



Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending May 15, 2021 [J-GAAP]

March 16, 2021

Name of listed company: TSURUHA Holdings, Inc.

Listed on: Tokyo Stock Exchange, 1st Section

Securities code: 3391

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Scheduled date of filing quarterly financial report: March 30, 2021

Scheduled date to start dividends distribution: —

Supplementary quarterly materials prepared: Yes

Quarterly results information meeting held: Yes (for institutional investors and financial analysts)

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated financial results for the third quarter ended February 15, 2021 (May 16, 2020 – February 15, 2021)

(1) Consolidated operating results

(Percentage figures show changes from the same period in the previous year.)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended February 15, 2021	683,914	9.3	39,710	8.7	39,337	5.2	22,556	(3.2)
Nine months ended February 15, 2020	625,608	6.7	36,528	15.7	37,405	14.5	23,303	19.8

Note: Comprehensive income: Nine months ended February 15, 2021: 26,105 million yen (-6.6%)
Nine months ended February 15, 2020: 27,957 million yen (70.9%)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Nine months ended February 15, 2021	465.31	463.35
Nine months ended February 15, 2020	481.87	480.24

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
As of February 15, 2021	468,706	272,961	53.3	5,151.21
As of May 15, 2020	414,002	250,934	56.4	4,821.26

Reference: Equity capital: As of February 15, 2021: 250,023 million yen As of May 15, 2020: 233,332 million yen

2. Dividends

	Annual Dividends (Yen)				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Annual
Year ended May 15, 2020	—	74.00	—	93.00	167.00
Year ended May 15, 2021	—	83.50			
Year ended May 15, 2021 (Forecast)			—	83.50	167.00

Note: Revisions to the most recently announced dividend forecast during the period: None

3. Consolidated financial forecasts for the year ending May 15, 2021 (May 16, 2020 – May 15, 2021)

(Percentage figures show changes from the same period in the previous year.)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	920,000	9.4	49,000	8.9	48,400	4.5	27,000	(3.2)	557.89

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

Notes

(1) Significant changes to subsidiaries during the period (transfers of specific subsidiaries with changes in the scope of consolidation): None

(2) Application of the specific accounting methods for preparing the quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates and restatement of revisions

1) Changes in accounting policies due to revision of accounting standard, etc.: None

2) Changes in accounting policies other than 1): Yes

3) Changes in accounting estimates: None

4) Restatement of revisions: None

(4) Number of shares issued and outstanding (common shares)

1) Number of shares issued and outstanding (including treasury shares)	As of February 15, 2021	49,423,368 shares	As of May 15, 2020	49,282,868 shares
2) Number of treasury shares	As of February 15, 2021	886,630 shares	As of May 15, 2020	886,255 shares
3) Average number of shares issued and outstanding in each period (quarterly consolidated cumulative period)	Nine months ended February 15, 2021	48,475,884 shares	Nine months ended February 15, 2020	48,360,734 shares

*** This financial results report is outside the scope of audit procedures conducted by certified public accountants or the independent auditor.***** Explanation of appropriate use of financial forecasts and other special items**

This document contains projections of performance based on information currently available. Please refer to page 2 of the supplementary materials for further details about the above financial forecasts.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Consolidated Financial Results

In the first nine months of the current fiscal year (May 16, 2020 to February 15, 2021), the Japanese economy witnessed a notable decline in consumer sentiment, largely reflecting the government's state of emergency in April due to the COVID-19 pandemic. Economic activity gradually regained momentum after the state of emergency was lifted, but subsequent waves of infection contributed to a very uncertain outlook due to the government's state of emergency issued for some areas again in January 2021.

In the drugstore sector, with competition to open stores and reduce prices continuing to intensify, the pace of consolidation and realignment grew more pronounced, including among major firms and listed companies.

Against this backdrop, the TSURUHA Group continued to offer a high level of customer service, mainly through advice-based sales, and worked to address the shrinking market caused by Japan's aging population and intensifying competition. Specifically, the Group pushed ahead with store renovations that included the introduction of meat and fresh produce, aimed at improving convenience for customers, while in private brands, the Group reinforced product development and sales structures and worked to renew and expand the private brand business by launching two new brands:— Kurashi Rhythm and Kurashi Rhythm Medical. Targeting improvements in the operational efficiency of stores, the Group also expanded the rollout of systems for staff allocation, inventory management and other functions in order to increase productivity. In terms of the impact of the COVID-19 pandemic, while there was a decline in inbound tourism demand, as well as lower demand particularly for cosmetics, demand for goods designed to prevent the spread of infection rose, as did demand for daily-use items, consumable goods and food, in line with stay-at-home requests following the state of emergency.

