

Consolidated Financial Results for the Three Months Ended June 30, 2022 [Japanese GAAP]



August 12, 2022

Company name: SUNDRUG CO., LTD.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 9989
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 Scheduled date of filing quarterly securities report: August 15, 2022
 Scheduled date of commencing dividend payments: -
 Availability of supplementary briefing material on quarterly financial results: None
 Schedule of quarterly financial results briefing session: None

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Three Months Ended June 30, 2022 (April 1, 2022 to June 30, 2022)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2022	166,455	1.4	9,058	(5.6)	9,169	(6.0)	6,298	(7.4)
June 30, 2021	164,197	4.7	9,599	(10.3)	9,756	(10.0)	6,801	(3.5)

(Note) Comprehensive income: Three months ended June 30, 2022: ¥6,305 million [(9.6)%]
 Three months ended June 30, 2021: ¥6,978 million [(1.2)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2022	53.87	53.86
June 30, 2021	58.18	58.18

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2022	326,250	222,690	68.2
As of March 31, 2022	325,768	220,592	67.7

(Reference) Equity: As of June 30, 2022: ¥222,660 million
 As of March 31, 2022: ¥220,564 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended March 31, 2022	Yen -	Yen 35.00	Yen -	Yen 36.00	Yen 71.00
Fiscal year ending March 31, 2023	-				
Fiscal year ending March 31, 2023 (Forecast)		50.00	-	50.00	100.00

(Note) Revision to the forecast for dividends announced most recently: Yes

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2023 (April 1, 2022 to March 31, 2023)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	345,500	5.7	17,750	(1.0)	18,000	(1.3)	12,150	(2.5)	103.91
Full year	693,000	6.8	35,400	4.0	36,000	3.6	24,200	1.5	206.97

(Note) Revision to the financial results forecast announced most recently: None

* Notes:

- (1) Changes in significant subsidiaries during the three months ended June 30, 2022 (changes in specified subsidiaries resulting in changes in scope of consolidation): None
- (2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes
(Note) For details, please see “2. Quarterly Consolidated Financial Statements and Primary Notes, (3) Notes to the Quarterly Consolidated Financial Statements, (Adoption of Special Accounting Treatments for Quarterly Consolidated Financial Statements)” on page 8 of the appendix.
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: None
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Total number of issued shares (common shares)
 - 1) Total number of issued shares at the end of the period (including treasury shares):
June 30, 2022: 119,331,184 shares
March 31, 2022: 119,331,184 shares
 - 2) Total number of treasury shares at the end of the period:
June 30, 2022: 2,407,836 shares
March 31, 2022: 2,407,740 shares
 - 3) Average number of shares during the period:
Three months ended June 30, 2022: 116,923,398 shares
Three months ended June 30, 2021: 116,900,220 shares

* These quarterly consolidated financial results are outside the scope of quarterly review by a certified public accountant or an audit firm.

* Explanation of the proper use of financial results forecast and other notes

(Note on forward-looking statements)

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions that the Company deems reasonable, and the Company does not in any way guarantee the achievement of the forecasts. Actual results may differ significantly from these forecasts due to a wide range of factors. Please refer to “1. Qualitative Information on Quarterly Financial Results for the Period under Review, (3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” on page 3 for the assumptions underlying the forecasts and precautions when using the forecasts.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Business Results

The Japanese economy during the three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022), showed signs of normalization of economic activities under the prolonged impact of the novel coronavirus infectious disease (COVID-19) as restrictions on activities were relaxed. The outlook, however, remains highly uncertain with factors such as the rising raw material prices and crude oil prices due to the prolonged turmoil in Ukraine, and price increases induced by the rapid depreciation of the yen.

In the drugstore industry, the operating environment has become even more challenging due to a continued decline in demand for cosmetics, as well as competition with companies in the same industry in terms of store opening and industry restructuring chiefly among major companies.

In these circumstances, SUNDRUG CO., LTD. (the “Company”) and its group companies (collectively, the “Group”), performed sales activities while taking thorough measures to prevent the spread of the infectious disease, with the highest priorities placed on the safety of customers and employees. Under the key phrase, “Provide safety, reliance and convenience,” we continuously made efforts to further increase expertise, improve the service level required and desired by customers, introduce fresh food, strengthen food sales, etc., while working also to open new stores aggressively, expand the mail order business and streamline operations by promoting digital transformation.

As for the status of the Group’s store openings for the three months ended June 30, 2022, we opened 9 new stores. In addition, we revitalized existing stores by renovating 30 stores and closing four stores.

