

Consolidated Financial Results for the Fiscal Year Ended February 28, 2022 [Japanese GAAP]



April 7, 2022

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 24, 2022

Scheduled date of commencing dividend payments: May 9, 2022

Scheduled date of filing securities report: May 25, 2022

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, 2022 (March 1, 2021 - February 28, 2022)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended February 28, 2022	1,025,947	8.0	43,018	0.1	47,590	3.9	26,453	(5.5)
February 28, 2021	949,652	9.4	42,974	13.7	45,800	13.5	27,999	22.8

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

Fiscal year ended February 28, 2021: ¥28,025 million [24.1%]

	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, 2022	126.99	126.88	13.9	10.6	4.2
February 28, 2021	134.23	134.10	16.4	11.1	4.5

(Reference) Equity in earnings of affiliated companies: Fiscal year ended February 28, 2022: ¥(11) million
Fiscal year ended February 28, 2021: ¥16 million

(Note) A two-for-one stock split of the Company's common stock was executed on September 1, 2020. "Net income per share" and "diluted net income per share" are calculated assuming that the stock split was executed at the beginning of the fiscal year ended February 28, 2021.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of February 28, 2022	463,048	207,886	43.5	966.66
As of February 28, 2021	435,685	180,351	41.2	862.82

(Reference) Equity: As of February 28, 2022: ¥201,602 million

As of February 28, 2021: ¥179,490 million

(Note) A two-for-one stock split of the Company's common stock was executed on September 1, 2020. "Net assets per share" is calculated assuming that the stock split was executed at the beginning of the fiscal year ended February 28, 2021.

(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	Million yen	Million yen	Million yen	Million yen
February 28, 2022	16,228	(37,088)	(7,282)	22,837
February 28, 2021	46,396	(16,147)	(16,970)	50,937

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			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended February 28, 2021	–	27.00	–	15.00	–	5,973	21.2	3.5
Fiscal year ended February 28, 2022	–	15.00	–	15.00	30.00	6,288	23.6	3.3
Fiscal year ending February 28, 2023 (Forecast)	–	16.00	–	16.00	32.00		23.5	

(Notes) A two-for-one stock split of the Company's common stock was executed on September 1, 2020. The figure for the "2nd quarter-end" of the fiscal year ended February 28, 2021 is the actual dividend amount paid before the stock split was executed. The annual dividend for the fiscal year ended February 28, 2021 is not presented, because it is impossible to simply aggregate the amounts for each quarter-end due to the stock split. In pre-split terms, the year-end dividend would come to ¥30, making the annual dividend for the year ¥57.

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

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending August 31, 2022	555,800	–	25,360	–	28,540	–	17,560	–	84.20
Full year	1,110,000	–	47,000	–	51,600	–	28,400	–	136.17

(Notes) Since the "Accounting Standard for Revenue Recognition" (Corporate Accounting Standard No.29), etc. has been adopted from the beginning of the Fiscal Year Ending February 28, 2023, the above forecast is based on the accounting standard. Therefore, changes from the actual results before applying the accounting standard are not stated.

*** 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: 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 and outstanding shares (common shares)
1) Total number of issued and outstanding shares at the end of the year (including treasury stock):
February 28, 2022: 209,633,676 shares
February 28, 2021: 209,633,676 shares
- 2) Total number of treasury stock at the end of the year:
February 28, 2022: 1,077,900 shares
February 28, 2021: 1,606,772 shares
- 3) Average number of shares outstanding during the year:
Year ended February 28, 2022: 208,320,037 shares
Year ended February 28, 2021: 208,595,717 shares

- (Notes) 1. The number of shares of the Company held in the Employees' Stock Ownership ESOP Trust (February 28, 2021: 1,050,200 shares; February 28, 2022: 624,800 shares) and the number of shares of the Company held in the Directors' Remuneration BIP Trust (February 28, 2021: 502,238 shares; February 28, 2022: 440,442 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, 2021: 982,981 shares; February 28, 2022: 1,294,907 shares).
2. A two-for-one stock split of the Company's common stock was executed on September 1, 2020. The figures for the "total number of issued and outstanding shares (common shares)" are calculated assuming that the stock split was executed at the beginning of the fiscal year ended February 28, 2021.

