



Consolidated Financial Results for the First Quarter of the Fiscal Year Ending May 15, 2021 [J-GAAP]

September 14, 2020

Name of listed company: TSURUHA Holdings, Inc.

Listed on: Tokyo Stock Exchange, 1st Section

Securities code: 3391

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

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Scheduled date of filing quarterly financial report: September 29, 2020

Scheduled date to start dividends distribution: —

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 first quarter ended August 15, 2020 (May 16, 2020 – August 15, 2020)

(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	%
Three months ended August 15, 2020	224,623	7.6	15,162	20.1	15,328	19.1	9,137	4.7
Three months ended August 15, 2019	208,805	9.3	12,623	11.8	12,868	10.5	8,727	20.8

Note: Comprehensive income: Three months ended August 15, 2020: 14,554 million yen (30.2%)
Three months ended August 15, 2019: 11,178 million yen (50.7%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Three months ended August 15, 2020	188.75	187.84
Three months ended August 15, 2019	180.50	179.90

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
As of August 15, 2020	527,280	264,501	46.1	5,018.45
As of May 15, 2020	414,002	250,934	56.4	4,821.26

Reference: Equity capital: As of August 15, 2020: 243,098 million yen As of May 15, 2020: 233,332 million yen

2. Dividends

	Annual Dividends (Yen)				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Annual
Year ended May 15, 2020	—	74.00	—	93.00	167.00
Year ending May 15, 2021	—				
Year ending May 15, 2021 (Forecast)		83.50	—	83.50	167.00

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

3. Consolidated financial forecasts for the year ending May 15, 2021 (May 16, 2020 – May 15, 2021)

(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
First six months	424,400	1.9	21,550	(9.3)	22,193	(9.2)	13,480	(13.3)	278.53
Full year	860,000	2.3	45,200	0.4	46,484	0.4	27,000	(3.2)	557.89

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: Yes

(3) Changes in accounting policies, changes in 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): Yes

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 August 15, 2020	49,327,268 shares	As of May 15, 2020	49,282,868 shares
2) Number of treasury stock	As of August 15, 2020	886,255 shares	As of May 15, 2020	886,255 shares
3) Average number of shares issued and outstanding in each period (quarterly consolidated cumulative period)	Three months ended August 15, 2020	48,409,879 shares	Three months ended August 15, 2019	48,351,862 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 2 of the supplementary materials for further details about the above financial forecasts.

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1. Qualitative information on quarterly financial results

(1) Explanation of consolidated financial results

In the first three months of the current fiscal year (May 16, 2020 to August 15, 2020), the Japanese economy witnessed a notable decline in consumer sentiment, largely reflecting the government's declaration of a state of emergency in April due to the COVID-19 pandemic. While economic activity showed gradual signs of restarting once the state of emergency was lifted, concerns of a resurgence of the virus linger, leaving the economic future shrouded in extreme uncertainty.

In the drugstore sector, with competition to open stores and reduce prices continuing to intensify, the pace of consolidation and realignment grew more pronounced, including among major firms and listed companies.

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 that included the introduction of meat and fresh produce, 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 terms of impact of the COVID-19 pandemic, while there was a decline in inbound demand, as well as lower demand particularly for cosmetics, demand for goods designed to prevent the spread of infection rose, as did demand for daily-use items, consumable goods and food, in line with stay-at-home requests following the state of emergency declaration.

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 three months of the fiscal year under review, the Group opened 29 new stores and closed 26 existing stores. In addition, 206 stores were added to the Group after JR KYUSHU DRUG ELEVEN CO., LTD. became a subsidiary of TSURUHA Holdings, Inc. on May 28, 2020, resulting in a total of 2,359 directly managed stores as of the end of the first 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	404	2	—	5	(3)	401	98
Tohoku	506	8	—	1	7	513	99
Kanto, Koshinetsu	473	8	3	3	8	481	163
Chubu, Kansai	233	3	—	5	(2)	231	113
Chugoku	300	3	1	—	4	304	93
Shikoku	211	5	—	5	0	211	55
Kyushu, Okinawa	23	—	202	7	195	218	25
Total	2,150	29	206	26	209	2,359	646

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

As a result of the above, in the first three months of the current fiscal year, TSURUHA Holdings reported net sales of ¥224,623 million (up 7.6% year on year), operating income of ¥15,162 million (up 20.1%), ordinary income of ¥15,328 million (up 19.1%), and net income attributable to owners of the parent of ¥9,137 million (up 4.7%).

(2) Explanation of consolidated financial position

As of the end of the first quarter, assets totaled ¥527,280 million, an increase of ¥113,278 million compared with the end of the previous fiscal year. This mainly reflected increases in cash and deposits and accounts receivable – trade, as the settlement date for the first quarter fell on a non-business day for financial institutions, and the purchase of shares of JR KYUSHU DRUG ELEVEN CO., LTD.

Liabilities totaled ¥262,779 million, an increase of ¥99,711 million compared with the end of the previous fiscal year. This mainly reflected an increase in accounts payable – trade, as the settlement date for the first quarter fell on a non-business day for financial institutions, and the purchase of shares of JR KYUSHU DRUG ELEVEN CO., LTD.

Net assets totaled ¥264,501 million, an increase of ¥13,566 million compared with the end of the previous fiscal year.

As a result, the equity ratio was 46.1%, down 10.3 points from the previous fiscal year-end.

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

The full-year financial forecasts announced on June 22, 2020 are unchanged.

