



Consolidated Financial Results for the First Quarter of the Fiscal Year Ending May 2024 [Japanese GAAP]

September 20, 2023

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 Preparation of supplementary materials for quarterly financial results: No
 Holding of quarterly financial results explanation meeting: No

(Rounded down to the nearest million yen)

1. Consolidated financial results for the first quarter of the fiscal year ending May 2024 (May 16, 2023-August 15, 2023)

(1) Consolidated operating results (cumulative)

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

Three months ended	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	%
August 15, 2023	23,985	11.6	227	212.3	184	142.1	93	201.8
August 15, 2022	21,496	0.8	72	23.5	76	11.1	30	△ 12.0

(Note) Comprehensive income Three months ended August 15, 2023: 102 million yen (225.3%)
 Three months ended August 15, 2022: 31 million yen (△ 4.2%)

Three months ended	Quarterly net income per share	Diluted quarterly net income per share
	Yen	Yen
August 15, 2023	6.75	6.75
August 15, 2022	2.24	2.24

(2) Consolidated financial position

As of	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
August 15, 2023	44,247	8,802	19.6
May 15, 2023	43,027	8,834	20.3

(Note) Equity As of August 15, 2023: 8,692 million yen
 As of May 15, 2023: 8,726 million yen

2. Dividends

Fiscal year	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Ended May 15, 2023	-	0.00	-	10.00	10.00
Ending May 15, 2024	-				
Ending May 15, 2024 (forecast)		0.00	-	10.00	10.00

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

3. Consolidated Earnings Forecast for the Fiscal Year Ending May 2024 (May 16, 2023 - May 15, 2024)

(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	95,000	8.6	1,000	233.9	1,000	205.5	300	243.7	21.73

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

※ Notes

(1) Changes in significant subsidiaries during the current quarterly consolidated cumulative period (changes in the 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) Notes to quarterly consolidated financial statements

(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 : None

② Changes in accounting policies other than ① : None

③ Changes in accounting-based estimates : None

④ Restatements : None

(4) Number of shares outstanding (common shares)

① Number of shares outstanding as of the end of the period (including treasury shares)

② Number of treasury shares as of the end of the period

③ Average number of shares outstanding during the period (quarterly cumulative)

As of August 15, 2023	14,236,564 shares	As of May 15, 2023	14,236,564 shares
As of August 15, 2023	432,803 shares	As of May 15, 2023	432,803 shares
Three months ended August 15, 2023	13,803,761 shares	Three months ended August 15, 2022	13,793,253 shares

※ 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

In the first quarter of the current consolidated fiscal year (May 16, 2023 to August 15, 2023), the Japanese economy has continued to normalize due to the downgrading of COVID-19 to a Class 5 infectious disease; however, the future economic outlook remains uncertain due to such factors as the impact of rising prices due to energy and raw material price hikes.

In the drugstore industry, in which the Group mainly operates, the business environment surrounding the Group continues to be challenging due to intensifying competition across industry boundaries, competition to open new stores among existing companies, and oligopolistic consolidation through M&As.

In response to these circumstances, under the theme of "evolving into a regional integrated lifestyle group" in its medium-term management plan ending in May 2026, the Group is engaged in three growth strategies of "integrated lifestyle store strategy," "regional platform strategy," and "collaboration strategy" and organizational strategies, aiming to grow as a group while differentiating ourselves from our competitors by expanding our business domain from retail that only "sells goods" to the area of lifestyle services that provide "goods × services" while strengthening the earnings base of our core retail business.

In the integrated lifestyle store strategy, we expanded stores handling fresh foods, as part of our effort to expand stores with dispensing facilities and our line-robbing effort to expand product categories. We are also working to strengthen our earnings base by promoting a price strategy centered on Everyday Same Low Price (ESLP) and digital marketing with the Satudora app.

As for the regional platform strategy, the number of members of Hokkaido's common point card "EZOCA" surpassed 2.1 million as of the end of July 2023. The EZOCA ecosystem continues to grow, with the number of partner stores also expanding to 800 stores with 200 companies. The "Esashi EZOCA," which was launched as part of the initiatives based on a comprehensive cooperation agreement with Esashi Town, incorporates a system whereby a portion of the customer's purchase price is returned to the town with the aim of contributing to the revitalization of the local economy. Together with the town, we are also engaged in a MaaS demonstration experiment to improve transportation convenience to implement a revenue cycle model within society by utilizing and verifying data acquired from the Esashi EZOCA.

As part of our collaboration strategy, we have entered into a new partnership agreement with Yamato Transport Co., Ltd. to contribute to the sustainable development of the region and resolution of social issues by supporting the shopping environment in small commercial areas and streamlining logistics. As of August 2023, we have signed more than 40 different agreements with local governments, businesses, etc.

