

Consolidated Financial Results for the Six Months Ended September 30, 2022 [Japanese GAAP]



November 14, 2022

Company name: SUNDRUG CO., LTD.

Stock exchange listing: Tokyo Stock Exchange

Code number: 9989

URL: <https://www.sundrug.co.jp/>

Representative: Hiroshi Sadakata, President and Representative Director

Contact: Yoshinobu Kato, Executive Officer and Manager, Administrative Division

Phone: +81-42-369-6211

Scheduled date of filing quarterly securities report: November 14, 2022

Scheduled date of commencing dividend payments: December 5, 2022

Availability of supplementary briefing material on quarterly financial results: Available (for institutional investors and analysts)

Schedule of quarterly financial results briefing session: Scheduled (for institutional investors and analysts)

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

1. Consolidated Financial Results for the Six Months Ended September 30, 2022 (April 1, 2022 to September 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	%
Six months ended September 30, 2022	339,223	3.8	18,511	3.2	18,769	2.9	12,722	2.1
September 30, 2021	326,754	3.3	17,928	(8.9)	18,240	(9.3)	12,455	(7.6)

(Note) Comprehensive income: Six months ended September 30, 2022: ¥12,737 million [0.7%]

Six months ended September 30, 2021: ¥12,642 million [(6.4)%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2022	108.81	108.81
September 30, 2021	106.54	106.53

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2022	337,090	229,123	68.0
As of March 31, 2022	325,768	220,592	67.7

(Reference) Equity: As of September 30, 2022: ¥229,091 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	-	50.00			
Fiscal year ending March 31, 2023 (Forecast)			-	50.00	100.00

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

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
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 six months ended September 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, (4) Notes to the Quarterly Consolidated Financial Statements, (Adoption of Special Accounting Treatments for Quarterly Consolidated Financial Statements)” on page 9 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):
September 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:
September 30, 2022: 2,407,881 shares
March 31, 2022: 2,407,740 shares
 - 3) Average number of shares during the period:
Six months ended September 30, 2022: 116,923,350 shares
Six months ended September 30, 2021: 116,911,895 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.

Table of Contents

1. Qualitative Information on Quarterly Financial Results for the Period under Review	2
(1) Explanation of Business Results	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information	3
2. Quarterly Consolidated Financial Statements and Primary Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
Consolidated Statements of Income	
(For the six months ended September 30, 2021 and 2022)	6
Consolidated Statements of Comprehensive Income	
(For the six months ended September 30, 2021 and 2022)	7
(3) Quarterly Consolidated Statements of Cash Flows	8
(4) Notes to the Quarterly Consolidated Financial Statements	9
(Notes on Going Concern Assumptions)	9
(Notes in the Case of Material Changes in Shareholders' Equity)	9
(Adoption of Special Accounting Treatments for Quarterly Consolidated Financial Statements)	9
(Segment Information)	10
(Important Subsequent Events)	12

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

(1) Explanation of Business Results

The Japanese economy during the six months ended September 30, 2022 (from April 1, 2022 to September 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 economic outlook, however, remains highly uncertain with factors such as rising raw material prices and crude oil prices, and price increases induced by the rapid depreciation of the yen.

In the drugstore industry, the operating environment surrounding SUNDRUG CO., LTD. (the “Company”) has become even more challenging due to a prolonged loss of demand from overseas visitors and 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, 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 and streamline operations with an aim to further enhance productivity.

As for the status of the Group’s store openings for the six months ended September 30, 2022, we opened 28 new stores. In addition, we revitalized existing stores by renovating 76 stores and closing eight stores.

As a result, the total number of the Group’s stores as of the end of the second quarter of the fiscal year under review reached 1,301 stores, consisting of 957 stores for the Drugstore Business (757 directly-managed stores, 71 stores operated by Seikodo Pharmacy Corporation, 63 stores operated by Sundrug Plus, and 66 franchise stores) and 344 stores for the Discount Store Business (344 stores operated by DIREX CORPORATION).

As for the consolidated financial results for the six months ended September 30, 2022, the Group recorded net sales totaling ¥339,223 million (up 3.8% from the same period of the previous fiscal year), operating profit totaling ¥18,511 million (up 3.2% from the same period of the previous fiscal year), ordinary profit totaling ¥18,769 million (up 2.9% from the same period of the previous fiscal year), and profit attributable to owners of parent totaling ¥12,722 million (up 2.1% from the same period of the previous fiscal year), posting increases in sales and profit.

