.26
As of May 31, 2022	363,052	190,507	52.5	4,810.92

(Reference) Equity: As of May 31, 2023: ¥211,072 million

As of May 31, 2022: ¥190,507 million

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
May 31, 2023	54,434	(49,113)	3,245	45,928
May 31, 2022	32,194	(43,717)	(6,222)	37,362

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	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
May 31, 2022	–	40.00	–	40.00	80.00	3,167	13.7	1.8
May 31, 2023	–	42.50	–	57.50	100.00	3,959	16.6	2.0
May 31, 2024 (Forecast)	–	60.00	–	60.00	120.00		20.0	

3. Consolidated Financial Results Forecast for the Fiscal Year Ending May 31, 2024 (June 1, 2023 - May 31, 2024)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	450,400	11.5	14,100	(8.4)	15,600	(7.7)	10,577	(6.4)	267.10
Full year	916,000	10.7	30,200	0.2	33,200	0.3	23,800	0.0	601.03

* 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: –)

(2) 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

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

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

May 31, 2023: 40,000,800 shares

May 31, 2022: 40,000,800 shares

2) Total number of treasury shares at the end of the period:

May 31, 2023: 401,942 shares

May 31, 2022: 401,885 shares

3) Average number of shares during the period:

Fiscal year ended May 31, 2023: 39,598,873 shares

Fiscal year ended May 31, 2022: 39,599,008 shares

(Reference) Summary of Non-consolidated Financial Results**1. Non-consolidated Financial Results for the Fiscal Year Ended May 31, 2023 (June 1, 2022 - May 31, 2023)****(1) Non-consolidated Operating Results** (% indicates changes from the previous corresponding period.)

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
May 31, 2023	827,696	9.6	30,104	1.1	33,070	0.7	23,787	2.8
May 31, 2022	755,413	—	29,765	—	32,839	—	23,141	—

Fiscal year ended	Basic earnings per share	Diluted earnings per share
	Yen	Yen
May 31, 2023	600.71	—
May 31, 2022	584.40	—

(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 fiscal year ended May 31, 2022. The figures for the fiscal year ended May 31, 2022 reflect these accounting standards, and therefore, changes from the previous corresponding period are not shown.

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of May 31, 2023	420,554	210,626	50.1	5,319.00
As of May 31, 2022	362,630	190,106	52.4	4,800.79

(Reference) Equity: As of May 31, 2023: ¥210,626 million
As of May 31, 2022: ¥190,106 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 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 the conditions assumed in the financial results forecast, please see “Future Outlook” on page 4 of the attachments.

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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 May 31, 2023, the outlook of the Japanese economy remained uncertain, primarily due to the impacts of the rapid exchange rate fluctuations and Russia's protracted war against Ukraine. In particular, rising energy costs had a significant impact on the Japanese economy as a whole, contributing to increased prices of a variety of goods and services. Consequently, consumers were increasingly budget-minded and the environment surrounding retailers grew even harsher.

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 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. As a result of opening new stores, the number of newly opened stores stood at 37 in Kanto region, 26 in Chubu region, 12 in Kansai region, 12 in Chugoku region, 8 in Shikoku region and 23 in Kyushu region, totaling 118. Furthermore, as 4 stores were closed due to scrap and build, the number of stores at the end of the fiscal year under review became 1,358 in total.

As a result of the above measures, the Group's consolidated operating results for the fiscal year under review were net sales of 827,697 million yen (9.6% increase year-on-year), operating profit of 30,128 million yen (1.1% increase year-on-year), ordinary profit of 33,086 million yen (0.7% increase year-on-year) and profit attributable to owners of parent of 23,797 million yen (2.8% increase year-on-year).