In terms of organizational strategy, we established a D&I Committee in order to create an environment in which diverse human resources can play an active role and also established a new Chief Human Resource Officer (CHRO) as we work to strengthen the creation and execution of human resource strategies that will help achieve our business strategies. 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, for which we were certified by the Ministry of Economy, Trade and Industry, and the Nippon Kenko Kaigi as a 2023 Certified Health & Productivity Management Outstanding Organization. We have also strengthened our governance structure and implemented the application of all principles of the Corporate Governance Code.

As a result of the above, consolidated net sales for the first quarter of the current fiscal year were 23,985 million yen (up 11.6%, or 2,489 million yen, year on year), operating profit was 227 million yen (up 212.3%, or 154 million yen, year on year), ordinary profit was 184 million yen (up 142.1%, or 108 million yen, year on year), and profit attributable to owners of parent was 93 million yen (up 201.8%, or 62 million yen, year on year).

An overview of the segment performance is as follows.

<Retail Business>

Our operations center on 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.

As for dispensing pharmacies, in addition to the operation of standalone pharmacies, we have also established them within drugstores.

On the drugstore format store sales front, we aim to promote a price strategy centered on ESLP in order to gain more customer support and to improve operational efficiency by leveling work operations, as well as expand product categories by strengthening line-robbing, including fresh foods. In addition, we are working to promote digital marketing with the Satudora app.

During the consolidated cumulative first quarter, while the number of items purchased per customer decreased in response to conservative spending due to price hikes, strong performance of summer item sales due to returning traffic and good weather as well as a net increase in the number of stores resulted in higher sales in the drugstore format compared to the same period last year.

In terms of the inbound format, closed stores were gradually reopened and were able to capture demand from foreign visitors to Japan, resulting in higher sales compared to the same period last year. As for dispensing pharmacies, increased revenue from newly opened dispensing pharmacies as well as increased premiums for the local support system and for the generics dispensing system led to higher sales compared to the same period last 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 May15, 2023	Openings	Closures	As of August 15, 2023
Drugstores	Drugstore format	176 stores	2 stores	-	178 stores
	(Dispensing pharmacies within drugstores)	(15 stores)	(-)	(-)	(15 stores)
	Inbound format	13 stores	-	2 stores	11 stores
Standalone pharmacies	Standalone pharmacies	10 stores	1 store	-	11 stores
Other stores	The Kurashi Store of Hokkaido	3 stores	-	1 store	2 stores
Total		202 stores	3 stores	3 stores	202 stores

As a result of the above, sales in the retail business segment amounted to 23,673 million yen (up 11.4%, or 2,416 million yen year on year), and segment profit amounted to 221 million yen (up 179.3%, or 142 million yen year on year).

<Other Businesses>

The Group is engaged in the regional marketing and payment service businesses utilizing the Hokkaido's common point card "EZOCA", development and sales of POS applications and other services aimed at solving issues from the user's perspective, operation of programming schools for elementary and junior high school students, and information provision services for domestic and overseas corporations, a CVC service to produce synergy between existing businesses as well as create new business, and more.

As of the end of July 2023, the number of members of "EZOCA," Hokkaido's common point card, which is our Group's strength, surpassed 2.1 million. In the payment service business, domestic cashless payment expanded due to the increased need for contactless payment.

Other Business segment sales amounted to 423 million yen (up 26.4%, or 88 million yen year on year) with segment profits of 2 million yen (a segment loss of 10 million yen in the same period of the previous fiscal year, an increase of 12 million yen year on year).

(2) Explanation of financial position

Total assets at the end of the first quarter of the current consolidated fiscal year were 44,247 million yen, an increase of 1,220 million yen from the end of the previous consolidated fiscal year. This was due mainly to increases of 850 million yen in cash and deposits, 193 million yen in accounts receivable-trade, and 294 million yen in property, plant and equipment, despite a decrease of 141 million yen in merchandise.

Total liabilities were 35,445 million yen, an increase of 1,252 million yen from the end of the previous consolidated fiscal year. This was mainly due to increases of 1,027 million yen in accounts payable-trade and 565 million yen in accounts payable-other

despite a decrease of 248 million yen in long-term borrowings.

Total net assets were 8,802 million yen, a decrease of 32 million yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 93 million yen in retained earnings due to quarterly net profit attributable to owners of parent, despite the decrease of 138 million yen in retained earnings 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, 2024 from the forecast released on June 21, 2023.