Overview of business segment operating results is as follows.

< Drugstore Business >

In the Drugstore Business, sales from station-front stores in busy shopping areas remained weak due to the impact of the loss of demand from overseas visitors amid the COVID-19 pandemic and the continued decline in demand for cosmetics. Furthermore, sales from cross-border e-commerce significantly declined and remained stagnant due to the continued lockdown in China. However, overall sales increased year on year as a result of the renovating of stores through measures such as the introduction of fresh food, in addition to the aggressive opening of new stores. In terms of expenses, we endeavored 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 continued to work 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 17 new stores and revitalized existing stores by renovating 66 stores and closing six stores.

As a result, net sales for the Drugstore Business segment amounted to ¥219,953 million (up 2.1% from the same period of the previous fiscal year), and operating profit amounted to ¥11,806 million (down 0.5% from the same period of the previous fiscal year).

< Discount Store Business >

In the Discount Store Business, sales such as of pet supplies and food products continued to remain strong, and overall sales increased year on year, supplemented by the rush in demand before the price increases of alcoholic beverages implemented in October. As for the status of the store openings in the Discount Store Business, we opened 11 new stores and revitalized existing stores by renovating 10 stores and closing two stores.

As a result, net sales for the Discount Store Business segment amounted to ¥143,931 million (up 7.3 % from the same period of the previous fiscal year), and operating profit amounted to ¥6,705 million (up 10.5% from the same period of the previous fiscal year), resulting in increases in sales and profit.

(2) Explanation of Financial Position

Total assets as of the end of the second quarter of the fiscal year under review increased by ¥11,322 million from the previous fiscal year end to ¥337,090 million. This is mainly attributable to an increase in cash and deposits and an increase in property, plant and equipment due to new store openings as well as store renovations.

Total liabilities increased by ¥2,791 million from the previous fiscal year end to ¥107,967 million. This is mainly attributable to an increase in accounts payable - trade.

Total net assets increased by ¥8,530 million from the previous fiscal year end to ¥229,123 million.

(Analysis of cash flow status)

Cash and cash equivalents (hereinafter referred to as “cash”) as of the end of the second quarter of the fiscal year under review increased by ¥5,153 million from the previous fiscal year end to ¥94,484 million.

(Cash flows from operating activities)

Net cash provided by operating activities increased by ¥4,605 million from the same period of the previous fiscal year to ¥21,411 million (up 27.4% year on year). This is mainly attributable to an increase in trade payables, compared with the previous corresponding period.

(Cash flows from investing activities)

Net cash used in investing activities increased by ¥3,135 million from the same period of the previous fiscal year to ¥12,048 million (up 35.2% year on year). This is mainly attributable to an increase in purchase of property, plant and equipment, compared with the previous corresponding period.

(Cash flows from financing activities)

Net cash used in financing activities increased by ¥117 million from the same period of the previous fiscal year to ¥4,208 million (up 2.9% year on year). This is mainly attributable to an increase in dividends paid, compared with the previous corresponding period.

(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 September 30, 2022
Assets		
Current assets		
Cash and deposits	89,330	94,484
Accounts receivable - trade	19,108	20,600
Merchandise	72,415	71,329
Raw materials and supplies	126	265
Other	18,561	19,092
Allowance for doubtful accounts	(4)	(5)
Total current assets	199,537	205,768
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	54,957	57,438
Other, net	22,897	24,906
Total property, plant and equipment	77,855	82,344
Intangible assets		
Goodwill	2	1
Other	5,951	6,010
Total intangible assets	5,954	6,011
Investments and other assets		
Leasehold and guarantee deposits	25,207	25,238
Other	17,218	17,731
Allowance for doubtful accounts	(4)	(3)
Total investments and other assets	42,420	42,966
Total non-current assets	126,230	131,322
Total assets	325,768	337,090

