



Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending May 15, 2020 [J-GAAP]

December 17, 2019

Name of listed company: TSURUHA Holdings, Inc.

Listed on: Tokyo Stock Exchange, 1st Section

Securities code: 3391

URL: <http://www.tsuruha-hd.co.jp>

Representative: Masashi Horikawa, President and Representative Director

Contact: Makoto Murakami, Executive Officer and Chief Administrative Officer

TEL: +81-11-783-2755

Scheduled date of filing quarterly financial report: December 27, 2019

Scheduled date to start dividends distribution: January 10, 2020

Supplementary quarterly materials prepared: Yes

Quarterly results information meeting held: Yes (for institutional investors and financial analysts)

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated financial results for the second quarter ended November 15, 2019 (May 16, 2019 – November 15, 2019)

(1) Consolidated operating results

(Percentage figures show changes from the same period in the previous year.)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended November 15, 2019	416,466	8.8	23,764	15.5	24,440	14.2	15,554	20.2
Six months ended November 15, 2018	382,947	24.4	20,575	2.6	21,405	2.8	12,940	(0.8)

Note: Comprehensive income: Six months ended November 15, 2019: 22,404 million yen (70.7%)
Six months ended November 15, 2018: 13,122 million yen (-17.3%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Six months ended November 15, 2019	321.68	320.60
Six months ended November 15, 2018	268.06	266.59

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
As of November 15, 2019	396,858	239,026	56.1	4,602.35
As of May 15, 2019	372,293	220,214	55.0	4,238.15

Reference: Equity capital: As of November 15, 2019: 222,620 million yen As of May 15, 2019: 204,922 million yen

2. Dividends

	Annual Dividends (Yen)				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Annual
Year ended May 15, 2019	—	73.00	—	75.00	148.00
Year ending May 15, 2020	—	74.00			
Year ending May 15, 2020 (Forecast)			—	74.00	148.00

Note: Revisions to the most recently announced dividend forecast during the period: None

3. Consolidated financial forecasts for the year ending May 15, 2020 (May 16, 2019 – May 15, 2020)

(Percentage figures show changes from the same period in the previous year.)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	820,000	4.8	43,700	4.5	45,200	4.4	26,100	5.1	539.79

Note: Revisions to the most recently announced earnings forecasts during the period: None

Notes

(1) Significant changes to subsidiaries during the period (Transfers of specific subsidiaries with changes in the scope of consolidation): None

(2) Application of the specific accounting methods for preparing the quarterly consolidated financial statements: None

(3) Changes in accounting policies, accounting estimates and restatement of revisions

1) Changes in accounting policies due to revision of accounting standard, etc.: None

2) Changes in accounting policies other than 1): None

3) Changes in accounting estimates: None

4) Restatement of revisions: None

(4) Number of shares issued and outstanding (common shares)

1) Number of shares issued and outstanding (including treasury stock)	As of November 15, 2019	49,257,268 shares	As of May 15, 2019	49,237,968 shares
2) Number of treasury stock	As of November 15, 2019	886,255 shares	As of May 15, 2019	886,098 shares
3) Average number of shares issued and outstanding in each period (quarterly consolidated cumulative period)	Six months ended November 15, 2019	48,355,111 shares	Six months ended November 15, 2018	48,275,076 shares

* This financial results report is outside the scope of audit procedures conducted by certified public accountants or the independent auditor.

* Explanation of appropriate use of financial forecasts and other special items

This document contains projections of performance based on information currently available. Actual performance may differ from these projections due to changes in the economic environment and other uncertainties. Please refer to page 3 of the supplementary materials for further details about the above financial forecasts.

Contents

1. Qualitative information on quarterly financial results	2
(1) Explanation of consolidated financial results	2
(2) Explanation of consolidated financial position	2
(3) Explanation of consolidated financial forecasts and other forward-looking statements	3
2. Quarterly consolidated financial statements and related notes	4
(1) Quarterly consolidated balance sheets.....	4
(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income.....	6
(Quarterly consolidated statements of income).....	6
(Quarterly consolidated statements of comprehensive income).....	7
(3) Quarterly consolidated statements of cash flows	8
(4) Notes on quarterly consolidated financial statements	10
(Notes on premise of a going concern).....	10
(Notes on significant changes in the amount of shareholders' equity).....	10

1. Qualitative information on quarterly financial results

(1) Explanation of consolidated financial results

In the first six months of the current fiscal year (May 16, 2019 to November 15, 2019), the Japanese economy continued to recover at a modest pace amid signs of a pickup in consumer confidence. However, a number of factors contributed to a slightly unclear outlook, including uncertain economic conditions overseas and fluctuations in financial and capital markets, as well as the impact of typhoons and other natural disasters in Japan, and a rush in demand ahead of the consumption tax hike and a subsequent pullback in spending.