(Reference) Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended February, 2022 (March 1, 2021 - February 28, 2022)

(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, 2022	10,752	6.3	8,164	9.8	8,228	9.4	8,183	13.6
February 28, 2021	10,112	17.9	7,436	16.1	7,519	15.5	7,201	12.6

Fiscal year ended	Net income per share	Diluted net income per share
	Yen	Yen
February 28, 2022	39.28	39.25
February 28, 2021	34.52	34.49

(Note) A two-for-one stock split of the Company's common stock was executed on September 1, 2020. "Net income per share" and "diluted net income per share" are calculated assuming that the stock split was executed at the beginning of the fiscal year ended February 28, 2021.

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of February 28, 2022	111,137	79,230	71.1	379.02
As of February 28, 2021	117,314	75,349	64.0	361.10

(Reference) Equity: As of February 28, 2022: ¥79,047 million

As of February 28, 2021: ¥75,118 million

(Note) A two-for-one stock split of the Company's common stock was executed on September 1, 2020. "Net assets per share" is calculated assuming that the stock split was executed at the beginning of the fiscal year ended February 28, 2021.

* 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 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 February 28, 2022 (from March 1, 2021 to February 28, 2022), while there have been some moves toward normalization amid the ongoing severe circumstances caused by COVID-19, due to the impact of highly contagious variants, the virus shows no signs of abating, and this, combined with other factors such as the impact of sharp rises in prices of energy and raw materials, is resulting in extreme uncertainty about the future outlook for the Japanese economy.

In the drugstore industry, the primary market for the Group's business, competition intensified as the industry underwent reorganization even among the major industry competitors and entrants from other industries entered the market. Moreover, while demand increased for products to prevent infectious diseases as well as for foods, alcohol, and other products due to the ongoing restriction on movement to avoid the risk of infection, impacts of the restriction persist, such as a drop in demand for OTC products and cosmetics as wearing masks and washing hands have become habit. Meanwhile, in the dispensing market, there are signs that the number of prescriptions will recover due to fewer people refraining from visiting doctors.

Under such circumstances, the Group made efforts to operate its business to sell products and provide services, while continuing to implement measures to prevent COVID-19 infections and thorough hygiene management. In the sale of goods division, the Cosmetics segment has not recovered the levels prior to COVID-19, while the Food Products segment reported a reactionary decline from a spike in special demand in the previous fiscal year. In the dispensing division, the number of prescriptions handled increased due primarily to the increase in stores with dispensing pharmacies (1,844 stores as of February 28, 2022), despite the effects of the NHI drug price revision. Additionally, the Group managed to optimize selling, general and administrative expenses, mainly in terms of its labor costs by thoroughly managing store man-hours for optimization, improving store operational efficiency through the promotion of automatic ordering, and the promotion of stores with dispensing pharmacies.

The Group also made efforts toward the improvement of business efficiency by carrying out an absorption-type merger, effective March 1, 2021, whereby subsidiaries of the Company, Neo Pharma Co., Ltd. and Summit Co., Ltd., were absorbed and WELCIA YAKKYOKU Co., Ltd., a consolidated subsidiary, became the surviving company. As of December 1, 2021, the Group converted Kabushiki Kaisha Pupule Himawari (132 stores), which is based in Hiroshima Prefecture and operates stores in the Chugoku and Shikoku areas, into a subsidiary through the acquisition of shares.

As for store openings and closures, the Group as a whole opened 144 stores and closed 26 stores, for a total of 2,468 stores Group-wide as of February 28, 2022.

As a result of the above, the consolidated operating results for the fiscal year ended February 28, 2022 were ¥1,025,947 million in net sales, ¥43,018 million in operating income, ¥47,590 million in ordinary income, and ¥26,453 million in net income attributable to owners of parent.

(Unit: No. of Stores)

	No. of stores as of February 28, 2021	Increase resulting from conversion into subsidiary or transfer of business	Increase/decrease resulting from mergers	Openings	Closures	No. of stores as of February 28, 2022
WELCIA YAKKYOKU (Note 1)	1,899	1	13	127	17	2,023
Pupule Himawari (Note 2)	–	132	–	–	–	132
Marudai Sakurai Pharmacy	87	–	–	6	1	92
SHIMIZU YAKUHIN	62	–	–	6	3	65
Marue Drug	58	–	–	1	1	58
YODOYA	25	–	–	1	1	25
Kanamitsu Yakuhin	28	–	–	–	2	26
MASAYA	35	–	–	1	–	36
Neo Pharma (Note 3)	10	–	(10)	–	–	–
Summit (Note 4)	3	–	(3)	–	–	–
Total in Japan	2,207	133	–	142	25	2,457
Welcia-BHG (Singapore)	10	–	–	2	1	11
Total	2,217	133	–	144	26	2,468

