



## Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending May 2022 [Japanese GAAP]

March 18, 2022

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 Holding of quarterly financial results explanation meeting: No

(Rounded down to the nearest million yen)

### 1. Consolidated financial results for the third quarter of the fiscal year ending May 2022 (May 16, 2021-February 15, 2022)

#### (1) Consolidated operating results (cumulative)

(Percentages represent changes from the same period of the previous year)

	Net sales		Operating profit		Ordinary profit		Quarterly profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended								
February 15, 2022	62,520	△1.3	409	7.5	457	1.5	267	△41.7
February 15, 2021	63,329	△6.5	381	△34.0	450	△30.1	458	-

(Note) Comprehensive income Nine months ended February 15, 2022: 257 million yen (△41.5%)  
 Nine months ended February 15, 2021: 440 million yen (-%)

	Quarterly net income per share	Diluted quarterly net income per share
Nine months ended	Yen	Yen
February 15, 2022	19.39	19.39
February 15, 2021	33.27	33.26

(Note) The Company conducted a 3-for-1 stock split of common shares effective November 16, 2021. As a result, net income per share and diluted net income per share are calculated on the assumption that the stock split was conducted at the beginning of the fiscal year ended May 15, 2021.

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
February 15, 2022	39,513	8,808	22.1
May 15, 2021	38,299	8,672	22.5

(Note) Equity As of February 15, 2022: 8,747 million yen  
 As of May 15, 2021: 8,622 million yen

### 2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
Fiscal year	Yen	Yen	Yen	Yen	Yen
Ended May 15, 2021	-	0.00	-	28.00	28.00
Ending May 15, 2022	-	0.00	-		
Ending May 15, 2022 (forecast)				9.34	9.34

(Note) Changes from the recently announced dividend forecast: None

The Company conducted a 3-for-1 stock split of common shares effective November 16, 2021. The dividend forecast for the fiscal year ending May 15, 2022 takes into account this stock split. If the stock split is not taken into account, the year-end dividend per share for the fiscal year ending May 15, 2022 (forecast) will be 28.00 yen.

## 3. Consolidated Earnings Forecast for the Fiscal Year Ending May 2022 (May 16, 2021 - May 15, 2022)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full Year	85,000	2.1	700	9.3	700	15.2	200	△ 65.2	14.50

(Note) Changes from the latest announced earnings forecast: None

The Company conducted a 3-for-1 stock split of common shares effective November 16, 2021. The net income per share in the consolidated earnings forecast for the fiscal year ending May 15, 2022 is the amount after the said stock split.

## ※ Notes

(1) Changes in significant subsidiaries during the current quarterly consolidated cumulative period (changes in scope of consolidation): None

(2) Application of special accounting methods in preparation of the quarterly consolidated financial statement: Yes

(Note) For details, please refer to "2. Quarterly consolidated financial statements and notes, (3) Quarterly consolidated financial statements and notes (Application of special accounting methods in preparation of the quarterly consolidated financial statement)" on page 9 of the attached materials.

(3) Changes in accounting policies and accounting-based estimates, and restatements

① Changes in accounting policies due to revisions in accounting standards :	Yes
② Changes in accounting policies other than ① :	None
③ Changes in accounting-based estimates :	None
④ Restatements :	None

(Note) For details, please refer to "2. Quarterly consolidated financial statements and notes, (3) Quarterly consolidated financial statements and notes (Changes in accounting policies)" on page 9 of the attached materials

(4) Number of shares outstanding (common shares)

① Number of shares outstanding as of the end of the period (including treasury shares)	As of February 15, 2022	14,226,000 shares	As of May 15, 2021	14,226,000 shares
② Number of treasury shares as of the end of the period	As of February 15, 2022	432,747 shares	As of May 15, 2021	442,422 shares
③ Average number of shares outstanding during the period (quarterly cumulative)	Nine months ended February 15, 2022	13,788,415 shares	Nine months ended February 15, 2021	13,783,578 shares

(Note) The Company conducted a 3-for-1 stock split of common shares effective November 16, 2021. As a result, the number of outstanding shares (common stock) has been calculated on the assumption that the stock split was conducted at the beginning of the fiscal year ended May 15, 2021.