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

(Store opening and closure)

(Unit: number of stores)

Region	Number of stores at end of fiscal year ended May 31, 2022	Number of newly opened stores	Number of closed stores	Net increase	Number of stores at end of fiscal year ended May 31, 2023
Kanto	63	37	—	37	100
Chubu	98	26	—	26	124
Kansai	185	12	—	12	197
Chugoku	190	12	—	12	202
Shikoku	126	8	—	8	134
Kyushu	582	23	4	19	601
Total	1,244	118	4	114	1,358

(Sales by product)

Product	For the fiscal year ended May 31, 2022		For the fiscal year ended May 31, 2023		Year-on-year (%)
	Amount (Million yen)	Composition (%)	Amount (Million yen)	Composition (%)	
Pharmaceutical	116,509	15.4	125,851	15.2	108.0
Cosmetics	73,991	9.8	80,763	9.8	109.2
Sundry goods	121,440	16.1	131,077	15.8	107.9
General foods	437,118	57.9	483,892	58.5	110.7
Others	6,353	0.8	6,112	0.7	96.2
Total	755,414	100.0	827,697	100.0	109.6

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

(Assets)

Current assets at the end of the fiscal year under review increased by 18.7% from the end of the previous fiscal year to 137,085 million yen. This was mainly due to increase in cash and deposits of 8,566 million yen, merchandise of 11,101 million yen, and accounts receivable - other of 1,390 million yen.

Non-current assets increased by 14.7% from the end of the previous fiscal to 283,881 million yen partly due to acquisition of property, plant and equipment including buildings and structures and land.

As a result, total assets increased by 16.0% from the end of the previous fiscal year to 420,967 million yen.

(Liabilities)

Current liabilities at the end of the fiscal year under review increased by 18.5% from the end of the previous fiscal year to 192,053 million yen. This was mainly due to increase in accounts payable - trade of 22,627 million yen, short-term borrowings of 1,353 million yen, accounts payable - other of 3,273 million yen, accrued expenses of 1,038 million yen, and accrued consumption taxes of 1,022 million yen.

Non-current liabilities increased by 70.2% from the end of the previous fiscal year to 17,842 million yen mainly due to an increase in long-term borrowings of 7,018 million yen.

As a result, total liabilities increased by 21.6% from the end of the previous fiscal year to 209,895 million yen.

(Net assets)

Total net assets increased by 10.8% from the end of the previous fiscal year to 211,072 million yen mainly due to an increase in retained earnings of 20,530 million yen.

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

The balance of cash and cash equivalents (hereinafter "cash") at the end of the fiscal year under review increased by 8,566 million yen or 22.9% from the end of previous fiscal year to 45,928 million yen.

The status of consolidated cash flows for the fiscal year under review and contributing factors were as follows.

(Cash Flows from Operating Activities)

Net cash provided by operating activities amounted to 54,434 million yen (up 69.1% year-on-year).

This was mainly due to positive factors such as profit before income taxes of 32,773 million yen, depreciation of 17,368 million yen and an increase in trade payables of 22,627 million yen, and negative factors such as increase in inventories of 11,156 million yen and income taxes paid of 9,111 million yen.

(Cash Flows from Investing Activities)

Net cash used in investing activities amounted to 49,113 million yen (up 12.3% year-on-year).

This was mainly due to purchase of property, plant and equipment of 46,636 million yen and payments of leasehold and guarantee deposits of 1,834 million yen.

(Cash Flows from Financing Activities)

Net cash provided by financing activities amounted to 3,245 million yen (an increase of 9,467 million yen from a year earlier).

This was mainly due to income from long-term borrowings of 10,000 million yen, repayments of long-term borrowings of 1,628 million yen, dividends paid of 3,266 million yen and repayments of finance lease liabilities of 1,858 million yen.

