

Consolidated Financial Results for the Three Months Ended May 31, 2021 [Japanese GAAP]



July 7, 2021

Company name: WELCIA HOLDINGS CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 3141

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Scheduled date of filing quarterly securities report: July 7, 2021

Scheduled date of commencing dividend payments: –

Availability of supplementary briefing material on quarterly financial results: Available

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

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

1. Consolidated Financial Results for the Three Months Ended May 31, 2021 (March 1, 2021 - May 31, 2021)

(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	%
Three months ended								
May 31, 2021	248,861	7.0	7,282	(30.8)	8,851	(21.3)	5,307	(19.6)
May 31, 2020	232,502	10.5	10,526	29.4	11,253	27.5	6,602	21.3

(Note) Comprehensive income: Three months ended May 31, 2021: ¥5,279 million [(20.7) %]

Three months ended May 31, 2020: ¥6,661 million [24.3%]

	Net income per share		Diluted net income per share	
	Yen		Yen	
Three months ended				
May 31, 2021	25.50		25.48	
May 31, 2020	31.60		31.57	

(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	
	Million yen		Million yen		%	
As of May 31, 2021	414,246		183,378		44.0	
As of February 28, 2021	435,685		180,351		41.2	

(Reference) Equity: As of May 31, 2021: ¥182,186 million

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

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended February 28, 2021	–	27.00	–	15.00	–
Fiscal year ending February 28, 2022	–				
Fiscal year ending February 28, 2022 (Forecast)		15.00	–	15.00	30.00

(Notes) 1. Revision to the forecast for dividends announced most recently: None

2. 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, 2022 (March 1, 2021 - February 28, 2022)

(% 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
First half (cumulative)	508,500	6.7	22,870	(13.6)	24,670	(11.5)	15,160	(12.4)	72.88
Full year	1,021,000	7.5	44,300	3.1	47,600	3.9	27,000	(3.6)	129.79

(Note) Revision to the financial results forecast announced most recently: None

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the three months ended May 31, 2021 (from March 1, 2021 to May 31, 2021), the Japanese economy continued in a state of sluggish personal spending as well as shrinking corporate activities due to the impact of the spread of the coronavirus disease (COVID-19). While measures were gradually being taken, most notably the commencement of COVID-19 vaccinations, the fourth wave of COVID-19 cases materialized in April, sending certain parts of the country into a state emergency, and uncertainty continued to prevail with no prospect in sight for the containment of the pandemic.

In the drugstore industry, the primary market for the Group's business, competition intensified, as the industry underwent reorganization even among the major players and entrants from other industries entered the market. Moreover, while in the previous fiscal year, demand grew for products to prevent infectious diseases reflecting the spread of COVID-19 as well as foods and other products stemming from the voluntary restraints on going out, in the three months ended May 31, 2021, such demand experienced a reactionary decline. Furthermore, the impact of the outbreak such as the sharp drop in demand for cosmetics in response to the proactive promotion of teleworking, fewer people catching colds as a result of regularly wearing masks and washing their hands, and people refraining from visiting doctors persists even in the current period.

Under such circumstances, the Group, despite shorter business hours at certain stores and other measures, made efforts to operate its business to provide products and services, while continuing to implement measures to prevent COVID-19 infections and thorough hygiene management. In terms of the sale of goods, the Cosmetics segment has not recovered the levels prior to COVID-19, while the Food Products segment reported a reactionary decline compared to the spike in special demand in the previous fiscal year, and in the Dispensing segment, net sales increased due primarily to the increase in the number of stores with dispensing pharmacies (1,688 stores as of May 31, 2021) and new store openings, 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 through man-hour control and improving store operational efficiency through the promotion of automatic ordering, while at the same time continuing with the employment reinforcement measures from the previous fiscal year.

The Group also made efforts toward the improvement of business efficiency by carrying out an absorption-type merger, effective March 1, 2021, whereby Neo Pharma Co., Ltd. and Summit Co., Ltd., wholly-owned subsidiaries engaged in the dispensing business in Shikoku area mainly in Ehime Prefecture, were absorbed and WELCIA YAKKYOKU Co., Ltd., a consolidated subsidiary became the surviving company

As for store openings and closures, the Group as a whole opened 47 stores and closed seven stores, for a total of 2,258 stores Group-wide as of May 31, 2021.