※ Quarterly financial statements are not subject to quarterly reviews by certified public accountants or auditing firms.

※ Cautionary statement with respect to forecasts

Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to our company's management at the time these materials were prepared but are not promises regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons.

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## 1. Qualitative Information on the Current Quarterly Financial Results

### (1) Explanation of operating results

During the third quarter of the current fiscal year (May 16, 2021 to February 15, 2022), the Japanese economy continued to face a severe situation with restrictions on socio-economic activities due to the re-issuance of the Declaration of a State of Emergency and the reapplication of priority measures to prevent the spread in various parts of Japan, including Hokkaido, in response to the rebound of COVID-19 cases. Although socio-economic activities are expected to normalize with the penetration of vaccinations and the practical application of therapeutic drugs, the future economic outlook remains uncertain with concerns about the re-spread of COVID-19 caused by the emergence of new mutant strains, the impact of rising oil and raw material prices on consumer spending and the tense situation in Ukraine.

In the drugstore industry, in which our Group mainly operates, while the demand for hygiene-related products, groceries, and daily necessities remained strong due to the impact of the COVID-19 infection, it was affected by a reactionary decline in hoarding demand, which surged in the same period of the previous year. The digital shift by consumers also continues to progress, as they are increasingly using cashless payment methods due to their growing preference for contactless transactions. Moreover, the business environment is undergoing drastic changes, including a decline in demand for cosmetics due to lifestyle changes such as the popularization of remote work, a decrease in demand for common cold remedies as infection prevention measures take hold, the disappearance of inbound demand, intensifying competition across industry boundaries and moves to reorganize the industry.

Under such circumstances, while implementing infection prevention measures and thorough hygiene management, our Group continued to operate stores in order to fulfill our role as a social infrastructure for local communities and supplier of products in the region. The safety of our employees and customers is consciously ensured through the implementation of COVID-19 vaccinations in the workplace, etc.

Moreover, we dispatched pharmacists to some areas in Hokkaido to provide vaccination support. In addition, on December 17, 2021, we selected the Prime Market in the new market segment of the Tokyo Stock Exchange, Inc. and submitted a plan to comply with the listing maintenance standards for the new market segment.

Under the theme of "evolving into a regional integrated lifestyle group" in the medium-term management plan ending in May 15, 2026, our Group is pursuing three growth strategies (integrated lifestyle store strategy, regional platform strategy, and collaboration strategy) and an organizational strategy.

The integrated lifestyle store strategy includes expansion of the number of stores that provide fresh foods, which is part of our line-robbing efforts to expand our product categories, and provision of lifestyle services such as continuous in-store nutritional consultation sessions with nutritionists in an attempt to create stores that are supported by local residents.

The regional platform strategy includes the continuously growing "EZOCA" ecosystem centered on Hokkaido's common point card "EZOCA," the members of which surpassed 2 million in August 2021. The number of "EZOCA" partner stores expanded to 747 stores with 164 companies. "Esashi EZOCA" was launched as part of the initiatives based on a comprehensive cooperation agreement with Esashi Town. A portion of the purchase amount will be donated to the town, aiming to contribute to the revitalization of the local economy. Together with the town, we are also engaged in a MaaS demonstration experiment to maintain and secure public transportation, aiming to establish a sustainable service by utilizing data acquired from the Esashi EZOCA.

The collaboration strategy includes a franchise store agreement with the daily necessities division of COOP SAPPORO store business which was concluded in May 2021 under the comprehensive business alliance. This agreement will lead to improved convenience for our customers, members, and other residents of Hokkaido through the supply of more favorable products. We also concluded a comprehensive cooperation agreement with Taiki Town and Sapporo University, aiming to contribute to the revitalization of the region, the improvement of services for residents, and the resolution of social issues.