- (Notes) 1. Effective April 1, 2021, a store of the drugstore business operated by Joshin Denki was transferred to WELCIA YAKKYOKU through a transfer of business.
2. Effective December 1, 2021, the Company converted Kabushiki Kaisha Pupule Himawari into a subsidiary through the acquisition of shares and made it into a consolidated subsidiary.
3. The number of stores of WELCIA YAKKYOKU as of February 28, 2022 includes the stores of Neo Pharma, due to WELCIA YAKKYOKU acquiring Neo Pharma through a merger by absorption, effective March 1, 2021.
4. The number of stores of WELCIA YAKKYOKU as of February 28, 2022 includes the stores of Summit, due to WELCIA YAKKYOKU acquiring Summit through a merger by absorption, effective March 1, 2021.
5. Of the number of stores as of February 28, 2022, 1,695 stores of WELCIA YAKKYOKU, 16 stores of Pupule Himawari, 36 stores of Marudai Sakurai Pharmacy, 41 stores of SHIMIZU YAKUHIN, 22 stores of Marue Drug, 10 stores of YODOYA, 19 stores of Kanamitsu Yakuhin, and five stores of Welcia-BHG (Singapore) have dispensing pharmacies, for a total of 1,844 stores with dispensing pharmacies. 1,618 stores of WELCIA YAKKYOKU, 13 stores of Pupule Himawari, 48 stores of Marudai Sakurai Pharmacy, 58 stores of SHIMIZU YAKUHIN, 16 stores of Marue Drug, 14 stores of YODOYA, and nine stores of Kanamitsu Yakuhin offer late-night services for a total of 1,776 stores offering late-night services.

Sales by category

(million yen)

Category	Fiscal year ended February 28, 2021 (Mar. 1, 2020 – Feb. 28, 2021)	Fiscal year ended February 28, 2022 (Mar. 1, 2021 – Feb. 28, 2022)	YoY change (%)
OTC products, healthcare/nursing care products, baby products, and health food	194,387	202,727	104.3
Dispensing	174,169	199,208	114.4
Cosmetics	149,380	159,609	106.8
Household goods	140,940	149,868	106.3
Food products	216,231	231,250	106.9
Others	74,543	83,282	111.7
Total	949,652	1,025,947	108.0

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

(Assets)

Current assets decreased by ¥7,892 million yen compared to the end of the previous fiscal year to ¥207,998 million yen. This was primarily due to a decrease of ¥28,517 million in cash and deposits, despite increases of ¥12,946 million in merchandise and ¥4,888 million in accounts receivable – trade.

Non-current assets increased by ¥35,255 million compared to the end of the previous fiscal year to ¥255,049 million yen. This was primarily due to increases of ¥16,105 million in buildings and structures, net, ¥3,259 million in leased assets, net, ¥4,865 million in guarantee deposits, ¥5,900 million in goodwill, and ¥2,362 million in deferred tax assets.

As a result, total assets as of February 28, 2022 increased by ¥27,363 million compared to the end of the previous fiscal year to ¥463,048 million.

(Liabilities)

Current liabilities decreased by ¥14,024 million compared to the end of the previous fiscal year to ¥189,024 million. This was primarily due to decreases in ¥16,864 million in accounts payable – trade and ¥2,925 million in accounts payable – other, despite increases of ¥2,597 million in short-term loans payable and ¥2,186 million in income taxes payable.

Non-current liabilities increased by ¥13,852 million compared to the end of the previous fiscal year to ¥66,136 million. This was primarily due to increases of ¥8,337 million in long-term loans payable, ¥2,589 million in lease obligations, ¥1,463 million in asset retirement obligations, and ¥1,175 million in retirement benefits-related liabilities.

As a result, total liabilities as of February 28, 2022 decreased by ¥172 million compared to the end of the previous fiscal year to ¥255,161 million.

(Net assets)

Net assets as of February 28, 2022 increased by ¥27,535 million compared to the end of the previous fiscal year to ¥207,886 million. This was primarily due to an increase of ¥5,471 million in minority interests and the recording of net income attributable to owners of parent of ¥26,453 million, despite a decrease of ¥6,288 million in retained earnings due to dividends from surplus.

As a result, equity ratio increased by 2.3 percentage points to 43.5%.

(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, 2022 decreased by ¥28,099 million compared to the end of the previous fiscal year to ¥22,837 million.