(Million yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	67,029	68,726
Income taxes payable	5,199	6,412
Provision for bonuses for directors (and other officers)	36	39
Other	23,779	23,275
Total current liabilities	96,045	98,454
Non-current liabilities		
Retirement benefit liability	1,696	1,787
Asset retirement obligations	5,300	5,446
Other	2,133	2,280
Total non-current liabilities	9,130	9,513
Total liabilities	105,175	107,967
Net assets		
Shareholders' equity		
Share capital	3,931	3,931
Capital surplus	7,430	7,430
Retained earnings	215,145	223,658
Treasury shares	(3,939)	(3,939)
Total shareholders' equity	222,567	231,080
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	56	65
Revaluation reserve for land	(1,940)	(1,940)
Remeasurements of defined benefit plans	(120)	(113)
Total accumulated other comprehensive income	(2,003)	(1,988)
Share acquisition rights	28	31
Total net assets	220,592	229,123
Total liabilities and net assets	325,768	337,090

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

(Million yen)

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Net sales	326,754	339,223
Cost of sales	248,394	257,026
Gross profit	78,359	82,196
Selling, general and administrative expenses	60,431	63,685
Operating profit	17,928	18,511
Non-operating income		
Interest income	61	60
Dividend income	3	3
Gain on receipt of donated non-current assets	140	112
Other	109	100
Total non-operating income	316	275
Non-operating expenses		
Interest expenses	3	15
Other	0	2
Total non-operating expenses	4	17
Ordinary profit	18,240	18,769
Extraordinary income		
Gain on sale of non-current assets	285	0
Penalty income	–	5
National subsidies	–	8
Other	7	2
Total extraordinary income	292	17
Extraordinary losses		
Impairment losses	87	160
Loss on retirement of non-current assets	89	36
Other	44	75
Total extraordinary losses	222	273
Profit before income taxes	18,310	18,513
Income taxes	5,855	5,791
Profit	12,455	12,722
Profit attributable to non-controlling interests	–	–
Profit attributable to owners of parent	12,455	12,722

Consolidated Statements of Comprehensive Income

(Million yen)

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Profit	12,455	12,722
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	8
Revaluation reserve for land	176	—
Remeasurements of defined benefit plans, net of tax	10	6
Total other comprehensive income	187	15
Comprehensive income	12,642	12,737
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	12,642	12,737
Comprehensive income attributable to non-controlling interests	—	—

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Cash flows from operating activities		
Profit before income taxes	18,310	18,513
Depreciation	4,756	5,435
Impairment losses	87	160
Increase (decrease) in retirement benefit liability	79	90
Increase (decrease) in allowance for doubtful accounts	(0)	(0)
Increase (decrease) in provision for bonuses for directors (and other officers)	(32)	2
Increase (decrease) in provision for point card certificates	(3,914)	–
Increase (decrease) in contract liabilities	4,171	158
Interest and dividend income	(65)	(63)
Interest expenses	3	15
State subsidy	–	(8)
Penalty income	–	(5)
Loss on retirement of non-current assets	89	36
Decrease (increase) in trade receivables	761	(1,491)
Decrease (increase) in inventories	1,563	945
Decrease (increase) in accounts receivable - other	81	(275)
Increase (decrease) in trade payables	(390)	1,697
Increase (decrease) in accrued consumption taxes	(1,415)	1,022
Other, net	(1,005)	(859)
Subtotal	23,079	25,374
Interest and dividends received	4	9
Interest paid	(0)	(0)
Income taxes paid	(6,278)	(3,986)
Subsidies received	–	8
Penalty income received	–	5
Net cash provided by (used in) operating activities	16,805	21,411
Cash flows from investing activities		
Purchase of property, plant and equipment	(7,893)	(9,946)
Purchase of intangible assets	(385)	(1,066)
Loan advances	(330)	(126)
Proceeds from collection of loans receivable	–	3
Payments of leasehold and guarantee deposits	(324)	(503)
Proceeds from refund of leasehold and guarantee deposits	314	558
Other, net	(295)	(967)
Net cash provided by (used in) investing activities	(8,913)	(12,048)
Cash flows from financing activities		
Dividends paid	(4,091)	(4,208)
Purchase of treasury shares	(0)	(0)
Proceeds from exercise of employee share options	0	–
Net cash provided by (used in) financing activities	(4,091)	(4,208)
Net increase (decrease) in cash and cash equivalents	3,800	5,153
Cash and cash equivalents at beginning of period	86,495	89,330
Cash and cash equivalents at end of period	90,296	94,484

(4) 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 second 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. Six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

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 quarterly consolidated statements of income (Note 2)
	Drugstore Business	Discount Store Business	Total		
Net sales					
Net sales to external customers	192,631	134,122	326,754	–	326,754
Inter-segment net sales or transfers	22,891	6	22,898	(22,898)	–
Total	215,523	134,129	349,652	(22,898)	326,754
Segment income	11,860	6,068	17,928	–	17,928

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 quarterly consolidated statements of income.

