

Consolidated Financial Results for the Six Months Ended August 31, 2023 [Japanese GAAP]



October 10, 2023

Company name: WELCIA HOLDINGS CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 3141

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Scheduled date of commencing dividend payments: November 9, 2023

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, 2023 (March 1, 2023 - August 31, 2023)

(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, 2023	611,017	8.6	24,735	3.1	26,797	(4.2)	16,233	(5.0)
August 31, 2022	562,752	10.7	23,988	5.5	27,974	11.2	17,088	10.1

(Note) Comprehensive income: Six months ended August 31, 2023: ¥ 16,456 million [(5.7)%]

Six months ended August 31, 2022: ¥ 17,452 million [12.6%]

	Net income per share		Diluted net income per share	
	Yen		Yen	
Six months ended August 31, 2023	78.25		78.20	
August 31, 2022	81.86		81.80	

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of August 31, 2023	553,711	236,805	41.5
As of February 28, 2023	537,362	232,384	42.0

(Reference) Equity: As of August 31, 2023: ¥229,757 million

As of February 28, 2023: ¥225,750 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, 2023	–	16.00	–	16.00	32.00
Fiscal year ending February 29, 2024	–	17.00			
Fiscal year ending February 29, 2024 (Forecast)			–	17.00	34.00

(Note) Revision to the forecast for dividends announced most recently: None

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

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	1,230,000	7.5	48,000	5.2	52,500	0.7	28,000	3.6	133.83

(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 six months ended August 31, 2023 (from March 1, 2023 to August 31, 2023), signs of a pickup in social and economic activities became evident, as COVID-19 was downgraded to a Class V Infectious Disease and the number of foreign visitors to Japan increased. On the other hand, the outlook for the Japanese economy remains uncertain, as a slowdown in overseas economies due to such factors as the impact of global monetary tightening and concerns over the uncertain outlook for the Chinese economy has posed a downside risk on the Japanese economy.

In the drugstore industry, the primary area of the Group's business, competition continues to intensify due to such factors as the competition for new store sites with the competitors, major players expanding their scales of business through mergers and acquisitions, and the expansion of customer services involving players from across different industrial sectors and business formats. In terms of product trends, demand for COVID-19 infection control products has declined along with the decrease in infections. On the other hand, there are signs of recovery in cosmetics, reflecting increased opportunities for people going out, and in inbound demand, reflecting the relaxation of behavioral restrictions in many countries.

Under such circumstances, the Group strove to provide products and services in response to customer needs. In sales of goods, despite the reactionary drop in sales of products, which had climbed during the COVID-19 pandemic, existing store sales remained solid as sales of cosmetics and seasonal products grew due to increasing demand associated with people going out and the extremely hot weather. In the dispensing division, the number of prescriptions handled increased due primarily to an increase in the number of stores with dispensing pharmacies (2,074 stores as of August 31, 2023) and because public sentiment against visiting a hospital has diminished. The Group continued to focus on the development of its PB products, expanded the lineup of Karada Welcia and Kurashi Welcia, and increased sales of Topvalu to capture budget-conscious consumers. As a result, the contribution of these PB products to profits increased. Furthermore, with the WAON POINT service introduced in this fiscal year, the number of Welcia members, the Group's point members, has surpassed 9.10 million, and the Group stepped up its efforts to attract customers through improvement in the utilization rate of its point-card app. The Group also managed to optimize selling, general and administrative expenses, by improving store operational efficiency primarily through the promotion of automatic ordering and initiatives to reduce energy consumption at the stores, although utilities expenses increased significantly due to soaring fuel prices. As a measure against heat stroke due to extreme heat, the Group set up cooling shelters and refuge areas inside Welcafe, and made the space available to local customers as a place where they can rest and cool down in summer.

As for store openings and closures, the Group as a whole opened 56 stores and closed 18 stores, for a total of 2,801 stores Group-wide as of August 31, 2023.