The status and factors of cash flows in each activity in the fiscal year ended February 28, 2022 are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to ¥16,228 million yen. This was mainly attributable to inflow factors of depreciation of ¥16,988 million and impairment losses of ¥4,989 million, both of which are non-cash expenses, and outflow factors of decrease in trade payables of ¥21,903 million, an increase in inventories of ¥5,703 million, and income taxes paid of ¥16,987 million, against net income before income taxes of ¥42,410 million.

(Cash flows from investing activities)

Net cash used in investing activities amounted to ¥37,088 million. This was mainly due to an outflow of ¥19,129 million for purchase of property, plant and equipment and an outflow of ¥11,545 million for purchase of shares of subsidiaries resulting in change in scope of consolidation.

(Cash flows from financing activities)

Net cash used in financing activities amounted to ¥7,282 million. This was mainly due to ¥10,580 million in proceeds from long-term loans payable, ¥6,287 million in dividends paid, as well as ¥8,574 million in repayments of finance lease obligations and ¥5,291 million in repayments of long-term loans payable.

(4) Future Outlook

In forecasts for the Japanese economy in the fiscal year ending February 28, 2023, the future outlook is expected to remain unclear. The main factor behind this uncertainty is the lack of prospects for the containment of COVID-19, compounded by rising uncertainties about the overseas economic and political situations due to the crisis in Ukraine and other factors. Another factor is the growing trend among consumers to economize against the backdrop of future uncertainty due to inflation concerns, including sharp rises in energy prices and increases in purchase prices caused by trends in raw materials prices.

In the drugstore industry, the primary market for the Group's business, although the industry itself is expanding due to factors such as ambitious store openings by major industry competitors and the capturing of food demand, the harsh business environment continues due to intensifying competition, including industry re-organization and entrants from other industries, increases in labor costs against the backdrop of labor shortages, rising logistics costs, and other factors, and this competition, in which survival is at stake, is expected to further intensify.

Under these circumstances, the Group is making progress in the achievement of its medium-term management plan, the final year of which is the year ending February 28, 2023. This plan is pursuing the penetration of the Welcia model centered on the four key policies, i.e., the operation of drugstores with dispensing pharmacies, counseling services, late-night services, and long-term care services, as well as its vision of becoming a provider of key support for people's lives and a one-stop store that offers specialist support.

For the fiscal year ending February 28, 2023, the Group will focus on achieving dominance in its existing areas and extending into new areas, with plans to open 129 new stores. In addition, continuing on from the previous fiscal year, it will promote measures to improve the productivity of store operations and dispensing operations and pursue integration effects through M&As. It will also actively engage in digital transformation.

Through such initiatives, in its consolidated financial results forecasts for the fiscal year ending February 28, 2023, the Company projects net sales of ¥1,110,000 million, operating income of ¥47,000 million, ordinary income of ¥51,600 million, and net income attributable to owners of parent of ¥28,400 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 ¥15.00 per share for the year ended February 28, 2022. As the Company also issued interim dividends of ¥15.00 per share of common stock, annual dividends are expected to be ¥30.00 per share.

The Company also plans to issue dividends of ¥32.00 per share of common stock (interim dividends of ¥16.00 per share and year-end dividends of ¥16.00 per share) for the fiscal year ending February 28, 2023.

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, 2021	As of February 28, 2022
Assets		
Current assets		
Cash and deposits	51,918	23,401
Accounts receivable - trade	44,821	49,710
Merchandise	103,283	116,230
Other	15,867	18,656
Allowance for doubtful accounts	(1)	(1)
Total current assets	215,890	207,998
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	160,562	190,624
Accumulated depreciation	(76,468)	(90,425)
Buildings and structures, net	84,094	100,199
Land	14,743	15,494
Leased assets	70,817	80,984
Accumulated depreciation	(28,736)	(35,643)
Leased assets, net	42,081	45,340
Other	22,201	24,729
Accumulated depreciation	(14,891)	(17,366)
Other, net	7,309	7,363
Total property, plant and equipment	148,229	168,397
Intangible assets		
Goodwill	16,899	22,799
Other	2,509	2,895
Total intangible assets	19,409	25,694
Investments and other assets		
Investment securities	1,031	902
Long-term loans receivable	47	44
Guarantee deposits	37,017	41,882
Deferred tax assets	12,161	14,523
Other	1,921	3,626
Allowance for doubtful accounts	(23)	(22)
Total investments and other assets	52,155	60,957
Total noncurrent assets	219,794	255,049
Total assets	435,685	463,048

(Million yen)

