



Consolidated Financial Results for the First Quarter of the Fiscal Year Ending May 15, 2022 [J-GAAP]

September 21, 2021

Name of listed company: TSURUHA Holdings, Inc. Listed on: Tokyo Stock Exchange, 1st Section
 Securities code: 3391 URL: <http://www.tsuruha-hd.com>
 Representative: Jun Tsuruha, 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: September 29, 2021
 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, 2021 (May 16, 2021 – August 15, 2021)

(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, 2022	235,684	4.9	12,889	(15.0)	12,944	(15.6)	7,536	(17.5)
Three months ended August 15, 2021	224,623	7.6	15,162	20.1	15,328	19.1	9,137	4.7

(Note) Comprehensive income: Three months ended August 15, 2022: 9,330 million yen (-35.9%)

Three months ended August 15, 2021: 14,554 million yen (30.2%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Three months ended August 15, 2022	155.27	154.77
Three months ended August 15, 2021	188.75	187.84

(Note) Effective from the beginning of the first quarter under review, the Group has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020). As such, all figures for the first quarter of the fiscal year ending May 15, 2022 are based on the actual figures after the application of the said accounting standards.

(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, 2022	538,617	280,330	47.6	5,282.68
As of May 15, 2021	537,027	276,528	47.1	5,210.88

(Reference) Equity capital: As of August 15, 2022: 256,406 million yen As of May 15, 2021: 252,921 million yen

(Note) Effective from the beginning of the first quarter under review, the Group has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020). As such, all figures for the first quarter of the fiscal year ending May 15, 2022 are based on the actual figures after the application of the said accounting standards.

2. Dividends

	Annual Dividends (Yen)				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Annual
Year ended May 15, 2021	Yen —	Yen 83.50	Yen —	Yen 83.50	Yen 167.00
Year ended May 15, 2022	—	—	—	—	—
Year ended May 15, 2022 (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, 2022 (May 16, 2021 – May 15, 2022)

(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
2H (YTD)	472,000	4.1	24,600	(12.1)	24,777	(12.5)	14,300	(13.8)	294.62
FY	956,000	4.0	51,200	5.8	51,367	7.7	28,280	7.6	582.65

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

(Note) Effective from the beginning of the first quarter under review, the Group has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020). As such, all figures for the first quarter of the fiscal year ending May 15, 2022 are based on the actual figures after the application of the said accounting standards.

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.: | Yes |
| 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 shares)	As of August 15, 2022	49,423,768 shares	As of May 15, 2021	49,423,768 shares
2) Number of treasury shares	As of August 15, 2022	886,630 shares	As of May 15, 2021	886,630 shares
3) Average number of shares issued and outstanding in each period (quarterly consolidated cumulative period)	Three months ended August 15, 2022	48,537,138 shares	Three months ended August 15, 2021	48,409,879 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 results may differ from the above figures due to changes in business conditions. 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 quarter of the current fiscal year (May 16, 2021 to August 15, 2021), the Japanese economic outlook remained uncertain, as the reemergence of subsequent waves of the COVID-19 pandemic continued from the previous fiscal year, and the government of Japan issued a state of emergency for some areas.

Meanwhile, the drugstore sector continues to face a difficult business environment as competitors open new stores to further accelerate the expansion of their territories, and the trend toward corporate consolidation and realignment is further intensifying.

Against this backdrop, the TSURUHA Group (the “Group”) continued to offer a high level of customer service, mainly through advice-based sales, and worked on strategic measures to respond to changes in lifestyles, including the COVID-19 pandemic. The Group pushed ahead with store renovations that included the introduction of meat and fresh produce, and a 100-yen products store aimed at improving convenience for customers, and worked to address the shrinking market caused by Japan’s aging population and intensifying competition. In addition, the Group has been working on expanding customer contact points by providing services using smartphone apps, and developing support systems for staffing, customer management, and inventory control to improve the efficiency of store operations.

As for 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. On the other hand, the Group experienced an upswing in demand for goods designed to prevent the spread of infection as well as growth in demand for daily-use items, consumable goods, and foods in line with stay-at-home requests in the previous fiscal year. As such, the current fiscal year has seen a reactionary decline compared to last year.

In store openings, the Group opened 29 new stores and closed 19 stores since the beginning of the current fiscal year by targeting regional stores based on our dominant strategy and implementing scrap-and-build of existing stores, resulting in a total of 2,430 directly managed stores as of the fiscal year-end.

TSURUHA Group: Store openings and closures

(Number of stores)

	Previous fiscal year-end	Openings	Closures	Net change	First quarter-end	Of which dispensing pharmacies
Hokkaido	414	1	4	(3)	411	103
Tohoku	533	10	2	8	541	107
Kanto, Koshinetsu	493	10	5	5	498	178
Chubu, Kansai	237	1	4	(3)	234	123
Chugoku	315	5	-	5	320	100
Shikoku	212	2	1	1	213	60
Kyushu, Okinawa	216	-	3	(3)	213	25
Total for Japan	2,420	29	19	10	2,430	696

(The figure at the first quarter-end excludes 22 overseas stores and four franchise stores.)