(Unit: No. of Stores)

	No. of stores as of February 28, 2021	Increase resulting from transfer of business	Increase/decrease resulting from mergers	Openings	Closures	No. of stores as of May 31, 2021
WELCIA YAKKYOKU (Note 1)	1,899	1	13	45	5	1,953
Marudai Sakurai Pharmacy	87	–	–	2	–	89
SHIMIZU YAKUHIN	62	–	–	–	–	62
Marue Drug	58	–	–	–	1	57
YODOYA	25	–	–	–	–	25
Kanamitsu Yakuhin	28	–	–	–	–	28
MASAYA	35	–	–	–	–	35
Neo Pharma (Note 2)	10	–	(10)	–	–	–

Summit (Note 3)	3	–	(3)	–	–	–
Total in Japan	2,207	1	–	47	6	2,249
Welcia-BHG (Singapore)	10	–	–	–	1	9
Total	2,217	1	–	47	7	2,258

- (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. The number of stores of WELCIA YAKKYOKU as of May 31, 2021, includes the stores of Neo Pharma, due to WELCIA YAKKYOKU acquiring Neo Pharma through a merger by absorption, effective March 1, 2021.
3. The number of stores of WELCIA YAKKYOKU as of May 31, 2021, includes the stores of Summit, due to WELCIA YAKKYOKU acquiring Summit through a merger by absorption, effective March 1, 2021.
4. Among the number of stores as of May 31, 2021, 1,579 stores of WELCIA YAKKYOKU, 31 stores of Marudai Sakurai Pharmacy, 35 stores of SHIMIZU YAKUHIN, 17 stores of Marue Drug, three stores of YODOYA, 19 stores of Kanamitsu Yakuhin, and four stores of Welcia-BHG (Singapore) have dispensing pharmacies for a total of 1,688 stores with dispensing pharmacies. 1,553 stores of WELCIA YAKKYOKU, 43 stores of Marudai Sakurai Pharmacy, 55 stores of SHIMIZU YAKUHIN, 11 stores of Marue Drug, 13 stores of YODOYA, and nine stores of Kanamitsu Yakuhin offer late-night services, for a total of 1,684 stores offering late-night services.

Sales by category were as indicated below.

Category	Sales (million yen)	YoY change (%)
OTC products, healthcare/nursing care products, baby products, and health food	49,151	108.7
Dispensing	49,102	116.7
Cosmetics	38,905	108.8
Household goods	35,435	105.2
Food products	56,039	98.1
Others	20,228	108.6
Total	248,861	107.0

As a result of the above, the consolidated operating results for the three months ended May 31, 2021, were ¥248,861 million in net sales (an increase of 7.0% year-on-year), ¥7,282 million in operating income (a decrease of 30.8% year-on-year), ¥8,851 million in ordinary income (a decrease of 21.3% year-on-year), and ¥5,307 million in net income attributable to owners of parent (a decrease of 19.6% year-on-year).

(2) Explanation of Financial Position

(Assets)

Total assets as of May 31, 2021 decreased by ¥21,438 million compared to the end of the previous fiscal year to ¥414,246 million. This was primarily due to a decrease in cash and deposits of ¥28,981 million despite the increases of ¥6,382 million in merchandise and ¥3,862 million in buildings and structures, net.

(Liabilities)

Total liabilities as of May 31, 2021 decreased by ¥24,464 million compared to the end of the previous fiscal year to ¥230,868 million. This was primarily due to the decreases of ¥18,895 million in accounts payable - trade, ¥4,278 million in income taxes payable, and ¥4,045 million in accounts payable - other.

(Net assets)

Net assets as of May 31, 2021 increased by ¥3,026 million compared to the end of the previous fiscal year to ¥183,378 million. This was primarily due to the recording of net income attributable to owners of parent of ¥5,307 million, despite a decrease of ¥3,143 million in retained earnings due to the dividends from surplus.

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

There has been no change from the consolidated financial results forecast announced in the “Consolidated Financial Results for the Fiscal Year Ended February 28, 2021” (on April 7, 2021).