(Unit: No. of Stores)

	No. of stores as of February 28, 2023	Openings	Closures	No. of stores as of August 31, 2023
WELCIA YAKKYOKU	2,145	42	10	2,177
Kokumin	156	3	2	157
Pupule Himawari	134	–	–	134
Marudai Sakurai Pharmacy	96	3	–	99
Shimizu Yakuhin	68	2	–	70
Marue Wellness Stores	60	2	3	59
FUKUYAKUHIN	25	1	–	26
Yodoya	25	–	–	25
French	3	–	–	3
MASAYA	39	1	–	40
Total in Japan	2,751	54	15	2,790
Welcia-BHG (Singapore)	12	2	3	11
Total	2,763	56	18	2,801

(Note) Of the number of stores as of August 31, 2023, 1,852 stores of WELCIA YAKKYOKU, 54 stores of Kokumin, 26 stores of Pupule Himawari, 42 stores of Marudai Sakurai Pharmacy, 46 stores of Shimizu Yakuhin, 29 stores of Marue Wellness Stores, 10 stores of FUKUYAKUHIN, 11 stores of Yodoya, and 4 stores of Welcia-BHG (Singapore) have dispensing pharmacies, or a total of 2,074 stores have dispensing pharmacies. Of the same number, 1,743 stores of WELCIA YAKKYOKU, 4 stores of Kokumin, 75 stores of Pupule Himawari, 49 stores of Marudai Sakurai Pharmacy, 63 stores of Shimizu Yakuhin, 28 stores of Marue Wellness Stores, 17 stores of FUKUYAKUHIN, and 16 stores of Yodoya offer late-night services, or a total of 1,995 stores offer late-night services.

Sales by category were as indicated below.

Category	Sales (million yen)	Year-on-year change (%)
OTC products	118,432	102.3
Cosmetics	97,710	110.6
Household goods	82,261	106.3
Food products	137,684	110.2
Others	47,943	105.5
Total sales of goods other than dispensing	484,032	107.1
Dispensing	126,268	114.6
Subtotal	610,301	108.6
Commission income	716	118.6
Total	611,017	108.6

As a result of the above, the consolidated operating results for the six months ended August 31, 2023, were ¥611,017 million in net sales (an increase of 8.6% year-on-year), ¥24,735 million in operating income (an increase of 3.1% year-on-year), ¥26,797 million in ordinary income (a decrease of 4.2% year-on-year), and ¥16,233 million in net income attributable to owners of parent (a decrease of 5.0% year-on-year).

(2) Explanation of Financial Position

(Assets)

Total assets as of August 31, 2023 increased by ¥16,349 million compared to the end of the previous fiscal year to ¥553,711 million. This was primarily due to increases of ¥2,828 million in cash and deposits, ¥10,190 million in accounts receivable - trade, ¥4,568 million in merchandise, and ¥1,998 million in buildings and structures, net.

(Liabilities)

Total liabilities as of August 31, 2023 increased by ¥11,928 million compared to the end of the previous fiscal year to ¥316,906 million. This was primarily due to increases of ¥10,526 million in accounts payable - trade, and ¥2,943 million in long-term loans payable, despite decreases of ¥2,024 million in income taxes payable, and ¥2,131 million in provision for bonuses.

(Net assets)

Net assets as of August 31, 2023 increased by ¥4,420 million compared to the end of the previous fiscal year to ¥236,805 million. This was primarily due to the recording of net income attributable to owners of parent of ¥16,233 million, despite a decrease of ¥3,354 million in retained earnings due to the dividends of surplus, and a decrease of ¥8,974 million due to an increase in treasury stock from the reintroduction of the Employees' Stock Ownership ESOP Trust and other reasons.

(Status of cash flows)

Cash and cash equivalents (hereinafter referred to as the "cash") as of August 31, 2023 totaled ¥35,190 million, an increase of ¥2,882 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, 2023 are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to ¥26,179 million (an inflow of ¥35,007 million for the same period a year earlier).

This was mainly attributable to inflow factors of depreciation of ¥10,195 million and an increase in trade payables of ¥10,501 million, both of which are non-cash expenses, and outflow factors of a decrease in provision for bonuses of ¥2,131 million, an increase in trade receivables of ¥10,175 million, an increase in inventories of ¥4,756 million, and income taxes paid of ¥11,678 million, against net income before income taxes and minority interests of ¥26,424 million.