Meanwhile, in the drugstore sector, the operating environment remained challenging, with the pace of consolidation and realignment accelerating further amid intensifying competition to open stores and reduce prices.

Against this backdrop, the TSURUHA Group continued to offer a high level of customer service, mainly through advice-based sales, and worked to address the shrinking market caused by Japan's aging population and intensifying competition. Specifically, the Group pushed ahead with store renovations centered on food sales areas aimed at improving convenience for customers, while in private brands, the Group reinforced product development and sales structures and worked to renew and expand the private brand business by launching two new brands – Kurashi Rhythm and Kurashi Rhythm Medical. Targeting improvements in the operational efficiency of stores and enhancement of productivity, the Group also worked on introducing new support systems for staff allocation, inventory management and other functions.

In store openings, the Group targeted specific areas for multiple store openings as part of its area dominance store-opening strategy and implemented a scrap and build approach for existing stores. In the first six months of the fiscal year under review, the Group opened 77 new stores and closed 47 existing stores. Another store was added to the Group after Ogata Mura Pharmacy (Akita Prefecture) became a subsidiary of TSURUHA Co., Ltd. on July 4, 2019, resulting in a total of 2,113 directly managed stores as of the end of the second quarter.

TSURUHA Group store openings and closures (Number of stores)

	End of previous fiscal year	Store openings	Became subsidiary	Store closures	Net change	End of current period	Of which dispensing pharmacies
Hokkaido	401	20	—	18	2	403	96
Tohoku	482	15	1	4	12	494	94
Kanto, Koshinetsu	456	17	—	14	3	459	154
Chubu, Kansai	223	6	—	2	4	227	105
Chugoku	299	4	—	4	0	299	86
Shikoku	198	15	—	5	10	208	52
Kyushu	23	—	—	—	0	23	3
Total	2,082	77	1	47	31	2,113	590

(The figure at the end of the current period excludes 21 overseas stores and three franchise stores.)

As a result of the above, in the first six months of the current fiscal year, TSURUHA Holdings reported net sales of ¥416,466 million (up 8.8% year on year), operating income of ¥23,764 million (up 15.5%), ordinary income of ¥24,440 million (up 14.2%), and net income attributable to owners of the parent of ¥15,554 million (up 20.2%).

(2) Explanation of consolidated financial position

(Assets, liabilities and net assets)

As of the end of the second quarter, assets totaled ¥396,858 million, an increase of ¥24,565 million compared with the end of the previous fiscal year. This mainly reflected an increase in valuation difference on investment securities and an increase in merchandise related to new store openings.

Liabilities totaled ¥157,832 million, an increase of ¥5,753 million compared with the end of the previous fiscal year. This mainly reflected an increase in accounts payable – trade related to new store openings and a decline in loans payable due to the repayment of debt.

Net assets totaled ¥239,026 million, an increase of ¥18,812 million compared with the end of the previous fiscal year.

As a result, the equity ratio was 56.1%, up 1.1 points from the previous fiscal year-end.

(Cash flows)

As of the end of the second quarter, cash and cash equivalents (cash) totaled ¥50,251 million, an increase of ¥6,551 million compared with the end of the previous fiscal year.

The Group's cash flow position and factors affecting cash flows during the first six months of the fiscal year were as follows:

(Cash flows from operating activities)

In the first six months, operating activities provided net cash of ¥21,390 million, an increase of 11.4% compared with the same period a year earlier. This mainly reflected cash positive items such as income before incomes taxes of ¥24,332 million, increase in notes and accounts payable – trade of ¥5,120 million, and depreciation and amortization of ¥3,687 million, against cash negative items such as income taxes paid of ¥7,761 million and increase in inventories of ¥6,938 million.