(Reference) Changes in cash flow-related indicators

	Fiscal year ended May 31, 2019	Fiscal year ended May 31, 2020	Fiscal year ended May 31, 2021	Fiscal year ended May 31, 2022	Fiscal year ended May 31, 2023
Equity ratio	46.2	45.5	50.0	52.5	50.1
Equity ratio based on market value	124.2	191.3	176.7	133.1	124.7
Interest-bearing liabilities to cash flow ratio	0.4	0.2	0.4	0.3	0.3
Interest coverage ratio	440.5	950.3	460.9	610.8	1,061.5

Equity ratio: equity/total assets

Equity ratio based on market value: total market capitalization/total assets

Interest-bearing liabilities to cash flow ratio: interest-bearing liabilities/cash flows

Interest coverage ratio: cash flows/interest payments

(Note 1) Each of the above indicators is calculated based on consolidated financial figures.

(Note 2) Total market capitalization is calculated based on total number of issued shares excluding treasury shares.

(Note 3) For the cash flows, the cash flows from operating activities are used.

(Note 4) Interest-bearing liabilities include all liabilities recorded on the Consolidated Balance Sheets for which interest is paid.

(4) Future Outlook

As for future prospects during the fiscal year ending May 31, 2024, inflation is expected to continue to drive up the prices of various goods, and consumer confidence is anticipated to weaken. It is exactly because of these circumstances that the Company is determined to further refine low cost-operations and continue to strengthen efforts so that the Company can make sales of “products of high quality and available at the lowest prices possible.”

The Company intends to conduct store opening during the fiscal year ending May 31, 2024, based on our dominant strategy with no concern about stores cannibalizing each other’s sales. The Company plans to deploy stores in the new catchment-areas of Kanto, Chubu and Kansai regions while continuing to open new stores in Chugoku, Shikoku and Kyushu regions.

With the above measures, the Company’s forecast for its consolidated financial results for the fiscal year ending May 31, 2024, are net sales of 916,000 million yen, operating profit of 30,200 million yen, ordinary profit of 33,200 million yen and profit attributable to owners of parent of 23,800 million yen.

(5) Basic Policy on Distribution of Profits and Dividends for the Fiscal Year under Review and the Next Fiscal Year

The Company’s basic policy on distribution of profits is to return profits through stable and sustained dividend to shareholders as well as secure sufficient internal reserves for the reinforcement of its management structure and utilize the reserves for appropriate reinvestments.

In accordance with the above policy, the Company has decided on an interim dividend of 42.5 yen and a year-end dividend of 57.5 yen per share for the fiscal year ended May 31, 2023. Accordingly, the annual dividend

will be 100 yen per share as an ordinary dividend, an increase of 20 yen from a year earlier.

The Company also plans to make an interim dividend of 60 yen and a year-end dividend of 60 yen per share for the fiscal year ending May 31, 2024. Accordingly, the annual dividend is planned to be 120 yen per share as an ordinary dividend, an increase of 20 yen from a year earlier.

2. Basic Policy on Selection of Accounting Standards

The Group plans to continue to prepare its consolidated financial statements under the Japanese GAAP for the time being as the Group has been currently developing its business in Japan.

With regard to the adoption of the International Financial Reporting Standards (IFRS), the Group will continue to make its deliberation in consideration of factors such as future business development and domestic and international trends.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Million yen)

	As of May 31, 2022	As of May 31, 2023
Assets		
Current assets		
Cash and deposits	37,362	45,928
Accounts receivable - trade	198	452
Merchandise	66,151	77,253
Supplies	212	226
Prepaid expenses	2,189	2,429
Accounts receivable - other	8,379	9,769
Other	977	1,025
Total current assets	115,471	137,085
Non-current assets		
Property, plant and equipment		
Buildings and structures	240,569	275,044
Accumulated depreciation	(65,906)	(76,531)
Buildings and structures, net	174,662	198,513
Machinery, equipment and vehicles	4,326	5,014
Accumulated depreciation	(2,190)	(2,564)
Machinery, equipment and vehicles, net	2,136	2,450
Tools, furniture and fixtures	32,787	36,199
Accumulated depreciation	(24,280)	(26,372)
Tools, furniture and fixtures, net	8,506	9,826
Land	31,517	34,194
Leased assets	8,806	9,298
Accumulated depreciation	(4,319)	(4,439)
Leased assets, net	4,486	4,859
Construction in progress	3,977	9,619
Total property, plant and equipment	225,286	259,464
Intangible assets		
Other	433	547
Total intangible assets	433	547
Investments and other assets		
Investment securities	4	4
Deferred tax assets	1,966	2,268
Construction assistance fund receivables	4,175	4,306
Leasehold and guarantee deposits	13,748	15,193
Other	1,966	2,095
Total investments and other assets	21,861	23,869
Total non-current assets	247,581	283,881
Total assets	363,052	420,967