In terms of organizational strategy, we have established a D&I Committee to promote D&I in order to create an environment in which diverse human resources can play an active role. Also, we are actively promoting health management through the establishment of a Chief Health Officer (CHO) and the enactment of the Satudora Group Health and Productivity Management Declaration. In addition, we have identified material issues (materiality) in order to establish our Group's sustainable business

operations and to contribute to the sustainability of society by positioning them as the foundation for advancing our management strategies.

As a result of the above, net sales for the consolidated cumulative third quarter of the current fiscal year were 62,520 million yen (down 1.3%, or 809 million yen, year on year), operating profit was 409 million yen (up 7.5%, or 28 million yen, year on year), ordinary profit was 457 million yen (up 1.5%, or 6 million yen, year on year), and profit attributable to owners of parent was 267 million yen (down 41.7%, or 191 million yen, year on year).

As a side note, effective from the beginning of the first quarter of the current consolidated fiscal year, the Company has adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. Details are provided in "2. Quarterly consolidated financial statements and notes (3) Quarterly consolidated financial statements and notes (Changes in accounting policies)".

An overview of the segment performance is as follows.

<Retail Business>

We operate a chain of drugstore-format stores aimed at becoming a dominant player primarily in Hokkaido, as well as dispensing pharmacies and inbound format stores in tourist areas and other locations which many foreign visitors to Japan frequent. On the sales front, we aim to promote a low-price strategy centered on Everyday Same Low Price (ESLP) in order to gain more customer support and to improve operational efficiency by leveling work operations. We also aim to expand product categories by strengthening line robbing, including fresh foods. In addition, we are working to improve the quality and speed of decision-making through the area divisional organization and to promote digital marketing with official apps. As for dispensing pharmacies, in addition to the operation of near hospital pharmacies, we have also established them within drugstores. At the same time, we are working to provide lifestyle services such as fitness businesses and specific health guidance by registered dietitians.

Thanks to the patronage of our customers and the support of our stakeholders, Sapporo Drugstore Co., Ltd. celebrated its 50th anniversary since the opening of its first store. The company is planning and holding a fair to commemorate the 50th anniversary in an effort to be the most familiar and beloved company by staying close to the lives of the community for another 50 years as well.

During the third quarter of the current fiscal year, the special demands for hygiene-related products, groceries, and daily necessities, which occurred in the same period of the previous fiscal year, subsided. On the other hand, there was an increase in the average spending per customer due to the increased number of items purchased. Despite that, in response to the growing need for one-stop shopping, the number of customers decreased due to a decline in the frequency of customer visits. As a result, net sales in the drugstore format were lower than those in the same period of the previous fiscal year. In terms of the inbound format, sales continued to be marginal due to the slowdown in the number of foreign visitors to Japan. As for dispensing pharmacies, amid a trend of eased restraint on visits to medical institutions during the COVID-19, net sales grew year on year, partly due to the increased sales from the dispensing pharmacies within a drugstore which opened in the previous fiscal year.

The status of store openings and closures is as shown in the table below.

(Status of store openings and closures)

Store classification	Format classification	As of May 15, 2021	Openings	Closures	As of February 15, 2022
Drugstores	Drugstore format	171 stores	7 stores	2 stores	176 stores
	Inbound format	17 stores	-	3 stores	14 stores
Pharmacies	Near hospital pharmacies	10 stores	-	-	10 stores
Other stores	The Kurashi Store of Hokkaido	2 stores	-	-	2 stores
Total		200 stores	7 stores	5 stores	202 stores

As a result of the above, sales in the retail business segment amounted to 61,907 million yen (down 1.9%, or 1,172 million yen year on year), and segment profit amounted to 323 million yen (down 16.0%, or 61 million yen year on year).