(Cash flows from investing activities)

In the first six months, investing activities used net cash of ¥9,097 million, a decrease of 52.3% compared with the same period a year earlier. This primarily reflected cash used of ¥6,876 million for purchase of property, plant and equipment and ¥3,349 million for payments for guarantee deposits related to new store openings.

(Cash flows from financing activities)

In the first six months, financing activities used net cash of ¥5,741 million, an increase of 35.8% compared with the same period a year earlier. This mainly reflected cash used of ¥3,626 million for cash dividends paid and ¥1,471 million for repayments of long-term loans payable.

(3) Explanation of consolidated financial forecasts and other forward-looking statements

The full-year financial forecasts announced on June 17, 2019 are unchanged.

2. Quarterly consolidated financial statements and related notes

(1) Quarterly consolidated balance sheets

(Millions of yen)

	As of May 15, 2019	As of November 15, 2019
Assets		
Current assets		
Cash and deposits	42,833	49,385
Accounts receivable—trade	26,745	29,582
Securities	1,000	1,000
Merchandise	98,212	105,161
Raw materials and supplies	52	57
Short-term loans receivable	2	2
Others	15,983	12,703
Total current assets	184,830	197,893
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	34,992	36,157
Machinery, equipment and vehicles, net	2	1
Tools, furniture and fixtures, net	10,264	10,584
Land	11,938	12,494
Leased assets, net	3,707	4,132
Construction in progress	348	1,217
Total property, plant and equipment	61,254	64,587
Intangible assets		
Goodwill	35,733	33,892
Software	402	366
Telephone subscription right	87	87
Others	583	646
Total intangible assets	36,806	34,992
Investments and other assets		
Investment securities	27,925	35,927
Long-term loans receivable	15	14
Deferred tax assets	4,926	4,730
Guarantee deposits	52,048	54,851
Others	4,581	3,950
Allowance for doubtful accounts	(96)	(90)
Total investments and other assets	89,401	99,384
Total non-current assets	187,462	198,965
Total assets	372,293	396,858

(Millions of yen)

	As of May 15, 2019	As of November 15, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	87,254	92,404
Current portion of long-term loans payable	2,406	1,905
Accounts payable—other	13,445	12,636
Lease obligations	562	526
Income taxes payable	9,514	9,064
Provision for bonuses	4,651	4,821
Provision for directors' bonuses	566	276
Provision for point card certificates	4,208	4,431
Others	4,172	4,366
Total current liabilities	126,783	130,433
Non-current liabilities		
Long-term loans payable	7,153	6,201
Lease obligations	4,154	4,204
Deferred tax liabilities	5,567	8,023
Net defined benefit liability	2,695	2,831
Asset retirement obligations	2,815	2,875
Others	2,908	3,262
Total non-current liabilities	25,295	27,398
Total liabilities	152,078	157,832
Net assets		
Shareholders' equity		
Capital stock	10,023	10,116
Capital surplus	28,075	28,169
Retained earnings	154,896	166,824
Treasury stock	(5,311)	(5,312)
Total shareholders' equity	187,684	199,798
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	17,370	22,926
Remeasurements of defined benefit plans	(132)	(105)
Total accumulated other comprehensive income	17,238	22,821
Subscription rights to shares	1,292	1,487
Non-controlling interests	13,999	14,919
Total net assets	220,214	239,026
Total liabilities and net assets	372,293	396,858

(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income
(Quarterly consolidated statements of income)

(Millions of yen)

	Six months ended November 15, 2018	Six months ended November 15, 2019
Net sales	382,947	416,466
Cost of sales	274,641	296,851
Gross profit	108,305	119,614
Selling, general and administrative expenses	87,729	95,850
Operating income	20,575	23,764
Non-operating income		
Interest income	70	64
Dividends income	151	163
Gain on donation of equipment	443	336
Rent income	94	105
Compensation income	94	—
Insurance income	61	9
Others	260	398
Total non-operating income	1,175	1,078
Non-operating expenses		
Interest expenses	260	304
Early withdrawal penalty	70	68
Others	14	29
Total non-operating expenses	345	402
Ordinary income	21,405	24,440
Extraordinary income		
Gain on sales of non-current assets	42	0
Gain on reversal of subscription rights to shares	47	—
Gain on sales of investment securities	—	2
Total extraordinary income	90	3
Extraordinary losses		
Loss on disaster	79	—
Loss on retirement of non-current assets	48	110
Loss on sales of non-current assets	48	—
Total extraordinary losses	175	110
Income before income taxes	21,320	24,332
Income taxes — current	6,828	7,330
Income taxes — deferred	449	201
Total income taxes	7,278	7,532
Income	14,041	16,800
Net income attributable to non-controlling interests	1,101	1,246
Net income attributable to owners of the parent	12,940	15,554