	As of February 28, 2021	As of February, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	150,388	133,524
Short-term loans payable	6,394	8,991
Lease obligations	7,528	8,962
Accounts payable - other	13,287	10,362
Income taxes payable	7,757	9,944
Provision for bonuses	4,653	4,898
Provision for bonuses for directors (and other officers)	142	51
Provision for point card certificates	26	155
Other	12,868	12,134
Total current liabilities	203,049	189,024
Noncurrent liabilities		
Long-term loans payable	9,222	17,560
Lease obligations	24,406	26,996
Asset retirement obligations	9,955	11,418
Retirement benefits-related liabilities	5,281	6,457
Deferred tax liabilities	109	110
Allowance for executive stock benefit	717	722
Other	2,590	2,871
Total noncurrent liabilities	52,284	66,136
Total liabilities	255,333	255,161
Net assets		
Shareholders' equity		
Capital stock	7,736	7,736
Capital surplus	51,672	51,670
Retained earnings	125,866	146,032
Treasury stock	(5,855)	(3,841)
Total shareholders' equity	179,419	201,597
Accumulated other comprehensive income		
Other valuation difference on available-for-sale securities	357	295
Foreign currency translation adjustment	3	41
Accumulated adjustment related to retirement benefits	(289)	(332)
Total accumulated other comprehensive income	70	4
Subscription rights to shares	230	183
Minority interests	630	6,101
Total net assets	180,351	207,886
Total liabilities and net assets	435,685	463,048

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

(Million yen)

	For the fiscal year ended February 28, 2021	For the fiscal year ended February 28, 2022
Net sales	949,652	1,025,947
Cost of sales	653,607	705,002
Gross profit	296,044	320,944
Selling, general and administrative expenses		
Advertising expenses	18,740	20,603
Salaries	99,485	109,411
Bonuses	4,068	4,777
Provision for bonuses	4,647	4,849
Provision for share awards for directors (and other officers)	148	139
Retirement benefit expenses	1,694	1,904
Rent expenses on real estate	39,599	43,809
Depreciation	14,887	16,713
Commission expenses	19,510	20,106
Rent expenses	696	774
Amortization of goodwill	1,797	1,973
Other	47,791	52,862
Total selling, general and administrative expenses	253,070	277,925
Operating income	42,974	43,018
Non-operating income		
Interest income	5	5
Dividend income	8	9
Share of profit of entities accounted for using equity method	16	–
Rental income from real estate	961	969
Gain on receipt of donated noncurrent assets	240	174
Commission income	576	546
Subsidy income	–	1,629
Sponsorship money income	287	426
Other	1,351	1,712
Total non-operating income	3,445	5,474
Non-operating expenses		
Interest expenses	428	468
Share of loss of entities accounted for using equity method	–	11
Rent cost of real estate	159	166
Other	30	256
Total non-operating expenses	619	902
Ordinary income	45,800	47,590

	For the fiscal year ended February 28, 2021	For the fiscal year ended February 28, 2022
Extraordinary income		
Gain on step acquisitions	169	–
Gain on sale of noncurrent assets	104	6
Subsidy income	426	–
Compensation income	–	54
Other	79	33
Total extraordinary income	779	94
Extraordinary loss		
Loss on sale of noncurrent assets	27	1
Loss on retirement of noncurrent assets	122	206
Impairment loss	3,826	4,989
COVID-related loss	1,179	11
Other	112	65
Total extraordinary losses	5,268	5,274
Net income before income taxes and minority interests	41,311	42,410
Income taxes - current	15,054	17,443
Income taxes - deferred	(1,670)	(1,485)
Total income taxes	13,383	15,957
Net income	27,928	26,452
Loss attributable to non-controlling interests	(71)	(0)
Net income attributable to owners of parent	27,999	26,453

Consolidated Statements of Comprehensive Income

(Million yen)

	For the fiscal year ended February 28, 2021	For the fiscal year ended February 28, 2022
Net income	27,928	26,452
Other comprehensive income		
Other valuation difference on available-for-sale securities	94	(61)
Foreign currency translation adjustment	45	76
Remeasurements of defined benefit plans	(43)	(43)
Total other comprehensive income	96	(29)
Comprehensive income	28,025	26,423
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	28,091	26,386
Comprehensive income attributable to non-controlling interests	(66)	37

(3) Consolidated Statements of Changes in Equity
 Fiscal year ended February 28, 2021 (from March 1, 2020 to February 28, 2021)

(Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	7,736	51,669	103,525	(1,222)	161,709
Changes during period					
Dividends of surplus			(5,658)		(5,658)
Profit attributable to owners of parent			27,999		27,999
Purchase of treasury shares				(5,512)	(5,512)
Disposal of treasury shares		2		878	881
Net changes in items other than shareholders' equity					
Total changes during period	—	2	22,341	(4,633)	17,709
Balance at end of period	7,736	51,672	125,866	(5,855)	179,419

	Accumulated other comprehensive income				Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of period	262	(38)	(245)	(21)	236	493	162,418
Changes during period							
Dividends of surplus							(5,658)
Profit attributable to owners of parent							27,999
Purchase of treasury shares							(5,512)
Disposal of treasury shares							881
Net changes in items other than shareholders' equity	94	41	(43)	91	(5)	137	223
Total changes during period	94	41	(43)	91	(5)	137	17,933
Balance at end of period	357	3	(289)	70	230	630	180,351

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 shares	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)
Profit attributable to owners of parent			26,453		26,453
Purchase of treasury shares				(2)	(2)
Disposal of treasury shares		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				Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	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)
Profit attributable to owners of parent							26,453
Purchase of treasury shares							(2)
Disposal of treasury shares							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

(4) Consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended February 28, 2021	For the fiscal year ended February 28, 2022
Cash flows from operating activities		
Net income before income taxes and minority interests	41,311	42,410
Depreciation	15,178	16,988
Impairment losses	3,826	4,989
Amortization of goodwill	1,797	1,973
Loss (gain) on step acquisitions	(169)	–
Increase (decrease) in allowance for doubtful accounts	(10)	(0)
Increase (decrease) in provision for bonuses	357	205
Increase (decrease) in retirement benefits-related liabilities	784	911
Increase (decrease) in allowance for executive stock benefit	128	4
Increase (decrease) in provision for point card certificates	1	(1)
Increase (decrease) in provision for bonuses for directors (and other officers)	142	(91)
Interest and dividend income	(13)	(14)
Interest expenses	428	468
Rent expenses offset by construction assistance fund receivables	1,048	1,071
Loss on sale of noncurrent assets	27	1
Loss on retirement of noncurrent assets	122	206
Gain on receipt of donated noncurrent assets	(240)	(174)
Decrease (increase) in trade receivables	(354)	(4,128)
Decrease (increase) in inventories	(10,428)	(5,703)
Increase (decrease) in trade payables	8,907	(21,903)
Increase (decrease) in accounts payable - other	3,982	(3,453)
Increase (decrease) in accrued consumption taxes	512	1,239
Other, net	(3,801)	(2,913)
Subtotal	63,540	32,086
Interest and dividends received	17	14
Interest paid	(423)	(493)
Income taxes paid	(18,012)	(16,987)
Income taxes refund	1,275	1,608
Net cash provided by (used in) operating activities	46,396	16,228
Cash flows from investing activities		
Payments into time deposits	(818)	(1,001)
Proceeds from withdrawal of time deposits	1,147	1,421
Purchase of property, plant and equipment	(13,638)	(19,129)
Proceeds from sale of property, plant and equipment	617	13
Purchase of intangible assets	(823)	(1,024)
Proceeds from refund of deposits paid to subsidiaries and associates	7,000	–
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(2,445)	(11,545)
Payments of leasehold deposits	(5,971)	(5,808)
Proceeds from refund of leasehold deposits	278	426
Other, net	(1,494)	(440)
Net cash provided by (used in) investing activities	(16,147)	(37,088)

(Million yen)

	For the fiscal year ended February 28, 2021	For the fiscal year ended February 28, 2022
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	0	40
Proceeds from long-term loans payable	5,000	10,580
Repayments of long-term loans payable	(4,116)	(5,291)
Redemption of bonds	(380)	(110)
Dividends paid	(5,659)	(6,287)
Repayments of finance lease obligations	(7,177)	(8,574)
Proceeds from sale of treasury shares	875	1,988
Purchase of treasury shares	(5,512)	(2)
Other, net	–	375
Net cash provided by (used in) financing activities	(16,970)	(7,282)
Effect of exchange rate change on cash and cash equivalents	18	43
Net increase (decrease) in cash and cash equivalents	13,297	(28,099)
Increase in cash and cash equivalents resulting from merger	41	–
Cash and cash equivalents at beginning of period	37,599	50,937
Cash and cash equivalents at end of period	50,937	22,837

(5) Notes to Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Business combination)

(Business combination by acquisition)

