

Consolidated Financial Results for the Six Months Ended August 31, 2021 [Japanese GAAP]



October 6, 2021

Company name: WELCIA HOLDINGS CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 3141

URL: <https://www.welcia.co.jp/>

Representative: Tadahisa Matsumoto, President and Representative Director

Contact: Norimasa Sato, Vice President, Director, Executive Officer and Chief Financial Officer

Phone: +81-3-5207-5878

Scheduled date of filing quarterly securities report: October 6, 2021

Scheduled date of commencing dividend payments: November 5, 2021

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 Six Months Ended August 31, 2021 (March 1, 2021 - August 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	%
Six months ended August 31, 2021	508,295	6.6	22,735	(14.1)	25,145	(9.8)	15,527	(10.3)
August 31, 2020	476,656	11.5	26,481	44.0	27,886	42.0	17,300	45.9

(Note) Comprehensive income: Six months ended August 31, 2021: ¥15,495 million [(10.8)%]

Six months ended August 31, 2020: ¥17,378 million [47.9%]

	Net income per share		Diluted net income per share	
	Yen		Yen	
Six months ended August 31, 2021	74.58		74.52	
August 31, 2020	82.80		82.72	

(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 August 31, 2021	424,680		194,247		45.5	
As of February 28, 2021	435,685		180,351		41.2	

(Reference) Equity: As of August 31, 2021: ¥193,063 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	–	15.00			
Fiscal year ending February 28, 2022 (Forecast)			–	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
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

Table of Contents - Attachments

1. Qualitative Information on Quarterly Financial Results	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information	4
2. Quarterly Consolidated Financial Statements and Principal Notes	5
(1) Quarterly Consolidated Balance Sheets	5
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	7
Quarterly Consolidated Statements of Income	
Six Months Ended August 31.....	7
Quarterly Consolidated Statements of Comprehensive Income	
Six Months Ended August 31.....	8
(3) Quarterly Consolidated Statements of Cash Flows	9
(4) Notes to Quarterly Consolidated Financial Statements	11
(Notes on going concern assumption)	11
(Notes in case of significant changes in shareholders' equity)	11
(Significant subsequent events)	11

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the six months ended August 31, 2021 (from March 1, 2021 to August 31, 2021), the Japanese economy continued to face difficulties amid the impact of the spread of the coronavirus disease (COVID-19), although it remained on a recovery path. While COVID-19 vaccinations have been progressing, there is a downside risk associated with a potential resurgence of infections, and uncertainty continues 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 demand grew for products to prevent infectious diseases as well as for foods and other products stemming from the voluntary restraints on going out due to the spread of COVID-19, impacts of the outbreak such as a drop in demand for cosmetics in response to the continuation and establishment of teleworking, fewer people catching colds as a result of regularly wearing masks and washing their hands, and people refraining from visiting doctors persist.

Under such circumstances, the Group 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 from a spike in special demand in the previous fiscal year. In terms of dispensing pharmacy sales, the number of prescriptions handled increased due primarily to the increase in the number of stores with dispensing pharmacies (1,747 stores as of August 31, 2021), 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 and improving store operational efficiency through the promotion of automatic ordering, while seeking to standardize the dispensing business by adding dispensing pharmacies to stores that did not already have them.

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 82 stores and closed 13 stores, for a total of 2,287 stores Group-wide as of August 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 August 31, 2021
WELCIA YAKKYOKU (Note 1)	1,899	1	13	76	6	1,983
Marudai Sakurai Pharmacy	87	–	–	3	1	89
SHIMIZU YAKUHIN	62	–	–	1	1	62
Marue Drug	58	–	–	–	1	57
YODOYA	25	–	–	–	1	24
Kanamitsu Yakuhin	28	–	–	–	2	26
MASAYA	35	–	–	1	–	36
Neo Pharma (Note 2)	10	–	(10)	–	–	–
Summit (Note 3)	3	–	(3)	–	–	–
Total in Japan	2,207	1	–	81	12	2,277
Welcia-BHG	10	–	–	1	1	10