(Quarterly consolidated statements of comprehensive income)

	(Millions of yen)	
	Six months ended November 15, 2018	Six months ended November 15, 2019
Income	14,041	16,800
Other comprehensive income		
Valuation difference on available-for-sale securities	(932)	5,574
Remeasurements of defined benefit plans	13	29
Total other comprehensive income	(919)	5,603
Comprehensive income	13,122	22,404
(Breakdown of comprehensive income)		
Comprehensive income attributable to owners of the parent	12,036	21,137
Comprehensive income attributable to non-controlling interests	1,085	1,266

(3) Quarterly consolidated statements of cash flows

(Millions of yen)

	Six months ended November 15, 2018	Six months ended November 15, 2019
Cash flows from operating activities		
Income before income taxes	21,320	24,332
Depreciation and amortization	3,490	3,687
Loss on disaster	79	—
Amortization of goodwill	1,807	1,844
Increase (decrease) in allowance for doubtful accounts	0	(7)
Increase (decrease) in provision for bonuses	159	167
Increase (decrease) in provision for directors' bonuses	(250)	(290)
Increase (decrease) in net defined benefit liability	69	135
Increase (decrease) in provision for point card certificates	325	223
Increase (decrease) in provision for directors' retirement benefits	(413)	—
Interest and dividends income	(221)	(228)
Compensation income	(94)	—
Insurance income	(61)	(9)
Interest expenses	260	304
Gain on donation of equipment	(443)	(336)
Loss on retirement of non-current assets	48	110
Loss (gain) on sales of non-current assets	5	(0)
Loss (gain) on sales of investment securities	—	(2)
Gain on reversal of subscription rights to shares	(47)	—
Decrease (increase) in notes and accounts receivable – trade	(1,499)	(2,811)
Decrease (increase) in inventories	(6,252)	(6,938)
Increase (decrease) in notes and accounts payable – trade	4,397	5,120
Increase (decrease) in accrued consumption taxes	(410)	315
Others	3,062	3,659
Subtotal	25,331	29,276
Interest and dividends income received	153	165
Proceeds from insurance income	61	9
Proceeds from compensation	94	—
Interest expenses paid	(261)	(300)
Income taxes paid	(6,182)	(7,761)
Net cash provided by (used in) operating activities	19,195	21,390

(Millions of yen)

	Six months ended November 15, 2018	Six months ended November 15, 2019
Cash flows from investing activities		
Payments into time deposits	(0)	(0)
Proceeds from withdrawal of time deposits	5	—
Purchase of property, plant and equipment	(5,037)	(6,876)
Proceeds from sales of property, plant and equipment	590	4
Purchase of software	(77)	(48)
Purchase of investment securities	(0)	(0)
Proceeds from sales of investment securities	1	10
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(11,703)	(3)
Payments of loans receivable	(0)	(5)
Collection of loans receivable	2	3
Payments for guarantee deposits	(4,521)	(3,349)
Proceeds from collection of guarantee deposits	1,402	1,220
Others	272	(51)
Net cash provided by (used in) investing activities	(19,067)	(9,097)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	200	—
Repayments of long-term loans payable	(1,030)	(1,471)
Repayments of lease obligations	(335)	(301)
Proceeds from issuance of new shares	715	5
Purchase of treasury stock	—	(0)
Cash dividends paid	(3,663)	(3,626)
Dividends paid to non-controlling interests	(112)	(346)
Net cash provided by (used in) financing activities	(4,227)	(5,741)
Net increase (decrease) in cash and cash equivalents	(4,099)	6,551
Cash and cash equivalents at the beginning of period	44,124	43,700
Increase in cash and cash equivalents from newly consolidated subsidiary	1	—
Cash and cash equivalents at the end of period	40,027	50,251

(4) Notes on quarterly consolidated financial statements

(Notes on premise of a going concern)

There is no related information.

(Notes on significant changes in the amount of shareholders' equity)

There is no related information.