As a result of the above, for the first quarter under review, TSURUHA Holdings reported net sales of ¥235,684 million (up 4.9% year on year), operating income of ¥12,889 million (down 15.0%), ordinary income of ¥12,944 million (down 15.6%), and net income attributable to owners of the parent of ¥7,536 million (down 17.5%).

In addition, effective from the beginning of the first quarter under review, the Group has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020). As such, year-on-year changes are based on figures calculated using different standards. For more details, please refer to “2. Quarterly Consolidated Financial Statements and Notes, (3) Notes on Quarterly Consolidated Financial Statements (Changes in Accounting Policies).”

(2) Explanation of Consolidated Financial Position

As of the end of the first quarter, assets totaled ¥538,617 million, an increase of ¥1,590 million compared with the previous fiscal year-end. Major factors included the purchase of property, plant and equipment for new store openings.

Liabilities totaled ¥258,286 million, a decrease of ¥2,212 million compared with the previous fiscal year-end. Major factors included a decrease in income taxes payable.

Net assets totaled ¥280,330 million, an increase of ¥3,802 million compared with the previous fiscal year-end.

As a result, the equity ratio was 47.6%, up 0.5 points from the previous fiscal year-end.

(3) Explanation of Consolidated Financial Forecasts and Other Forward-Looking Statements

The consolidated full-year forecasts announced on June 22, 2021 remain unchanged.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of May 15, 2021	As of August 15, 2021
Assets		
Current assets		
Cash and deposits	116,531	112,689
Accounts receivable – trade	46,908	49,172
Merchandise	127,476	127,541
Raw materials and supplies	140	115
Short-term loans receivable	2	1
Other	18,722	16,834
Total current assets	309,782	306,354
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	43,024	43,770
Machinery, equipment and vehicles, net	0	0
Tools, furniture and fixtures, net	12,462	12,981
Land	13,548	14,002
Leased assets, net	4,004	4,536
Construction in progress	4,010	4,758
Total property, plant and equipment	77,050	80,049
Intangible assets		
Goodwill	38,597	37,518
Software	1,016	1,077
Telephone subscription right	105	105
Other	681	1,166
Total intangible assets	40,400	39,867
Investments and other assets		
Investment securities	37,409	38,963
Long-term loans receivable	11	10
Deferred tax assets	6,166	6,322
Guarantee deposits	61,509	62,159
Other	4,762	4,947
Allowance for doubtful accounts	(65)	(57)
Total investments and other assets	109,794	112,345
Total non-current assets	227,245	232,262
Total assets	537,027	538,617

(Millions of yen)

	As of May 15, 2021	As of August 15, 2021
Liabilities		
Current liabilities		
Accounts payable – trade	152,611	157,690
Current portion of long-term loans payable	7,200	7,200
Accounts payable – other	19,722	17,239
Lease obligations	492	490
Income taxes payable	10,613	5,094
Provision for bonuses	5,613	3,241
Provision for directors' bonuses	643	198
Contract liability	–	6,421
Provision for point card certificates	4,417	306
Other	8,902	10,915
Total current liabilities	210,216	208,798
Non-current liabilities		
Long-term loans payable	26,675	24,875
Lease obligations	4,370	5,119
Deferred tax liabilities	8,187	8,341
Net defined benefit liability	3,743	3,827
Asset retirement obligations	3,674	3,696
Other	3,632	3,627
Total non-current liabilities	50,282	49,487
Total liabilities	260,498	258,286
Net assets		
Shareholders' equity		
Capital stock	11,251	11,251
Capital surplus	29,303	29,303
Retained earnings	193,320	195,834
Treasury shares	(5,312)	(5,312)
Total shareholders' equity	228,562	231,076
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	24,528	25,481
Remeasurements of defined benefit plans	(170)	(151)
Total accumulated other comprehensive income	24,358	25,329
Subscription rights to shares	1,701	1,849
Non-controlling interests	21,905	22,075
Total net assets	276,528	280,330
Total liabilities and net assets	537,027	538,617

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive
(Quarterly Consolidated Statements of Income)
(For the Three-month Period)

(Millions of yen)