1. Overview of business combination

(1) Name and business of the acquired company

Name: Kabushiki Kaisha Pupule Himawari

Business: Operation of drugstores

(2) Main reasons for the business combination

The Group's mission is to "promote higher quality of life and healthy lifestyles for our customers" as we aim to be a provider of key support for people's lives and a one-stop store that offers specialist support by proposing high value-added products and services focused on health. We are evolving our business model centered on the operation of drugstores with dispensing pharmacies, counseling services, late-night services, and long-term care services. And we offer counseling and courteous customer services based on the expertise of employees such as pharmacists, registered sales clerks, beauty care advisors, registered dietitians, and dispensing clerks as we provide products with regional characteristics and enhance services that improve customer convenience. In this way, we aim to create stores that support the health and beauty of our area customers and their affluent living. Mainly based in the Kanto area, our service operations cover regions extending from the Tohoku area to the Chugoku/Shikoku area.

Meanwhile, Kabushiki Kaisha Pupule Himawari's mission is: "We aim to be a support group for the healthy, beautiful, affluent, and comfortable lives of local residents; We put customers first, always greet customers with gratitude and enthusiasm, smile brightly, and provide satisfaction with accurate product knowledge; We respect one another, improve our abilities through work, and make life easier." The company, which aims to become a one-stop shop that provides both expertise and convenience as a company that is needed for local residents, operates mainly in Hiroshima Prefecture but also in Okayama Prefecture, Shimane Prefecture, Tottori Prefecture, Hyogo Prefecture, Ehime Prefecture, and Kagawa Prefecture.

We are seeking to expand our store network in the Chugoku/Shikoku area. And we are also expecting to expand our business scale and strengthen our business structure by sharing the management resources owned by each company, such as know-how and human resources.

(3) Date of business combination

December 1, 2021

(4) Legal form of business combination

Share acquisition in cash

(5) Name after business combination

No changes

(6) Percentage of voting rights acquired

51.03%

(7) Reason for determining the acquiring company

The Company's cash acquisition of shares

2. Period of business results of the acquired company in the consolidated financial statements

From December 1, 2021 to February 28, 2022

3. Cost of acquisition of the acquired company and breakdown thereof

Acquisition price	Cash	13,200 million yen
Acquisition cost		13,200 million yen

4. Description and amount of major acquisition-related costs

Advisory fees, etc. 29 million yen

5. Resulting amount of goodwill, reason for goodwill, amortization method, and amortization period

(1) Resulting amount of goodwill

¥7,948 million

(2) Reason for goodwill

The goodwill resulted from the fact that the acquisition cost was greater than net assets at fair value at the time of the business combination.

(3) Amortization method and amortization period

Goodwill will be amortized over a period of 14 years by the straight-line method.

6. Amount of assets received and liabilities assumed on the date of business combination and their major breakdown

Current assets	10,137 million yen
Non-current assets	14,508 million yen
Total assets	24,645 million yen
Current liabilities	8,159 million yen
Non-current liabilities	6,197 million yen
Total liabilities	14,356 million yen

7. Estimated amount of effect on Consolidated Statements of Income for the fiscal year ended February 28, 2022 on the assumption that the business combination had been completed on the first day of the fiscal year and calculation method

Net sales	38,633 million yen
Ordinary income	37 million yen

(Method of calculation of estimate)

The differences between the net sales and ordinary revenue and expense calculated on the assumption that the business combination had been completed on the first day of the fiscal year ended February 28, 2022 and the net sales and ordinary revenue and expense in the Consolidated Statements of Income of the acquired company were used as the estimated amount of the effect. In the calculation of the estimated amount of the effect, goodwill recognized at the time of the business combination was deemed to have resulted at the beginning of the fiscal year.

The above information is not necessarily suggestive of events that are likely to happen in the future. It also does not indicate operating results that would have resulted had the investment actually taken place on the first day of the fiscal year ended February 28, 2022.

These Notes to Consolidated Financial Statements have not been subject to audit certification.

(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, 2021 (Mar. 1, 2020 – Feb. 28, 2021)	Fiscal year ended Feb. 28, 2022 (Mar. 1, 2021 – Feb. 28, 2022)
Net assets per share	¥862.82	¥966.66
Net income per share	¥134.23	¥126.99
Diluted net income per share	¥134.10	¥126.88

- (Notes)
1. The number of shares of the Company held in the Employees' Stock Ownership ESOP Trust (February 28, 2021: 1,050,200 shares; February 28, 2022: 624,800 shares) and the number of shares of the Company held in the Directors' Remuneration BIP Trust (February 28, 2021: 502,238 shares; February 28, 2022: 440,442 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, 2021: 982,981 shares; February 28, 2022: 1,294,907 shares).
 2. A two-for-one stock split of the Company's common stock was executed on September 1, 2020. "Total assets per share," "Net income per share," and "Diluted net income per share" have been calculated on the assumption that this stock split was conducted at the beginning of the fiscal year ended February 28, 2021.
 3. The basis for the calculation of basic earnings and diluted earnings per share is as follows.