(Singapore)						
Total	2,217	1	–	82	13	2,287

- (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 August 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 August 31, 2021, includes the stores of Summit, due to WELCIA YAKKYOKU acquiring Summit through a merger by absorption, effective March 1, 2021.
4. Of the number of stores as of August 31, 2021, 1,632 stores of WELCIA YAKKYOKU, 31 stores of Marudai Sakurai Pharmacy, 35 stores of SHIMIZU YAKUHIN, 19 stores of Marue Drug, six stores of YODOYA, 19 stores of Kanamitsu Yakuhin, and five stores of Welcia-BHG (Singapore) have dispensing pharmacies for a total of 1,747 stores with dispensing pharmacies. 1,579 stores of WELCIA YAKKYOKU, 43 stores of Marudai Sakurai Pharmacy, 56 stores of SHIMIZU YAKUHIN, 13 stores of Marue Drug, 13 stores of YODOYA, and nine stores of Kanamitsu Yakuhin offer late-night services, for a total of 1,713 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	102,801	103.5
Dispensing	97,680	116.2
Cosmetics	79,514	105.6
Household goods	72,889	105.0
Food products	114,523	102.8
Others	40,885	110.3
Total	508,295	106.6

As a result of the above, the consolidated operating results for the six months ended August 31, 2021, were ¥508,295 million in net sales (an increase of 6.6% year-on-year), ¥22,735 million in operating income (a decrease of 14.1% year-on-year), ¥25,145 million in ordinary income (a decrease of 9.8% year-on-year), and ¥15,527 million in net income attributable to owners of parent (a decrease of 10.3% year-on-year).

(2) Explanation of Financial Position

(Assets)

Total assets as of August 31, 2021 decreased by ¥11,004 million compared to the end of the previous fiscal year to ¥424,680 million. This was primarily due to a decrease in cash and deposits of ¥22,439 million despite the increases of ¥2,173 million in merchandise, ¥6,727 million in buildings and structures, net, and ¥2,117 million in leased assets, net.

(Liabilities)

Total liabilities as of August 31, 2021 decreased by ¥24,899 million compared to the end of the previous fiscal year to ¥230,433 million. This was primarily due to the decreases of ¥19,162 million in accounts payable - trade and ¥2,989 million in accounts payable - other.

(Net assets)

Net assets as of August 31, 2021 increased by ¥13,895 million compared to the end of the previous fiscal year to ¥194,247 million. This was primarily due to the recording of net income attributable to owners of parent of ¥15,527 million, despite a decrease of ¥3,143 million in retained earnings due to the dividends from surplus.

(Status of cash flows)

Cash and cash equivalents (hereinafter referred to as the “cash”) as of August 31, 2021 totaled ¥28,159 million, a decrease of ¥22,778 million compared to the end of the previous fiscal year.

The status and factors of cash flows in each activity in the six months ended August 31, 2021 are as follows.

(Cash flows from operating activities)

Net cash used in operating activities amounted to ¥804 million (an inflow of ¥5,042 million for the same quarter a year earlier).

This was mainly due to the following: against net income before income taxes and minority interests of ¥24,842 million, the major inflow was depreciation, a non-cash expense, totaling ¥8,055 million, while the major outflows were a decrease in provision for bonuses totaling ¥2,118 million, a decrease in trade payables totaling ¥19,167 million due to the last day of the previous consolidated fiscal year falling on a bank holiday, etc., a decrease in accounts payable - other totaling ¥3,093 million, and income taxes paid totaling ¥8,618 million.

(Cash flows from investing activities)

Net cash used in investing activities amounted to ¥13,813 million (an outflow of ¥4,129 million for the same quarter a year earlier).

This was mainly due to an outflow of ¥10,028 million for purchase of property, plant and equipment, and an outflow of ¥2,939 million for payments of leasehold deposits.

(Cash flows from financing activities)

Net cash used in financing activities amounted to ¥8,172 million (an outflow of ¥8,874 million for the same quarter a year earlier).

This was mainly due to repayments of finance lease obligations totaling ¥4,118 million and dividends paid totaling ¥3,143 million.