(Million yen)

	As of May 31, 2022	As of May 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	139,224	161,852
Short-term borrowings	1,387	2,741
Lease liabilities	1,669	1,744
Accounts payable - other	7,239	10,512
Accrued expenses	6,234	7,272
Income taxes payable	4,773	5,031
Accrued consumption taxes	222	1,244
Contract liabilities	350	519
Provision for loss on store closings	157	223
Other	804	909
Total current liabilities	162,063	192,053
Non-current liabilities		
Long-term borrowings	3,000	10,018
Lease liabilities	3,357	3,698
Retirement benefit liability	1,482	1,636
Asset retirement obligations	1,893	2,028
Other	747	459
Total non-current liabilities	10,481	17,842
Total liabilities	172,545	209,895
Net assets		
Shareholders' equity		
Share capital	4,178	4,178
Capital surplus	4,610	4,610
Retained earnings	181,954	202,485
Treasury shares	(241)	(242)
Total shareholders' equity	190,501	211,031
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1	1
Remeasurements of defined benefit plans	4	39
Total accumulated other comprehensive income	5	40
Total net assets	190,507	211,072
Total liabilities and net assets	363,052	420,967

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

(Million yen)

	For the fiscal year ended May 31, 2022	For the fiscal year ended May 31, 2023
Net sales	755,414	827,697
Cost of sales	603,966	658,979
Gross profit	151,447	168,718
Selling, general and administrative expenses	121,651	138,589
Operating profit	29,796	30,128
Non-operating income		
Interest income	52	47
Commission income	1,291	1,354
Rental income from real estate	1,213	1,200
Gain on receipt of donated non-current assets	570	498
Other	568	575
Total non-operating income	3,695	3,677
Non-operating expenses		
Interest expenses	52	51
Rental costs on real estate	438	475
Other	138	192
Total non-operating expenses	629	719
Ordinary profit	32,861	33,086
Extraordinary income		
Gain on sale of non-current assets	265	–
Insurance claim income	43	13
Compensation income	188	33
Subsidy income	5	–
Total extraordinary income	502	46
Extraordinary losses		
Loss on retirement of non-current assets	70	113
Loss on disaster	25	4
Loss on store closings	62	51
Provision for loss on store closings	157	189
Total extraordinary losses	315	359
Profit before income taxes	33,048	32,773
Income taxes - current	9,973	9,294
Income taxes - deferred	(81)	(318)
Total income taxes	9,892	8,975
Profit	23,155	23,797
Profit attributable to owners of parent	23,155	23,797

Consolidated Statements of Comprehensive Income

(Million yen)

	For the fiscal year ended May 31, 2022	For the fiscal year ended May 31, 2023
Profit	23,155	23,797
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	0
Remeasurements of defined benefit plans, net of tax	43	35
Total other comprehensive income	42	35
Comprehensive income	23,198	23,832
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	23,198	23,832

(3) Consolidated Statements of Changes in Equity

Fiscal year ended May 31, 2022 (from June 1, 2021 to May 31, 2022)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	4,178	4,610	162,065	(238)	170,615
Changes during period					
Dividends of surplus			(3,266)		(3,266)
Profit attributable to owners of parent			23,155		23,155
Purchase of treasury shares				(2)	(2)
Net changes in items other than shareholders' equity					
Total changes during period	—	—	19,889	(2)	19,886
Balance at end of period	4,178	4,610	181,954	(241)	190,501