As for store openings, the Group targeted specific areas for multiple store openings as part of its area dominance store-opening strategy and implemented a scrap and build approach for existing stores. In the first nine months of the fiscal year under review, the Group opened 86 new stores and closed 55 existing stores. In addition, 207 stores were added to the Group after JR KYUSHU DRUG ELEVEN CO., LTD. became a subsidiary of TSURUHA Holdings, Inc. on May 28, 2020, resulting in a total of 2,388 directly managed stores as of the end of the third quarter.

TSURUHA Group: Store openings and closures (Number of stores)

	End of previous fiscal year	Openings	Acquisitions, etc.	Closures	Net change	End of current period	Of which dispensing pharmacies
Hokkaido	404	13	—	10	3	407	100
Tohoku	506	21	—	1	20	526	104
Kanto, Koshinetsu	473	22	3	10	15	488	167
Chubu, Kansai	233	11	—	13	(2)	231	119
Chugoku	300	8	2	3	7	307	98
Shikoku	211	8	—	6	2	213	57
Kyushu, Okinawa	23	3	202	12	193	216	24
Total for Japan	2,150	86	207	55	238	2,388	669

(The figure at the end of the current period excludes 22 overseas stores and four franchise stores.)

As a result of the above, in the first nine months of the current fiscal year, TSURUHA Holdings reported net sales of ¥683,914 million (up 9.3% year on year), operating income of ¥39,710 million (up 8.7%), ordinary income of ¥39,337 million (up 5.2%), and net income attributable to owners of the parent of ¥22,556 million (down 3.2%).

(2) Explanation of Consolidated Financial Position

As of the end of the third quarter, assets totaled ¥468,706 million, an increase of ¥54,703 million compared with the end of the previous fiscal year. This mainly reflects increases in merchandise related to new store openings and the purchase of shares of JR KYUSHU DRUG ELEVEN CO., LTD.

Liabilities totaled ¥195,744 million, an increase of ¥32,677 million compared with the end of the previous fiscal year. This mainly reflects the purchase of shares of JR KYUSHU DRUG ELEVEN CO., LTD.

Net assets totaled ¥272,961 million, an increase of ¥22,026 million compared with the end of the previous fiscal year.

As a result, the equity ratio was 53.3%, down 3.1 points from the previous fiscal year-end.

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

The full-year consolidated financial forecasts announced on December 15, 2020 are unchanged.

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheets**

(Millions of yen)

	As of May 15, 2020	As of February 15, 2021
Assets		
Current assets		
Cash and deposits	57,069	64,541
Accounts receivable – trade	31,180	34,899
Merchandise	108,163	125,011
Raw materials and supplies	48	130
Short-term loans receivable	2	2
Other	15,312	17,388
Total current assets	211,776	241,972
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	37,454	42,359
Machinery, equipment and vehicles, net	1	0
Tools, furniture and fixtures, net	10,681	12,180
Land	12,597	13,558
Leased assets, net	3,592	4,609
Construction in progress	2,483	3,861
Total property, plant and equipment	66,810	76,569
Intangible assets		
Goodwill	32,121	39,824
Software	423	689
Telephone subscription right	87	105
Other	624	676
Total intangible assets	33,258	41,295
Investments and other assets		
Investment securities	37,372	38,539
Long-term loans receivable	13	11
Deferred tax assets	5,175	5,559
Guarantee deposits	55,242	60,235
Other	4,420	4,586
Allowance for doubtful accounts	(67)	(63)
Total investments and other assets	102,157	108,868
Total non-current assets	202,225	226,733
Total assets	414,002	468,706

(Millions of yen)