	Three months ended August 15, 2020	Three months ended August 15, 2021
Net sales	224,623	235,684
Cost of sales	159,546	166,558
Gross profit	65,076	69,126
Selling, general and administrative expenses	49,913	56,237
Operating income	15,162	12,889
Non-operating income		
Interest income	31	32
Dividend income	73	74
Gain on donation of equipment	63	92
Rent income	55	57
Compensation income	—	150
Insurance income	14	33
Other	103	131
Total non-operating income	342	572
Non-operating expenses		
Interest expenses	153	171
Early withdrawal penalty	13	—
Closed store related expenses	—	239
Other	10	106
Total non-operating expenses	176	516
Ordinary Income	15,328	12,944
Extraordinary income		
Gain on sales of non-current assets	2	0
Subsidy income	—	25
Other	—	0
Total extraordinary income	2	27
Extraordinary losses		
Loss on retirement of non-current assets	16	6
Total extraordinary losses	16	6
Income before income taxes	15,313	12,965
Income taxes	5,333	4,624
Net income	9,979	8,341
Net income attributable to non-controlling interests	842	804
Net income attributable to owners of the parent	9,137	7,536

(Quarterly Consolidated Statements of Comprehensive Income)

(For the Three-month Period)

(Millions of yen)

	Three months ended August 15, 2020	Three months ended August 15, 2021
Net income	9,979	8,341
Other comprehensive income		
Valuation difference on available-for-sale securities	4,547	968
Remeasurements of defined benefit plans	26	19
Total other comprehensive income	4,574	988
Comprehensive income	14,554	9,330
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	13,677	8,507
Comprehensive income attributable to non-controlling interests	877	822

(3) Notes on Quarterly Consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

(Significant Changes in Shareholders' Equity)

Not applicable.

(Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)

(Calculation of Tax Expenses)

Regarding tax expenses, the Group has reasonably estimated the effective tax rate on income before income taxes for the consolidated fiscal year (including the first quarter under review) after the application of tax-effect accounting, which is calculated by multiplying income before income taxes by the said estimated effective tax rate.

However, in cases where calculating tax expenses using the said estimated effective tax rate would result in a significant lack of rationality, the Group uses the statutory effective tax rate.

“Income taxes – deferred” are included under income taxes.

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition)

Effective from the beginning of the first quarter under review, the Group has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) (“Revenue Recognition Accounting Standard”) and has decided to recognize revenue when control of promised goods or services is transferred to the customer in the amount expected to be received in exchange for those goods or services.

The main changes resulting from the adoption of Revenue Recognition Accounting Standard are as follows:

(1) Revenue recognition related to the Loyalty Program operated by our subsidiaries

As for the points granted in connection with the sale of products to customers based on the Loyalty Program operated by our subsidiaries, the Group previously recorded the estimated value to be required for the future point redemption, and recognized the provision for point card certificates as selling, general and administrative expenses to prepare for the customer use of the points granted. However, the Group has changed its method of identifying such points granted as performance obligations and deferring the recognition of revenue

(2) Loyalty Program operated by other companies

As for the points granted in connection with the sale of products to customers based on the Loyalty Program operated by other companies, the Group previously recognized the provision for point card certificates as selling, general and administrative expenses. However, the Group has changed its method of recognizing revenue by subtracting the amount equivalent to the points granted from the transaction price.

(3) Revenue recognition related to agent transactions

As for transactions in which the role (agent) in providing goods or services to customers falls under the category, the Group previously recognized the total consideration for the sale received from customers as revenue. However, the Group has changed its method of recognizing revenue on a net basis, which is the total consideration less the amount payable to other parties.

The Group has adopted the Revenue Recognition Accounting Standard set forth in Paragraph 84 of the Revenue Recognition Accounting Standard in accordance with the transitional treatment. Cumulative effects of retrospective application of the new accounting standard prior to the beginning of the first quarter under review have been added to or deducted from retained earnings at the beginning of the first quarter under review; therefore, the new accounting standard has been adopted since the beginning balance.

As a result, net sales for the first quarter under review decreased by ¥5,866 million, cost of sales decreased by ¥4,560 million, selling, general and administrative expenses decreased by ¥1,373 million, as well as operating income, ordinary income and income before income taxes each increased by ¥67 million. In addition, the beginning balance of retained earnings decreased by ¥889 million.

“Provision for point card certificates,” presented as “Current liabilities” under the consolidated balance sheets for the previous fiscal year, is now included in "Contract liability" from the first quarter under review due to the application of the Revenue Recognition Accounting Standard.

In accordance with the transitional treatment set forth in Paragraph 89-2 of the Revenue Recognition Accounting Standard, no reclassification has been made to the prior year’s consolidated financial statements to conform to the new presentation method. Moreover, in accordance with the transitional treatment set forth in Paragraph 28-15 of the “Accounting Standard for Quarterly Financial Statement (ASBJ Statement No. 12, March 31, 2020),” the Group has not presented information on disaggregation of revenue from contracts with customers for the first quarter of the previous fiscal year.

(Application of Accounting Standard for Fair Value Measurement)

The Group has adopted “Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) (“Accounting Standard for Fair Value Measurements”))” and others from the beginning of the first quarter under review, and will apply the new accounting standard set forth in “Accounting Standard for Fair Value Measurement” and others prospectively in accordance with the transitional treatment set forth in Paragraph 19 of “Accounting Standard for Fair Value Measurement” and Article 44-2 of “Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019).”