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of period	1	(39)	(37)	170,578
Changes during period				
Dividends of surplus				(3,266)
Profit attributable to owners of parent				23,155
Purchase of treasury shares				(2)
Net changes in items other than shareholders' equity	(0)	43	42	42
Total changes during period	(0)	43	42	19,928
Balance at end of period	1	4	5	190,507

Fiscal year ended May 31, 2023 (from June 1, 2022 to May 31, 2023)

(Million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	4,178	4,610	181,954	(241)	190,501
Changes during period					
Dividends of surplus			(3,266)		(3,266)
Profit attributable to owners of parent			23,797		23,797
Purchase of treasury shares				(0)	(0)
Net changes in items other than shareholders' equity					
Total changes during period	—	—	20,530	(0)	20,529
Balance at end of period	4,178	4,610	202,485	(242)	211,031

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of period	1	4	5	190,507
Changes during period				
Dividends of surplus				(3,266)
Profit attributable to owners of parent				23,797
Purchase of treasury shares				(0)
Net changes in items other than shareholders' equity	0	35	35	35
Total changes during period	0	35	35	20,565
Balance at end of period	1	39	40	211,072

(4) Consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended May 31, 2022	For the fiscal year ended May 31, 2023
Cash flows from operating activities		
Profit before income taxes	33,048	32,773
Depreciation	15,110	17,368
Increase (decrease) in retirement benefit liability	210	204
Increase (decrease) in provision for loss on store closings	157	189
Interest and dividend income	(52)	(47)
Interest expenses	52	51
Loss on disaster	25	4
Subsidy income	(5)	–
Loss (gain) on sale of non-current assets	(265)	–
Insurance claim income	(43)	(13)
Compensation income	(188)	(33)
Loss on retirement of non-current assets	70	113
Loss on store closings	62	51
Decrease (increase) in trade receivables	(97)	(254)
Decrease (increase) in inventories	(5,853)	(11,156)
Decrease (increase) in accounts receivable - other	(1,803)	(1,446)
Increase (decrease) in trade payables	6,183	22,627
Other, net	(1,229)	3,041
Subtotal	45,382	63,475
Interest and dividends received	0	0
Interest paid	(52)	(51)
Income taxes paid	(13,337)	(9,111)
Payments associated with disaster loss	(22)	(23)
Proceeds from insurance income	87	55
Proceeds from compensation	131	89
Subsidies received	5	–
Net cash provided by (used in) operating activities	32,194	54,434
Cash flows from investing activities		
Purchase of property, plant and equipment	(43,497)	(46,636)
Proceeds from sale of property, plant and equipment	1,519	46
Payments of construction assistance fund receivables	(713)	(500)
Proceeds from collection of construction assistance fund receivables	407	428
Payments of leasehold and guarantee deposits	(1,106)	(1,834)
Proceeds from refund of leasehold and guarantee deposits	587	341
Other, net	(915)	(958)
Net cash provided by (used in) investing activities	(43,717)	(49,113)
Cash flows from financing activities		
Proceeds from long-term borrowings	300	10,000
Repayments of long-term borrowings	(1,486)	(1,628)
Purchase of treasury shares	(2)	(0)
Repayments of finance lease liabilities	(1,766)	(1,858)
Dividends paid	(3,266)	(3,266)
Net cash provided by (used in) financing activities	(6,222)	3,245
Effect of exchange rate change on cash and cash equivalents	–	–
Net increase (decrease) in cash and cash equivalents	(17,745)	8,566
Cash and cash equivalents at beginning of period	55,108	37,362
Cash and cash equivalents at end of period	37,362	45,928