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

II. Six months ended September 30, 2022 (from April 1, 2022 to September 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 quarterly consolidated statements of income (Note 2)
	Drugstore Business	Discount Store Business	Total		
Net sales					
Net sales to external customers	195,297	143,925	339,223	–	339,223
Inter-segment net sales or transfers	24,655	5	24,661	(24,661)	–
Total	219,953	143,931	363,884	(24,661)	339,223
Segment income	11,806	6,705	18,511	–	18,511

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 quarterly consolidated statements of income.

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

(Important Subsequent Events)

(Business combination through acquisition)

At the extraordinary meeting of the Board of Directors held on September 1, 2022, the Company resolved to acquire all of the shares of Daiya Inc. (headquartered in Saijo City, Ehime Prefecture; President and Representative Director, Shintaro Ito; and the company is hereinafter referred to as “Daiya”), which operates drugstores in the Shikoku region, making Daiya a wholly-owned subsidiary of the Company. The Company entered into a share transfer agreement on September 1, 2022 and acquired the said shares on October 3, 2022.

1. Summary of business combination

(1) Name and details of business of acquiree

Name: Daiya Inc.
Details of business: Management of drugstores, etc.

(2) Main reason for business combination

In the drugstore industry, where the environment has become even more challenging due to intensified competition, the Group aims to further expand the scale of its business and improve its corporate value by opening new stores of its group companies, expanding the franchise business, and utilizing M&As.

Furthermore, the Group is fully aware of the importance of expanding the business into new areas by transcending the existing boundaries, pursuing stores with new characteristics, and aiming to provide the Company’s unique value by incorporating the Discount Store Business and the e-commerce business.

Daiya operates more than 50 drugstores of “mac” with a focus on Ehime and Kochi Prefectures, and continues to grow its business through the management rooted in local communities for many years. Daiya, a leading company in the region with a history of more than 70 years since its foundation, supports customers’ daily life in local communities in broad areas, covering from areas with a large population to sparsely populated locations, where many customers visit its stores by car from afar.

Daiya had been previously promoting its business as community-based drugstores, focusing its activities in the Shikoku region. However, in the recent business environment, which has become even more challenging, the Company and each shareholder of Daiya agreed to the Company’s acquisition of all of Daiya’s shares, making Daiya a wholly-owned subsidiary of the Company, for the purpose of mutual enhancement of competitiveness through collaboration with the Company.

In the Shikoku region, although the Group has developed stores operated by DIREX CORPORATION in the Discount Store Business up until now, we have not owned directory-managed stores in the Drugstore Business. We will strive to build the solid management foundation as the SUNDRUG Group in the Shikoku region under the Group’s management support to Daiya through the share acquisition.

Since the stores with high profitability owned by Daiya in sparsely populated areas have characteristics new to the Group’s existing stores, we also believe that knowledge from these stores will contribute to the Group as a whole.

In addition, we expect Daiya to achieve further growth of its business in its existing stores by making the stores more attractive and enhancing efficiency of the store management under the full support of the Group.

(3) Date of business combination

October 3, 2022 (date of share acquisition)

(4) Legal form of business combination

Share acquisition with cash consideration

(5) Name of entity after business combination

No change

(6) Ratio of voting rights acquired

100%

(7) Main grounds for determining acquirer

Due to the Company's acquisition of shares with cash consideration

2. Acquisition cost of acquiree and the breakdown by type of consideration

The Company determined the acquisition prices through consultations with parties of the share acquisition, with reference to results of a third-party assessment, etc. However, the said prices are not available for disclosure in accordance with consultations with the sellers.

3. Content and amount of main acquisition-related costs

Not determined at this time.

4. Amount, reason, and method and period of amortization with respect to goodwill incurred

Not determined at this time.

5. Amount and breakdown of main assets acquired and liabilities assumed on the date of business combination

Not determined at this time.