(Cash flows from investing activities)

Net cash used in investing activities amounted to ¥9,536 million (an outflow of ¥23,425 million for the same period a year earlier).

This was mainly due to an outflow of ¥6,660 million for purchase of property, plant and equipment, and an outflow of ¥2,220 million for payments of leasehold deposits.

(Cash flows from financing activities)

Net cash used in financing activities amounted to ¥13,815 million (an inflow of ¥8,728 million for the same period a year earlier).

This was mainly due to net decrease in short-term loans payable of ¥639 million, ¥9,743 million in proceeds from long-term loans payable, ¥5,399 million in repayments of long-term loans payable, ¥3,349 million in dividends paid, ¥5,489 million in repayments of finance lease obligations, and ¥9,699 million in purchase of treasury shares.

(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, 2023" (on April 10, 2023).

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of February 28, 2023	As of August 31, 2023
Assets		
Current assets		
Cash and deposits	32,854	35,683
Accounts receivable - trade	54,276	64,467
Merchandise	128,835	133,404
Other	26,740	26,164
Allowance for doubtful accounts	(10)	(29)
Total current assets	242,697	259,690
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	107,093	109,091
Land	20,451	20,451
Leased assets, net	51,163	49,789
Other, net	7,132	7,802
Total property, plant and equipment	185,840	187,135
Intangible assets		
Goodwill	36,482	34,647
Other	3,765	4,355
Total intangible assets	40,248	39,002
Investments and other assets		
Guarantee deposits	47,844	48,539
Other	20,862	19,423
Allowance for doubtful accounts	(130)	(80)
Total investments and other assets	68,576	67,882
Total noncurrent assets	294,665	294,021
Total assets	537,362	553,711

(Million yen)

	As of February 28, 2023	As of August 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	153,182	163,709
Short-term loans payable	12,137	12,897
Lease obligations	10,288	10,360
Accounts payable - other	11,941	12,785
Income taxes payable	10,796	8,772
Provision for bonuses	5,361	3,230
Provision for bonuses for directors (and other officers)	94	43
Contract liabilities	143	117
Other	12,686	15,015
Total current liabilities	216,633	226,932
Noncurrent liabilities		
Long-term loans payable	29,649	32,593
Lease obligations	33,997	32,361
Asset retirement obligations	12,665	12,903
Retirement benefits-related liabilities	7,524	7,871
Allowance for executive stock benefit	781	837
Other	3,724	3,405
Total noncurrent liabilities	88,344	89,973
Total liabilities	304,977	316,906
Net assets		
Shareholders' equity		
Capital stock	7,747	7,748
Capital surplus	51,681	51,682
Retained earnings	166,566	179,445
Treasury stock	(1,084)	(10,058)
Total shareholders' equity	224,909	228,817
Accumulated other comprehensive income		
Other valuation difference on available-for-sale securities	373	426
Foreign currency translation adjustment	139	187
Accumulated adjustment related to retirement benefits	327	326
Total accumulated other comprehensive income	840	939
Subscription rights to shares	161	158
Minority interests	6,472	6,888
Total net assets	232,384	236,805
Total liabilities and net assets	537,362	553,711

(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, 2022	For the six months ended August 31, 2023
Net sales	562,752	611,017
Cost of sales	392,127	425,224
Gross profit	170,624	185,792
Selling, general and administrative expenses	146,636	161,057
Operating income	23,988	24,735
Non-operating income		
Interest and dividend income	10	12
Rental income from real estate	705	762
Sponsorship money income	369	441
Subsidy income	1,900	20
Other	1,456	1,540
Total non-operating income	4,442	2,776
Non-operating expenses		
Interest expenses	285	358
Share of loss of entities accounted for using equity method	8	125
Rent cost of real estate	111	198
Other	50	33
Total non-operating expenses	456	714
Ordinary income	27,974	26,797
Extraordinary income		
Gain on sale of noncurrent assets	5	10
Compensation income	–	151
Total extraordinary income	5	162
Extraordinary loss		
Loss on retirement of noncurrent assets	31	64
Impairment loss	357	404
Other	86	66
Total extraordinary losses	475	534
Net income before income taxes and minority interests	27,504	26,424
Income taxes - current	9,512	8,810
Income taxes - deferred	803	1,304
Total income taxes	10,315	10,114
Net income	17,188	16,310
Profit attributable to non-controlling interests	100	76
Net income attributable to owners of parent	17,088	16,233