#### <IT Solutions Business>

Based on the technology developed for our Group, we are engaged in the sale of POS applications and other products that aim to solve issues from the user's point of view.

Net sales in the IT Solutions business segment amounted to 121 million yen (up 284.2%, or 90 million yen year on year), and segment profit amounted to 37 million yen (a segment loss of 3 million yen in the same period of the previous fiscal year, an increase of 41 million yen year on year).

#### <Other Businesses>

Our Group is engaged in the regional marketing business that utilizes the Hokkaido common point card "EZOCA", payment service business and the operation of programming schools for elementary and junior high school students, and information provision services for domestic and overseas companies looking for solutions to issues on the theme of retail and communities. As of the end of February 2022, the number of members of "EZOCA," Hokkaido's common point card, which is our Group's strength, surpassed 2 million. In the payment service business, cashless payment targeted at inbound customers was sluggish due to the disappearance of inbound demand, but domestic cashless payment expanded due to increased needs for contactless payment for infection prevention.

Net sales in other business segment amounted to 771 million yen (up 57.1% or 280 million yen year on year), and segment profit amounted to 7 million yen (a segment loss of 34 million yen in the same period of the previous fiscal year, an increase of 42 million yen year on year).

## (2) Explanation of financial position

Total assets at the end of the third quarter of the current consolidated fiscal year were 39,513 million yen, an increase by 1,214 million yen from the end of the previous consolidated fiscal year. This was mainly due to increases of 144 million yen in merchandise, 1,281 million yen in property, plant and equipment, and 224 million in leasehold and guarantee deposits, despite a decrease of 637 million yen in accounts receivable-trade due to the last day of the previous consolidated fiscal year being a holiday for financial institutions.

Total liabilities were 30,705 million yen, an increase by 1,078 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 1,290 million yen in long-term borrowings (including current portion of long-term borrowings), while short-term borrowings increased by 3,700 million yen and accounts payable-trade decreased by 3,904 million yen, as the last day of the previous consolidated fiscal year was a holiday for financial institutions.

Total net assets were 8,808 million yen, an increase of 136 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 267 million yen in retained earnings due to quarterly net profit attributable to owners of parent, despite the decrease of 128 million yen due to dividend payments.

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

There are no changes to the forecast of consolidated financial results for the fiscal year ending May 15, 2022, from the forecast released on June 22, 2021.

## 2. Quarterly consolidated financial statements and notes

### (1) Quarterly consolidated balance sheet

(Millions of yen)

	As of May 15, 2021	As of February 15, 2022
<b>Assets</b>		
Current assets		
Cash and deposits	2,659	2,460
Accounts receivable-trade	2,768	2,130
Merchandise	10,407	10,552
Other	2,431	2,653
Total current assets	18,267	17,797
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,821	7,731
Land	4,013	3,869
Other, net	1,461	1,977
Total property, plant and equipment	12,296	13,577
Intangible assets	428	430
Investments and other assets		
Leasehold and guarantee deposits	5,958	6,183
Other	1,423	1,542
Allowance for doubtful accounts	△76	△18
Total investment and other assets	7,305	7,708
Total non-current assets	20,030	21,716
Deferred assets	1	-
Total assets	38,299	39,513

(Millions of yen)