	As of May 15, 2020	As of February 15, 2021
Liabilities		
Current liabilities		
Notes and accounts payable – trade	93,968	98,358
Current portion of long-term loans payable	1,903	7,500
Accounts payable – other	14,889	14,867
Lease obligations	517	540
Income taxes payable	8,897	7,400
Provision for bonuses	4,916	3,096
Provision for directors' bonuses	614	465
Provision for point card certificates	4,107	4,425
Other	6,459	6,320
Total current liabilities	136,274	142,975
Non-current liabilities		
Long-term loans payable	5,250	28,600
Lease obligations	3,945	4,949
Deferred tax liabilities	8,328	8,451
Net defined benefit liability	3,043	3,511
Asset retirement obligations	2,932	3,623
Other	3,292	3,632
Total non-current liabilities	26,793	52,768
Total liabilities	163,067	195,744
Net assets		
Shareholders' equity		
Capital stock	10,290	11,247
Capital surplus	28,342	29,300
Retained earnings	175,590	189,593
Treasury stock	(5,312)	(5,312)
Total shareholders' equity	208,911	224,828
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	24,554	25,280
Remeasurements of defined benefit plans	(132)	(86)
Total accumulated other comprehensive income	24,421	25,194
Subscription rights to shares	1,639	1,553
Non-controlling interests	15,962	21,385
Total net assets	250,934	272,961
Total liabilities and net assets	414,002	468,706

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

	(Millions of yen)	
	Nine months ended February 15, 2020	Nine months ended February 15, 2021
Net sales	625,608	683,914
Cost of sales	444,895	485,881
Gross profit	180,713	198,032
Selling, general and administrative expenses	144,185	158,322
Operating income	36,528	39,710
Non-operating income		
Interest income	98	101
Dividend income	185	193
Gain on donation of equipment	545	475
Rent income	159	167
Insurance income	9	47
Other	498	488
Total non-operating income	1,497	1,473
Non-operating expenses		
Interest expenses	465	472
Temporary store closure-related costs	—	451
Early withdrawal penalty	108	866
Other	45	55
Total non-operating expenses	619	1,846
Ordinary income	37,405	39,337
Extraordinary income		
Gain on sales of non-current assets	6	6
Gain on sales of investment securities	102	—
Gain on reversal of share acquisition rights	—	223
Total extraordinary income	108	230
Extraordinary losses		
Loss on retirement of non-current assets	149	74
Loss on sales of non-current assets	—	0
Impairment loss	—	275
Loss on disaster	—	38
Loss on sales of investment securities	74	—
Total extraordinary losses	223	388
Income before income taxes	37,291	39,178
Income taxes	12,038	13,906
Net income	25,252	25,272
Net income attributable to non-controlling interests	1,949	2,716
Net income attributable to owners of the parent	23,303	22,556

(Quarterly Consolidated Statements of Comprehensive Income)

	(Millions of yen)	
	Nine months ended February 15, 2020	Nine months ended February 15, 2021
Net income	25,252	25,272
Other comprehensive income		
Valuation difference on available-for-sale securities	2,661	783
Remeasurements of defined benefit plans	43	50
Total other comprehensive income	2,704	833
Comprehensive income	27,957	26,105
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	25,977	23,329
Comprehensive income attributable to non-controlling Interests	1,980	2,776

(3) Notes on Quarterly Consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

(Significant Changes in Shareholders' Equity)

Not applicable.

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

(Calculation of Tax Expenses)

Regarding tax expenses, the Company has reasonably estimated the effective tax rate on income before income taxes for the consolidated fiscal year (including the third quarter of the current fiscal year) after the application of tax-effect accounting, and applied the estimated effective tax rate to income before income taxes for the quarterly period to calculate tax expenses.

However, if the use of the estimated effective tax rate in the calculation of tax expenses produces clearly unreasonable results, the Company will calculate tax expenses using the statutory effective tax rate.

"Income taxes – deferred" are included under income taxes.

(Changes in Accounting Policies)

(Change in Calculation of Tax Expenses)

Previously, the Company calculated tax expenses for itself and its consolidated subsidiaries based on general methodology. However, in a move to further enhance quarterly account settlement efficiency for the Company and its consolidated subsidiaries, from the first quarter of the current fiscal year, the Company has changed the method for calculation of tax expenses. Now, the Company has reasonably estimated the effective tax rate on income before income taxes for the consolidated fiscal year (including the third quarter of the current fiscal year) after the application of tax-effect accounting, and applied the estimated effective tax rate to income before income taxes for the quarterly period to calculate tax expenses.

This change has a negligible effect; thus, it has not been applied retroactively to prior-year figures.