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of February 28, 2021	As of May 31, 2021
Assets		
Current assets		
Cash and deposits	51,918	22,936
Accounts receivable - trade	44,821	43,517
Merchandise	103,283	109,666
Other	15,867	13,300
Allowance for doubtful accounts	(1)	(1)
Total current assets	215,890	189,419
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	84,094	87,956
Land	14,743	14,811
Leased assets, net	42,081	43,551
Other, net	7,309	7,197
Total property, plant and equipment	148,229	153,517
Intangible assets		
Goodwill	16,899	16,463
Other	2,509	2,606
Total intangible assets	19,409	19,069
Investments and other assets		
Guarantee deposits	37,017	37,187
Other	15,161	15,075
Allowance for doubtful accounts	(23)	(22)
Total investments and other assets	52,155	52,239
Total noncurrent assets	219,794	224,826
Total assets	435,685	414,246

(Million yen)

	As of February 28, 2021	As of May 31, 2021
Liabilities		
Current liabilities		
Accounts payable - trade	150,388	131,493
Short-term loans payable	6,394	6,343
Lease obligations	7,528	7,698
Accounts payable - other	13,287	9,242
Income taxes payable	7,757	3,479
Provision for bonuses	4,653	6,649
Provision for bonuses for directors (and other officers)	142	–
Provision for point card certificates	26	29
Other	12,868	13,945
Total current liabilities	203,049	178,882
Noncurrent liabilities		
Long-term loans payable	9,222	7,982
Lease obligations	24,406	24,875
Asset retirement obligations	9,955	10,197
Retirement benefits-related liabilities	5,281	5,500
Allowance for executive stock benefit	717	760
Other	2,700	2,669
Total noncurrent liabilities	52,284	51,986
Total liabilities	255,333	230,868
Net assets		
Shareholders' equity		
Capital stock	7,736	7,736
Capital surplus	51,672	51,691
Retained earnings	125,866	128,030
Treasury stock	(5,855)	(5,342)
Total shareholders' equity	179,419	182,115
Accumulated other comprehensive income		
Other valuation difference on available-for-sale securities	357	317
Foreign currency translation adjustment	3	24
Accumulated adjustment related to retirement benefits	(289)	(271)
Total accumulated other comprehensive income	70	70
Subscription rights to shares	230	183
Minority interests	630	1,008
Total net assets	180,351	183,378
Total liabilities and net assets	435,685	414,246

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Three Months Ended May 31

(Million yen)

	For the three months ended May 31, 2020	For the three months ended May 31, 2021
Net sales	232,502	248,861
Cost of sales	162,977	174,242
Gross profit	69,525	74,618
Selling, general and administrative expenses	58,998	67,336
Operating income	10,526	7,282
Non-operating income		
Interest and dividend income	2	0
Share of profit of entities accounted for using equity method	–	3
Real estate rent	253	239
Sponsorship money income	63	74
Subsidy income	–	946
Other	566	562
Total non-operating income	885	1,826
Non-operating expenses		
Interest expenses	107	110
Share of loss of entities accounted for using equity method	4	–
Rent cost of real estate	39	40
Loss on valuation of supplies	–	66
Other	6	40
Total non-operating expenses	157	257
Ordinary income	11,253	8,851
Extraordinary income		
Gain on sale of noncurrent assets	3	1
Gain on forgiveness of store rents	67	–
Other	0	–
Total extraordinary income	70	1
Extraordinary loss		
Loss on retirement of noncurrent assets	19	102
Impairment loss	150	–
COVID-related loss	460	11
Other	5	15
Total extraordinary losses	635	128
Net income before income taxes and minority interests	10,689	8,723
Income taxes - current	4,218	3,459
Income taxes - deferred	(105)	1
Total income taxes	4,112	3,460
Net income	6,576	5,263
Loss attributable to non-controlling interests	(25)	(44)
Net income attributable to owners of parent	6,602	5,307

Quarterly Consolidated Statements of Comprehensive Income

Three Months Ended May 31

(Million yen)

	For the three months ended May 31, 2020	For the three months ended May 31, 2021
Net income	6,576	5,263
Other comprehensive income		
Other valuation difference on available-for-sale securities	108	(39)
Foreign currency translation adjustment	(35)	42
Remeasurements of defined benefit plans	12	13
Total other comprehensive income	85	16
Comprehensive income	6,661	5,279
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,703	5,302
Comprehensive income attributable to non-controlling interests	(42)	(23)

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on the going concern assumption)

Not applicable.

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

Not applicable.