	As of May 15, 2021	As of February 15, 2022
<b>Liabilities</b>		
Current liabilities		
Accounts payable-trade	11,634	7,729
Short-term borrowings	100	3,800
Current portion of long-term borrowings	375	806
Income taxes payable	227	17
Provision for bonuses	519	281
Other	3,760	3,649
<b>Total current liabilities</b>	<b>16,617</b>	<b>16,284</b>
Non-current liabilities		
Long-term borrowings	11,148	12,008
Retirement benefit liability	573	622
Asset retirement obligations	472	531
Other	814	1,258
<b>Total non-current liabilities</b>	<b>13,009</b>	<b>14,421</b>
<b>Total liabilities</b>	<b>29,627</b>	<b>30,705</b>
<b>Net assets</b>		
Shareholders' equity		
Share capital	1,000	1,000
Capital surplus	2,099	2,099
Retained earnings	5,873	6,011
Treasury shares	△306	△299
<b>Total shareholders' equity</b>	<b>8,666</b>	<b>8,812</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4	4
Foreign currency translation adjustment	△42	△65
Remeasurements of defined benefit plans	△5	△3
<b>Total accumulated other comprehensive income</b>	<b>△43</b>	<b>△64</b>
Share acquisition rights	4	4
Non-controlling interests	44	56
<b>Total net assets</b>	<b>8,672</b>	<b>8,808</b>
<b>Total liabilities and net assets</b>	<b>38,299</b>	<b>39,513</b>



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

Quarterly consolidated statement of income

Consolidated cumulative third quarter

(Millions of yen)

	Nine months ended February 15, 2021	Nine months ended February 15, 2022
Net sales	63,329	62,520
Cost of sales	48,017	47,731
Gross profit	15,311	14,789
Selling, general and administrative expenses	14,930	14,379
Operating profit	381	409
Non-operating income		
Interest and dividend income	14	14
Gain on donation of non-current assets	22	25
Foreign exchange gains	21	25
Other	67	46
Total non-operating income	126	112
Non-operating expenses		
Interest expenses	46	60
Other	10	4
Total non-operating expenses	56	64
Ordinary profit	450	457
Extraordinary income		
Gain on sales of non-current assets	733	41
Total extraordinary income	733	41
Extraordinary losses		
Loss on store closings	111	12
Loss on retirement of non-current assets	55	7
Impairment losses	123	-
Total extraordinary losses	291	19
Quarterly profit before income taxes	893	479
Total income taxes	435	199
Quarterly profit	457	279
Quarterly profit (loss) attributable to non-controlling interests	△0	11
Quarterly profit attributable to owners of parent	458	267

## Quarterly consolidated statement of comprehensive income

## Consolidated cumulative third quarter

(Millions of yen)

	Nine months ended February 15, 2021	Nine months ended February 15, 2022
Quarterly profit	457	279
Other comprehensive income		
Valuation difference on available-for-sale securities	1	△0
Foreign currency translation adjustment	△21	△23
Remeasurements of defined benefit plans	2	2
Total other comprehensive income	△16	△21
Quarterly comprehensive income	440	257
Comprehensive income attributable to:		
Comprehensive quarterly income attributable to owners of parent	441	245
Comprehensive quarterly income attributable to non-controlling interests	△0	11

### (3) Notes to quarterly consolidated financial statements

(Going concern assumption)

Not applicable.

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

No applicable items.

(Application of special accounting methods in the preparation of the quarterly consolidated financial statements)

(Calculation of income tax expense)

Income tax expense is calculated by making a reasonable estimate of the effective tax rate after the application of tax effect accounting to the profit before income taxes for the consolidated fiscal year, including the current third quarter consolidated accounting period, and multiplying the quarterly net profit before income taxes by the relevant estimated effective tax rate.

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020. Hereinafter, "Revenue Recognition Accounting Standard"), etc. has been applied by our Company from the beginning of the consolidated first quarter. Revenue is recognized at the point in time when control of the promised goods or services is transferred to the customer, in the amount estimated to be received in exchange for such goods or services. Traditionally, the amount equivalent to the points granted to customers at the time of sale of products based on the points program operated by other companies was treated as selling, general and administrative expenses. However, the method has been changed, and revenue is recognized on a net amount basis based on the judgment that such amount should be regarded as collected on behalf of third parties when calculating the transaction price.

The application of the Revenue Recognition Accounting Standard follows the transitional treatment stipulated in the provision of Paragraph 84 of the Revenue Recognition Accounting Standard. However, there is no impact on retained earnings at the beginning of the current consolidated first quarter.