2. Quarterly consolidated financial statements and notes

(1) Quarterly consolidated balance sheet

(Millions of yen)

	As of May 15, 2023	As of August 15, 2023
Assets		
Current assets		
Cash and deposits	2,315	3,165
Accounts receivable-trade	2,632	2,825
Merchandise	10,852	10,711
Other	3,819	3,754
Total current assets	19,620	20,458
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	8,373	8,313
Land	3,972	4,004
Other, net	1,850	2,173
Total property, plant and equipment	14,197	14,491
Intangible assets	397	434
Investments and other assets		
Leasehold and guarantee deposits	6,512	6,500
Other	2,311	2,374
Allowance for doubtful accounts	△11	△11
Total investment and other assets	8,812	8,863
Total non-current assets	23,406	23,789
Total assets	43,027	44,247

(Millions of yen)

	As of May 15, 2023	As of August 15, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	8,531	9,558
Short-term borrowings	5,500	5,500
Current portion of long-term borrowings	994	994
Accounts payable - other	4,017	4,582
Income taxes payable	289	136
Provision for bonuses	592	454
Other	871	1,082
Total current liabilities	20,795	22,310
Non-current liabilities		
Long-term borrowings	10,740	10,491
Retirement benefit liability	689	706
Asset retirement obligations	729	730
Other	1,237	1,206
Total non-current liabilities	13,397	13,135
Total liabilities	34,192	35,445
Net assets		
Shareholders' equity		
Share capital	1,003	1,003
Capital surplus	2,098	2,102
Retained earnings	6,019	5,975
Treasury shares	△299	△299
Total shareholders' equity	8,822	8,782
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	△0	0
Deferred gains or losses on hedges	△35	△27
Foreign currency translation adjustment	△65	△65
Remeasurements of defined benefit plans	3	3
Total accumulated other comprehensive income	△96	△89
Share acquisition rights	4	4
Non-controlling interests	103	104
Total net assets	8,834	8,802
Total liabilities and net assets	43,027	44,247

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statement of income

Consolidated cumulative first quarter

(Millions of yen)

	Three months ended August 15, 2022	Three months ended August 15, 2023
Net sales	21,496	23,985
Cost of sales	16,327	18,263
Gross profit	5,168	5,721
Selling, general and administrative expenses	5,096	5,493
Operating profit	72	227
Non-operating income		
Interest and dividend income	5	5
Subsidy income	-	8
Gain on donation of non-current assets	-	2
Foreign exchange gains	5	0
Other	24	18
Total non-operating income	34	35
Non-operating expenses		
Interest expenses	30	36
Commission expenses	0	41
Other	0	1
Total non-operating expenses	31	78
Ordinary profit	76	184
Quarterly profit before income taxes	76	184
Total income taxes	45	89
Quarterly profit	30	94
Quarterly profit (loss) attributable to non-controlling interests	△0	1
Quarterly profit attributable to owners of parent	30	93

Quarterly consolidated statement of comprehensive income

Consolidated cumulative first quarter

(Millions of yen)

	Three months ended August 15, 2022	Three months ended August 15, 2023
Quarterly profit	30	94
Other comprehensive income		
Valuation difference on available-for-sale securities	△0	0
Deferred gains or losses on hedges	-	7
Foreign currency translation adjustment	0	△0
Remeasurements of defined benefit plans	0	△0
Total other comprehensive income	0	7
Quarterly comprehensive income	31	102
Comprehensive income attributable to:		
Comprehensive quarterly income attributable to owners of parent	31	100
Comprehensive quarterly income attributable to non-controlling interests	△0	1

(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 statement)

(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 first quarter consolidated accounting period, and multiplying the quarterly net profit before income taxes by the relevant estimated effective tax rate.

(Segment information)

【Segment Information】

I. Previous consolidated cumulative first quarter (May 16, 2022 - August 15, 2022)

Information on net sales and profits (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				
Net sales					
Drugstore	19,740	—	19,740	—	19,740
Inbound	137	—	137	—	137
Pharmacy	1,029	—	1,029	—	1,029
Other	150	243	393	—	393
Revenue arising from contracts with customers	21,058	243	21,301	—	21,301
Other revenues	185	9	194	—	194
External sales	21,243	252	21,496	—	21,496
Inter-segment sales and transfers	13	82	95	△95	—
Total	21,257	334	21,592	△95	21,496
Segment profit or loss	79	△10	68	3	72

(Notes)

1. The “Other” category is a business segment that is not included in the reportable segments and includes the IT Solutions business, the marketing business, the education business, etc.
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 first quarter (May 16, 2023 - August 15, 2023)

Information on net sales and profits 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				
Net sales					
Drugstore	20,934	—	20,934	—	20,934
Inbound	1,286	—	1,286	—	1,286
Pharmacy	1,057	—	1,057	—	1,057
Other	201	310	511	—	511
Revenue arising from contracts with customers	23,480	310	23,790	—	23,790
Other revenues	179	15	194	—	194
External sales	23,659	325	23,985	—	23,985
Inter-segment sales and transfers	13	97	111	△111	—
Total	23,673	423	24,096	△111	23,985
Segment profit	221	2	223	4	227

(Notes)

1. The “Other” category is a business segment that is not included in the reportable segments and includes the IT Solutions business, the marketing business, the education business, etc.
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.