As a result, the total number of the Group’s stores as of the end of the first quarter of the fiscal year under review reached 1,286 stores, consisting of 949 stores for the Drugstore Business (749 directly-managed stores, 71 stores operated by Seikodo Pharmacy Corporation, 63 stores operated by Sundrug Plus, and 66 franchise stores) and 337 stores for the Discount Store Business (337 stores operated by DIREX CORPORATION).

As for the consolidated financial results for the three months ended June 30, 2022, the Group recorded net sales totaling ¥166,455 million (up 1.4% from the same period of the previous fiscal year), operating profit totaling ¥9,058 million (down 5.6% from the same period of the previous fiscal year), ordinary profit totaling ¥9,169 million (down 6.0% from the same period of the previous fiscal year), and profit attributable to owners of parent totaling ¥6,298 million (down 7.4% from the same period of the previous fiscal year).

Overview of business segment operating results is as follows.

< Drugstore Business >

In the Drugstore Business, despite active store renovations including for the introduction of fresh food, the impact of the reactionary decline in demand for products to consume at home persisted through May for suburban stores, while station-front stores continued to be affected by the loss of demand from overseas visitors and the decline in demand for cosmetics amid the COVID-19 pandemic. Affected also by unseasonable weather conditions and the resulting slump in the sales of seasonal merchandise, and a significant decline in demand from cross-border e-commerce due to lockdown in China, overall sales decreased year on year. In terms of expenses, we strove to increase efficiency through measures such as the introduction of electronic shelf labels. Although heating and lighting expenses increased due to the rise in crude oil price, we worked across the company to curb expenses through taking electricity saving measures and other measures. As for the status of the store openings in the Drugstore Business, we opened 6 new stores and revitalized existing stores by renovating 24 stores and closing 3 stores.

As a result, net sales for the Drugstore Business segment amounted to ¥108,490 million (down 0.5% from the same period of the previous fiscal year), and operating profit amounted to ¥5,636 million (down 8.7% from the same period of the previous fiscal year).

< Discount Store Business >

In the Discount Store Business, the impact of a reactionary decline in demand for products to consume at home which boomed in 2020 lasted through May just as for suburban stores in the Drugstore Business segment, but sales increased year on year as a result of strengthened sales efforts for well-selling products such as pet supplies and strong sales of household appliances for summer due to the sharp rise in temperatures from June. As a result, net sales for the Discount Store Business segment amounted to ¥70,354 million (up 5.5% from the same period of the previous fiscal year), and operating profit amounted to ¥3,422 million (down 0.0% from the same period of the previous fiscal year).

(2) Explanation of Financial Position

Total assets as of the end of the first quarter of the fiscal year under review increased by ¥481 million from the previous fiscal year end to ¥326,250 million. This is mainly attributable to an increase in buildings and structures due to new store openings as well as store renovations.

Total liabilities decreased by ¥1,615 million from the previous fiscal year end to ¥103,559 million. This is mainly attributable to a decrease in income taxes payable.

Total net assets increased by ¥2,097 million from the previous fiscal year end to ¥222,690 million.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

We have made no revision to the consolidated financial results forecast which was announced on May 13, 2022.

(Note) The consolidated financial results forecast herein are based on certain assumptions that the Company deems reasonable at the time of announcement. Actual results may differ significantly from these forecasts.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2022	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	89,330	88,749
Accounts receivable - trade	19,108	18,975
Merchandise	72,415	73,284
Raw materials and supplies	126	119
Other	18,561	17,807
Allowance for doubtful accounts	(4)	(4)
Total current assets	199,537	198,931
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	54,957	55,658
Other, net	22,897	22,926
Total property, plant and equipment	77,855	78,584
Intangible assets		
Goodwill	2	2
Other	5,951	6,009
Total intangible assets	5,954	6,011
Investments and other assets		
Leasehold and guarantee deposits	25,207	25,236
Other	17,218	17,489
Allowance for doubtful accounts	(4)	(4)
Total investments and other assets	42,420	42,721
Total non-current assets	126,230	127,318
Total assets	325,768	326,250

(Million yen)