(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 August 31, 2021
Assets		
Current assets		
Cash and deposits	51,918	29,479
Accounts receivable - trade	44,821	45,694
Merchandise	103,283	105,457
Other	15,867	15,864
Allowance for doubtful accounts	(1)	(1)
Total current assets	215,890	196,494
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	84,094	90,821
Land	14,743	14,811
Leased assets, net	42,081	44,198
Other, net	7,309	7,848
Total property, plant and equipment	148,229	157,680
Intangible assets		
Goodwill	16,899	16,031
Other	2,509	2,592
Total intangible assets	19,409	18,624
Investments and other assets		
Guarantee deposits	37,017	38,041
Other	15,161	13,862
Allowance for doubtful accounts	(23)	(22)
Total investments and other assets	52,155	51,881
Total noncurrent assets	219,794	228,186
Total assets	435,685	424,680

(Million yen)

	As of February 28, 2021	As of August 31, 2021
Liabilities		
Current liabilities		
Accounts payable - trade	150,388	131,225
Short-term loans payable	6,394	5,971
Lease obligations	7,528	7,977
Accounts payable - other	13,287	10,298
Income taxes payable	7,757	8,219
Provision for bonuses	4,653	2,535
Provision for bonuses for directors (and other officers)	142	23
Provision for point card certificates	26	25
Other	12,868	12,112
Total current liabilities	203,049	178,390
Noncurrent liabilities		
Long-term loans payable	9,222	7,256
Lease obligations	24,406	25,446
Asset retirement obligations	9,955	10,361
Retirement benefits-related liabilities	5,281	5,707
Allowance for executive stock benefit	717	658
Other	2,700	2,613
Total noncurrent liabilities	52,284	52,043
Total liabilities	255,333	230,433
Net assets		
Shareholders' equity		
Capital stock	7,736	7,736
Capital surplus	51,672	51,670
Retained earnings	125,866	138,249
Treasury stock	(5,855)	(4,667)
Total shareholders' equity	179,419	192,989
Accumulated other comprehensive income		
Other valuation difference on available-for-sale securities	357	316
Foreign currency translation adjustment	3	14
Accumulated adjustment related to retirement benefits	(289)	(257)
Total accumulated other comprehensive income	70	74
Subscription rights to shares	230	183
Minority interests	630	1,000
Total net assets	180,351	194,247
Total liabilities and net assets	435,685	424,680

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Six Months Ended August 31

(Million yen)

	For the six months ended August 31, 2020	For the six months ended August 31, 2021
Net sales	476,656	508,295
Cost of sales	328,959	350,480
Gross profit	147,696	157,814
Selling, general and administrative expenses	121,214	135,078
Operating income	26,481	22,735
Non-operating income		
Interest and dividend income	8	6
Real estate rent	494	477
Sponsorship money income	100	153
Subsidy income	–	956
Other	1,112	1,250
Total non-operating income	1,717	2,844
Non-operating expenses		
Interest expenses	213	222
Share of loss of entities accounted for using equity method	4	1
Rent cost of real estate	79	82
Other	14	127
Total non-operating expenses	312	434
Ordinary income	27,886	25,145
Extraordinary income		
Gain on step acquisitions	169	–
Gain on sale of noncurrent assets	102	4
Other	83	3
Total extraordinary income	354	7
Extraordinary loss		
Loss on sale of noncurrent assets	0	–
Loss on retirement of noncurrent assets	48	156
Impairment loss	314	106
COVID-related loss	460	11
Other	23	35
Total extraordinary losses	846	310
Net income before income taxes and minority interests	27,394	24,842
Income taxes - current	9,220	8,179
Income taxes - deferred	894	1,178
Total income taxes	10,115	9,357
Net income	17,279	15,485
Loss attributable to non-controlling interests	(21)	(41)
Net income attributable to owners of parent	17,300	15,527

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended August 31

(Million yen)

	For the six months ended August 31, 2020	For the six months ended August 31, 2021
Net income	17,279	15,485
Other comprehensive income		
Other valuation difference on available-for-sale securities	90	(40)
Foreign currency translation adjustment	(15)	22
Remeasurements of defined benefit plans	25	27
Total other comprehensive income	99	10
Comprehensive income	17,378	15,495
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	17,406	15,526
Comprehensive income attributable to non-controlling interests	(27)	(30)