As a result, net sales, gross profit, and selling, general and administrative expenses for the current consolidated cumulative third quarter decreased by 960 million yen, but there was no impact on operating profit, ordinary profit, and quarterly profit before income taxes. In accordance with the transitional treatment stipulated in Paragraph 28-15 of the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12, March 31, 2020), the results do not include information that dissects revenue from contracts with customers for the previous consolidated cumulative third quarter.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019. Hereinafter, "Fair Value Measurement Accounting Standard") has been applied from the beginning of the current consolidated first quarter, and the new accounting policies stipulated by the Fair Value Measurement Accounting Standard, etc. will be applied prospectively following transitional treatment based on paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). Note that there was no impact on the quarterly consolidated financial statements.

(Additional information)

(Accounting estimates concerning the impact of the spread of the COVID-19 infection)

There have been no major changes to the assumptions, including those regarding the future spread of the COVID-19 infection and the timing of its end, that were described in the Annual Securities Report (Significant Accounting Estimates) for the previous

consolidated fiscal year.

(Segment information)

**【Segment Information】**

I Previous consolidated cumulative third quarter (May 16, 2020 - February 15, 2021)

1. Information on the amount of net sales, profits or losses for each reportable segment.

(Millions of yen)

	Reportable Segment			Other (Note) 1	Total	Adjustments (Note)2	Amount shown in the quarterly consolidated statement of income (Note) 3
	Retail Business	IT Solutions Business	Total				
Net Sales							
External sales	63,059	26	63,085	244	63,329	—	63,329
Inter-segment sales and transfers	20	5	25	246	272	△272	—
Total	63,079	31	63,111	490	63,602	△272	63,329
Segment profit or loss	385	△3	381	△34	347	34	381

(Notes)

1. The “Other” category is a business segment that is not included in the reportable segments and includes the marketing business and the education business.
2. The adjustments include the elimination of reportable inter-segment profit and loss transactions and expenses related to the operation of the holding company.
3. Segment profit or loss is adjusted to be consistent with operating profit in the quarterly consolidated statement of income.

II Current consolidated cumulative third quarter (May 16, 2021 - February 15, 2022)

1. Information on net sales and profits or losses for each reportable segment, and information on revenue breakdown

(Millions of yen)

	Reportable Segment			Other (Note) 1	Total	Adjustments (Note)2	Amount shown in the quarterly consolidated statement of income (Note) 3
	Retail Business	IT Solutions Business	Total				
Net Sales							
Drugstore	57,865	—	57,865	—	57,865	—	57,865
Inbound	326	—	326	—	326	—	326
Pharmacies	2,804	—	2,804	—	2,804	—	2,804
Other	383	117	501	523	1,024	—	1,024
Revenue arising from contracts with customers	61,379	117	61,497	523	62,020	—	62,020
Other revenues	488	—	488	12	500	—	500
External sales	61,868	117	61,985	535	62,520	—	62,520
Inter-segment sales and transfers	39	4	43	235	279	△279	—
Total	61,907	121	62,029	771	62,800	△279	62,520
Segment profit	323	37	361	7	369	40	409

(Notes)

1. The “Other” category is a business segment that is not included in the reportable segments and includes the marketing business and the education business.
2. The adjustments include the elimination of reportable inter-segment profit and loss transactions and expenses related to the operation of the holding company.
3. Segment profit is adjusted to be consistent with operating profit in the quarterly consolidated statement of income.

2. Notes related to changes in reportable segments, etc.

As described in the changes in accounting policies, the Accounting Standard for Revenue Recognition, etc. has been applied from the beginning of the current consolidated first quarter, and since the accounting method for revenue recognition has been changed, the method for calculating business segment profit (loss) has been changed as well.

As a result of this change, net sales in the Retail Business segment for the current consolidated cumulative third quarter decreased by 960 million yen compared with the conventional method. There was no impact on segment profit.