2. Quarterly consolidated financial statements and related notes

(1) Quarterly consolidated balance sheets

(Millions of yen)

	As of May 15, 2020	As of August 15, 2020
Assets		
Current assets		
Cash and deposits	57,069	115,028
Accounts receivable—trade	31,180	44,578
Merchandise	108,163	119,655
Raw materials and supplies	48	115
Short-term loans receivable	2	2
Others	15,312	17,741
Total current assets	211,776	297,123
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	37,454	40,297
Machinery, equipment and vehicles, net	1	0
Tools, furniture and fixtures, net	10,681	11,398
Land	12,597	13,513
Leased assets, net	3,592	4,942
Construction in progress	2,483	3,076
Total property, plant and equipment	66,810	73,230
Intangible assets		
Goodwill	32,121	41,820
Software	423	697
Telephone subscription right	87	105
Others	624	647
Total intangible assets	33,258	43,272
Investments and other assets		
Investment securities	37,372	43,904
Long-term loans receivable	13	12
Deferred tax assets	5,175	5,795
Guarantee deposits	55,242	59,429
Others	4,420	4,592
Allowance for doubtful accounts	(67)	(78)
Total investments and other assets	102,157	113,655
Total non-current assets	202,225	230,157
Total assets	414,002	527,280

(Millions of yen)

	As of May 15, 2020	As of August 15, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	93,968	153,540
Short-term loans payable	—	4,200
Current portion of long-term loans payable	1,903	8,601
Accounts payable—other	14,889	16,853
Lease obligations	517	600
Income taxes payable	8,897	5,678
Provision for bonuses	4,916	2,863
Provision for directors' bonuses	614	166
Provision for point card certificates	4,107	5,076
Others	6,459	11,549
Total current liabilities	136,274	209,130
Non-current liabilities		
Long-term loans payable	5,250	27,575
Lease obligations	3,945	5,510
Deferred tax liabilities	8,328	10,289
Net defined benefit liability	3,043	3,326
Asset retirement obligations	2,932	3,576
Others	3,292	3,371
Total non-current liabilities	26,793	53,649
Total liabilities	163,067	262,779
Net assets		
Shareholders' equity		
Capital stock	10,290	10,585
Capital surplus	28,342	28,638
Retained earnings	175,590	180,226
Treasury stock	(5,312)	(5,312)
Total shareholders' equity	208,911	214,137
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	24,554	29,073
Remeasurements of defined benefit plans	(132)	(112)
Total accumulated other comprehensive income	24,421	28,961
Subscription rights to shares	1,639	1,645
Non-controlling interests	15,962	19,757
Total net assets	250,934	264,501
Total liabilities and net assets	414,002	527,280

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

(Millions of yen)

	Three months ended August 15, 2019	Three months ended August 15, 2020
Net sales	208,805	224,623
Cost of sales	148,984	159,546
Gross profit	59,820	65,076
Selling, general and administrative expenses	47,197	49,913
Operating income	12,623	15,162
Non-operating income		
Interest income	29	31
Dividends income	54	73
Gain on donation of equipment	115	63
Rent income	52	55
Insurance income	7	14
Others	162	103
Total non-operating income	421	342
Non-operating expenses		
Interest expenses	133	153
Early withdrawal penalty	32	13
Others	9	10
Total non-operating expenses	176	176
Ordinary income	12,868	15,328
Extraordinary income		
Gain on sales of non-current assets	0	2
Total extraordinary income	0	2
Extraordinary losses		
Loss on retirement of non-current assets	23	16
Total extraordinary losses	23	16
Income before income taxes	12,845	15,313
Income taxes	3,497	5,333
Income	9,348	9,979
Net income attributable to non-controlling interests	620	842
Net income attributable to owners of the parent	8,727	9,137

(Quarterly consolidated statements of comprehensive income)

	(Millions of yen)	
	Three months ended August 15, 2019	Three months ended August 15, 2020
Income	9,348	9,979
Other comprehensive income		
Valuation difference on available-for-sale securities	1,818	4,547
Remeasurements of defined benefit plans	11	26
Total other comprehensive income	1,830	4,574
Comprehensive income	11,178	14,554
(Breakdown of comprehensive income)		
Comprehensive income attributable to owners of the parent	10,562	13,677
Comprehensive income attributable to non-controlling interests	615	877

(3) Notes on quarterly consolidated financial statements

(Notes on premise of a going concern)

There is no related information.

(Application of the specific accounting methods for preparing the quarterly consolidated financial statements)

(Calculation of tax expenses)

Regarding tax expenses, the effective tax rate on income before income taxes for the consolidated fiscal year (including the first three months of the current fiscal year) after the application of tax-effect accounting is reasonably estimated, and that estimated effective tax rate is applied to income before income taxes for the quarterly period to calculate tax expenses. However, if the use of the estimated effective tax rate in the calculation of tax expenses produces clearly unreasonable results, tax expenses are calculated by using the statutory effective tax rate.

Income taxes - deferred are included under income taxes.

(Change in accounting policy)

(Change in calculation of tax expenses)

Previously, tax expenses for the Company and its consolidated subsidiaries were calculated based on a general methodology. However, in a move to further enhance quarterly account settlement efficiency for the Company and its consolidated subsidiaries, from the first quarter of the current fiscal year, the method for calculation of tax expenses has changed. Now, the effective tax rate on income before income taxes for the consolidated fiscal year after the application of tax-effect accounting is reasonably estimated, and that estimated effective tax rate is applied to income before income taxes for the quarterly period to calculate tax expenses.

Due to the negligible impact of this change, it has not been applied retroactively to prior-year figures.

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

There is no related information.