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended August 31, 2020	For the six months ended August 31, 2021
Cash flows from operating activities		
Net income before income taxes and minority interests	27,394	24,842
Depreciation	7,277	8,055
Impairment losses	314	106
Amortization of goodwill	830	916
Loss (gain) on step acquisitions	(169)	–
Increase (decrease) in allowance for doubtful accounts	(10)	(0)
Increase (decrease) in provision for bonuses	(2,063)	(2,118)
Increase (decrease) in provision for bonuses for directors (and other officers)	38	(118)
Increase (decrease) in retirement benefits-related liabilities	399	480
Increase (decrease) in allowance for executive stock benefit	53	(59)
Increase (decrease) in provision for point card certificates	(0)	(0)
Interest and dividend income	(8)	(6)
Interest expenses	213	222
Rent expenses offset by construction assistance fund receivables	516	530
Gain on sale of noncurrent assets	(102)	(4)
Loss on sale of noncurrent assets	0	–
Loss on retirement of noncurrent assets	25	156
Gain on receipt of donated noncurrent assets	(120)	(101)
Decrease (increase) in trade receivables	4,522	(869)
Decrease (increase) in inventories	(3,300)	(2,181)
Increase (decrease) in trade payables	(19,701)	(19,167)
Increase (decrease) in accrued consumption taxes	258	157
Increase (decrease) in accounts payable - other	(1,219)	(3,093)
Other, net	(1,305)	(1,320)
Subtotal	13,840	6,426
Interest and dividends received	13	6
Interest paid	(209)	(227)
Income taxes paid	(9,877)	(8,618)
Income taxes refund	1,275	1,608
Net cash provided by (used in) operating activities	5,042	(804)
Cash flows from investing activities		
Payments into time deposits	(555)	(946)
Proceeds from withdrawal of time deposits	945	608
Purchase of property, plant and equipment	(6,153)	(10,028)
Proceeds from sale of property, plant and equipment	430	4
Purchase of intangible assets	(306)	(372)
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)	–
Proceeds from sale of intangible assets	0	–
Payments of leasehold deposits	(2,896)	(2,939)
Proceeds from refund of leasehold deposits	134	104
Other, net	(282)	(242)
Net cash provided by (used in) investing activities	(4,129)	(13,813)

(Million yen)

	For the six months ended August 31, 2020	For the six months ended August 31, 2021
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	140	(59)
Repayments of long-term loans payable	(2,127)	(2,330)
Redemption of bonds	(290)	(55)
Dividends paid	(2,829)	(3,143)
Repayments of finance lease obligations	(3,443)	(4,118)
Purchase of treasury stock	(506)	(1)
Proceeds from share issuance to non-controlling shareholders	–	396
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	–	(21)
Other, net	181	1,161
Net cash provided by (used in) financing activities	(8,874)	(8,172)
Effect of exchange rate change on cash and cash equivalents	(1)	12
Net increase (decrease) in cash and cash equivalents	(7,963)	(22,778)
Cash and cash equivalents at beginning of period	37,599	50,937
Increase in cash and cash equivalents resulting from merger	41	–
Cash and cash equivalents at end of period	29,676	28,159

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

Not applicable.

(Significant subsequent events)

(Business combination by acquisition)

The Company resolved, at the Board of Directors meeting held on July 16, 2021, to enter into a basic agreement with Kabushiki Kaisha Pupule Himawari (hereinafter referred to as the "target company") to form a capital alliance (to make the target company a subsidiary). The Company entered into the basic agreement on the same day.

In addition, at the Board of Directors meeting held on September 20, 2021, the Company resolved to make the target company a subsidiary by acquiring its shares. The Company entered into a share transfer agreement on the same day.

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, 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 (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

51.0%

(7) Primary reason for determining the acquiring company

The Company's cash acquisition of shares

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

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

(Note) The actual acquisition price is scheduled to be the amount determined after price adjustment at the time of share acquisition as stipulated in the share transfer agreement. The acquisition price listed above is the amount expected at this time. The final acquisition price may vary depending on the amount after price adjustment.

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