	As of March 31, 2022	As of June 30, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	67,029	68,378
Income taxes payable	5,199	3,139
Provision for bonuses for directors (and other officers)	36	19
Other	23,779	22,782
Total current liabilities	96,045	94,319
Non-current liabilities		
Retirement benefit liability	1,696	1,747
Asset retirement obligations	5,300	5,347
Other	2,133	2,145
Total non-current liabilities	9,130	9,240
Total liabilities	105,175	103,559
Net assets		
Shareholders' equity		
Share capital	3,931	3,931
Capital surplus	7,430	7,430
Retained earnings	215,145	217,234
Treasury shares	(3,939)	(3,939)
Total shareholders' equity	222,567	224,656
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	56	62
Revaluation reserve for land	(1,940)	(1,940)
Remeasurements of defined benefit plans	(120)	(118)
Total accumulated other comprehensive income	(2,003)	(1,996)
Share acquisition rights	28	29
Total net assets	220,592	222,690
Total liabilities and net assets	325,768	326,250

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Consolidated Statements of Income

(Million yen)

	For the three months ended June 30, 2021	For the three months ended June 30, 2022
Net sales	164,197	166,455
Cost of sales	124,937	126,443
Gross profit	39,259	40,012
Selling, general and administrative expenses	29,660	30,954
Operating profit	9,599	9,058
Non-operating income		
Interest income	30	24
Dividend income	2	3
Gain on receipt of donated non-current assets	74	40
Other	50	45
Total non-operating income	159	112
Non-operating expenses		
Interest expenses	1	2
Other	0	0
Total non-operating expenses	1	2
Ordinary profit	9,756	9,169
Extraordinary income		
Gain on sale of non-current assets	285	0
Compensation income	0	—
Total extraordinary income	285	0
Extraordinary losses		
Impairment losses	32	—
Loss on retirement of non-current assets	15	13
Other	3	0
Total extraordinary losses	51	13
Profit before income taxes	9,990	9,155
Income taxes	3,188	2,856
Profit	6,801	6,298
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	6,801	6,298

Consolidated Statements of Comprehensive Income

(Million yen)

	For the three months ended June 30, 2021	For the three months ended June 30, 2022
Profit	6,801	6,298
Other comprehensive income		
Valuation difference on available-for-sale securities	(5)	5
Revaluation reserve for land	176	—
Remeasurements of defined benefit plans, net of tax	5	1
Total other comprehensive income	176	7
Comprehensive income	6,978	6,305
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,978	6,305
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes to the Quarterly Consolidated Financial Statements
(Notes on Going Concern Assumptions)
Not applicable

(Notes in the Case of Material Changes in Shareholders' Equity)
Not applicable

(Adoption of Special Accounting Treatments for Quarterly Consolidated Financial Statements)
(Calculation of tax expenses)

Tax expenses are calculated based on a reasonable estimate of the effective tax rate after applying tax effect accounting to profit before income taxes for the consolidated fiscal year including the first quarter of the fiscal year under review, and then multiplying profit before income taxes by the estimated effective tax rate.

Income taxes - deferred is included in income taxes.

(Segment Information)

I. Three months ended June 30, 2021 (from April 1, 2021 to June 30, 2021)

Information concerning the amount of net sales and income/loss by reportable segment and information on disaggregated revenue

(Millions of yen)

	Reportable segment			Adjustment (Note 1)	Amount on consolidated statements of income (Note 2)
	Drugstore Business	Discount Store Business	Total		
Net sales					
Net sales to external customers	97,484	66,712	164,197	—	164,197
Inter-segment net sales or transfers	11,515	3	11,519	(11,519)	—
Total	109,000	66,716	175,717	(11,519)	164,197
Segment income	6,175	3,423	9,599	—	9,599

Note 1: Adjustment of segment income is due to elimination of intersegment transactions.

Note 2: Segment income is adjusted according to the operating profit on the consolidated statements of income.

Note 3. Revenue other than those arising from contracts with customers are not categorized as they are of little importance.

II. Three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

1. Information concerning the amount of net sales and income/loss by reportable segment and information on disaggregated revenue

(Millions of yen)

	Reportable segment			Adjustment (Note 1)	Amount on consolidated statements of income (Note 2)
	Drugstore Business	Discount Store Business	Total		
Net sales					
Net sales to external customers	96,104	70,351	166,455	—	166,455
Inter-segment net sales or transfers	12,386	3	12,389	(12,389)	—
Total	108,490	70,354	178,845	(12,389)	166,455
Segment income	5,636	3,422	9,058	—	9,058

Note 1: Adjustment of segment income is due to elimination of intersegment transactions.

Note 2: Segment income is adjusted according to the operating profit on the consolidated statements of income.

Note 3. Revenue other than those arising from contracts with customers are not categorized as they are of little importance.