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended August 31

(Million yen)

	For the six months ended August 31, 2022	For the six months ended August 31, 2023
Net income	17,188	16,310
Other comprehensive income		
Other valuation difference on available-for-sale securities	70	52
Foreign currency translation adjustment	165	94
Remeasurements of defined benefit plans	27	(0)
Total other comprehensive income	263	146
Comprehensive income	17,452	16,456
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	17,274	16,333
Comprehensive income attributable to non-controlling interests	177	122

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended August 31, 2022	For the six months ended August 31, 2023
Cash flows from operating activities		
Net income before income taxes and minority interests	27,504	26,424
Depreciation	9,619	10,195
Impairment loss	357	404
Amortization of goodwill	1,506	1,834
Increase (decrease) in allowance for doubtful accounts	(2)	(31)
Increase (decrease) in provision for bonuses	(2,132)	(2,131)
Increase (decrease) in provision for bonuses for directors (and other officers)	(19)	(51)
Increase (decrease) in retirement benefits-related liabilities	525	346
Increase (decrease) in allowance for executive stock benefit	(3)	55
Increase (decrease) in provision for point card certificates	(447)	–
Interest and dividend income	(10)	(12)
Interest expenses	285	358
Rent expenses offset by construction assistance fund receivables	633	667
Gain on sale of noncurrent assets	(5)	(10)
Loss on retirement of noncurrent assets	31	64
Gain on receipt of donated noncurrent assets	(53)	(109)
Decrease (increase) in trade receivables	(3,373)	(10,175)
Decrease (increase) in inventories	(3,004)	(4,756)
Increase (decrease) in trade payables	13,135	10,501
Increase (decrease) in contract liability	439	(26)
Increase (decrease) in accrued consumption taxes	387	811
Increase (decrease) in accounts payable - other	111	772
Other, net	(1,027)	1,385
Subtotal	44,460	36,517
Interest and dividends received	10	12
Interest paid	(265)	(341)
Income taxes paid	(10,902)	(11,678)
Income taxes refund	1,704	1,670
Net cash provided by (used in) operating activities	35,007	26,179
Cash flows from investing activities		
Payments into time deposits	(300)	(414)
Proceeds from withdrawal of time deposits	464	468
Purchase of property, plant and equipment	(10,699)	(6,660)
Proceeds from sale of property, plant and equipment	115	11
Purchase of intangible assets	(476)	(867)
Payments into subsidiaries and affiliates	–	(5,000)
Collection of deposit in subsidiaries and affiliates	–	5,000
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(11,021)	–
Payments of leasehold deposits	(2,608)	(2,220)
Proceeds from refund of leasehold deposits	148	327
Other, net	951	(180)
Net cash provided by (used in) investing activities	(23,425)	(9,536)

(Million yen)

	For the six months ended August 31, 2022	For the six months ended August 31, 2023
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(899)	(639)
Proceeds from long-term loans payable	20,960	9,743
Repayments of long-term loans payable	(5,019)	(5,399)
Redemption of bonds	(25)	–
Dividends paid	(3,144)	(3,349)
Repayments of finance lease obligations	(4,752)	(5,489)
Purchase of treasury shares	(1)	(9,699)
Proceeds from sale of treasury shares	1,609	725
Proceeds from share issuance to non-controlling shareholders	–	293
Proceeds from issuance of shares	0	0
Net cash provided by (used in) financing activities	8,728	(13,815)
Effect of exchange rate change on cash and cash equivalents	92	55
Net increase (decrease) in cash and cash equivalents	20,402	2,882
Cash and cash equivalents at beginning of period	22,837	32,307
Cash and cash equivalents at end of period	43,240	35,190

(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.