Item	Fiscal year ended Feb. 28, 2021 (Mar. 1, 2020 – Feb. 28, 2021)	Fiscal year ended Feb. 28, 2022 (Mar. 1, 2021 – Feb. 28, 2022)
Net income per share		
Net income attributable to owners of parent (Million yen)	27,999	26,453
Amount not attributable to common shareholders (Million yen)	–	–
Net income attributable to owners of parent relating to common shares (Million yen)	27,999	26,453
Average number of common shares outstanding during the fiscal year (Thousand shares)	208,595	208,320
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)	204	167
(of which, share acquisition rights) (Thousand shares)	(204)	(167)
Overview of residual shares not included in the calculation of diluted net income per share due to their non-dilutive effect		–

(Significant subsequent events)

(Business combination by acquisition)

The Company resolved, at the Board of Directors meeting held on January 18, 2022, to acquire shares in Kokumin Co., Ltd. and Kabushiki Kaisha French and to form a capital and business partnership (conversion to subsidiary) with these two companies. A basic agreement was concluded on the same date and the number of shares to be transferred and the acquisition prices were finalized on March 30, 2022.

1. Overview of business combination

(1) Name, description and scale of business of the acquired companies

Name: Kokumin Co., Ltd.
Business: Operation of pharmacies and drugstores
Capital: ¥91 million

Name: Kabushiki Kaisha French
Business: Operation of pharmacies
Capital: ¥18 million

(2) Main reasons for the business combination

The Group's mission is to "promote higher quality of life and healthy lifestyles for our customers" as we aim to be a provider of key support for people's lives and a one-stop store that offers specialist support by proposing high value-added products and services focused on health. We are evolving our business model centered on the operation of drugstores with dispensing pharmacies, counseling services, late-night services, and long-term care services. And we offer counseling and courteous customer services based on the expertise of employees such as pharmacists, registered sales clerks, beauty care advisors, registered dietitians, and dispensing clerks as we provide products with regional characteristics and enhance services that improve customer convenience. In this way, we aim to create stores that support the health and beauty of our area customers and their affluent living. Mainly based in the Kanto area, our service operations cover regions extending from the Tohoku area to the Chugoku/Shikoku area.

Meanwhile, the mission of Kokumin and French is: "to serve the beauty and health of the nation" and, in line with their vision of "We aim to be specialists that are close to customers and support healthy lifestyles," they operate highly specialized drugstores in large retail complexes, airports, in and close to railway stations, shopping districts, residential areas, and other favorable locations in major cities in Hokkaido, Kanto, Kansai, Kyushu, and other areas. They also operate dispensing pharmacies in diverse locations, primarily locations in front of university hospitals and large general hospitals, but also including inside clinic malls and railway station terminals.

The Group is seeking to expand its urban-type stores, which it intends to strengthen going forward, and its network of stores nationwide, and also expects to expand its business scale and strengthen its business structure by sharing the management resources owned by each company, such as know-how

and human resources.

- (3) Date of business combination
June 1, 2022 (scheduled)
- (4) Legal form of business combination
Share acquisition in cash
- (5) Name after business combination
No changes
- (6) Percentage of voting rights to be acquired
 - 1) Kokumin Co., Ltd.
93.86% (to become 100% with the acquisition of shares in Kabushiki Kaisha French)
 - 2) Kabushiki Kaisha French
100%
- (7) Financing method
The Company plans to borrow the funds.
- (8) Primary reason for determining the acquiring company
The Company's cash acquisition of shares

2. Cost of acquisition of the acquired companies and breakdown thereof

1) Kokumin Co., Ltd.

Acquisition price	Cash	20,398 million yen
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Acquisition cost		20,398 million yen

2) Kabushiki Kaisha French

Acquisition price	Cash	1,333 million yen
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Acquisition cost		1,333 million yen

- 3. Description and amount of major acquisition-related costs
Not determined at this time
- 4. Resulting amount of goodwill, reason for goodwill, amortization method, and amortization period
Not determined at this time
- 5. Amount of assets received and liabilities assumed on the date of business combination and their major breakdown
Not determined at this time