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Consolidated Financial Results for the Fiscal Year Ended March 31, 2020 <under Japanese GAAP>

May 13, 2020

Company name: **Matsumotokiyoshi Holdings Co., Ltd.**
 Listing: Tokyo Stock Exchange
 Securities code: 3088
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 Scheduled date of ordinary general meeting of shareholders: June 26, 2020
 Scheduled date to commence dividend payments: June 29, 2020
 Scheduled date to file Securities Report: June 26, 2020
 Preparation of supplementary material on financial result: Yes
 Holding of financial results presentation meeting: None

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020)

(1) Consolidated operating results (Percentages indicate year-on-year changes.)

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2020	590,593	2.5	37,563	4.3	39,985	2.6	26,176	4.6
March 31, 2019	575,991	3.1	36,028	7.3	38,978	7.9	25,035	10.0

Note: Comprehensive income Fiscal year ended March 31, 2020 ¥27,169 million [10.0%]
 Fiscal year ended March 31, 2019 ¥24,709 million [(5.3%)]

Fiscal year ended	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
	Yen	Yen	%	%	%
March 31, 2020	255.04	254.94	11.9	11.9	6.4
March 31, 2019	239.42	239.33	12.1	12.3	6.3

Reference: Equity in earnings of affiliates

Fiscal year ended March 31, 2020 ¥- million
 Fiscal year ended March 31, 2019 ¥- million

(2) Consolidated financial position

As of	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Fiscal year ended March 31, 2020	351,809	229,304	65.2	2,233.54
Fiscal year ended March 31, 2019	318,324	209,269	65.7	2,038.76

Reference: Equity Fiscal year ended March 31, 2020 ¥229,261 million
 Fiscal year ended March 31, 2019 ¥209,226 million

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2020	24,764	(48,840)	9,089	28,363
March 31, 2019	21,897	(7,872)	(22,290)	43,349

2. Cash dividends

	Annual cash dividends per share					Total dividend amount	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen			
Fiscal year ended March 31, 2019	–	30.00	–	35.00	65.00	6,775	27.1	3.3
Fiscal year ended March 31, 2020	–	35.00	–	35.00	70.00	7,194	27.4	3.3
Fiscal year ending March 31, 2021 (forecast)	–	35.00	–	35.00	70.00		34.2	

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2021 (from April 1, 2020 to March 31, 2021)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending September 30, 2021	265,000	(11.8)	9,500	(48.4)	10,000	(49.1)	6,500	(49.8)	63.33
Fiscal year ending March 31, 2021	570,000	(3.5)	30,500	(18.8)	33,000	(17.5)	21,000	(19.8)	204.60

Note: The earnings forecasts shown above are based on the assumption that the effect of the spread of the novel coronavirus disease (COVID-19) will continue through the first half of the fiscal year and are subject to change depending on when it will come to an end. If any developments that should be disclosed arise in the future, for example, in a situation where the effect of COVID-19 continues longer or gets worse than expected, they will be promptly disclosed.

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Changes in accounting policies, changes in accounting estimates, and restatement
 - a. Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - b. Changes in accounting policies due to other reasons: None
 - c. Changes in accounting estimates: None
 - d. Restatement: None
- (3) Number of issued shares (common shares)

- a. Total number of issued shares at the end of the period (including treasury shares)

As of March 31, 2020	109,272,214 shares
As of March 31, 2019	109,272,214 shares

- b. Number of treasury shares at the end of the period

As of March 31, 2020	6,627,096 shares
As of March 31, 2019	6,648,168 shares

- c. Average number of shares during the period

Fiscal year ended March 31, 2020	102,637,028 shares
Fiscal year ended March 31, 2019	104,567,766 shares

Note: The number of treasury shares at the end of each period includes shares of the Company held by the BIP (Board Incentive Plan) Trust Account and the Share Grant ESOP (Employee Stock Ownership Plan) Trust Account (127,754 shares as of March 31, 2020 and 146,660 shares as of March 31, 2019). The shares of the Company held by the BIP (Board Incentive Plan) Trust Account and the Share Grant ESOP (Employee Stock Ownership Plan) Trust Account are included in the number of treasury shares deducted in the calculation of average number of shares during each period.

* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters
(*Caution regarding forward-looking statements and others*)

The earnings forecasts shown above are prepared based on the information available to us as of the date of this release. Actual results may be different from these forecasts due to various factors. For the assumptions related matters concerning the earnings forecasts, please refer to page 6 of the attachment.

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1. Overview of Operating Results and Others

(1) Overview of operating results for the fiscal year under review

During the fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020), the Japanese economy showed indications of improvement according to various economic indicators. However, uncertainty lingered due to concerns over changes in stock prices all over the world on the back of trade friction, trends of oil prices and exchange rates, and changes in corporate earnings and consumer sentiment resulting from the external factors mentioned above, and the consumption environment remained unfavorable. Furthermore, since late January 2020, the spread of the novel coronavirus disease (COVID-19), which was confirmed as a pandemic by the World Health Organization (WHO), has affected many corporate activities and consumption trends, and anxiety about the stagnation of economic activities caused by the lingering pandemic has been spreading.

The drugstore industry continues to face a challenging business environment, with new store openings by competitors across industries and business lines. This is also due to entrance into new areas aimed for commercial area expansion, expansion of scale through M&A, an increasingly homogeneous competition between different industries, as well as the narrowing of the commercial area of individual stores caused by all of these factors.

In such an environment, the Group delivered satisfactory results with respect to the medium-term strategic themes we had worked on until the previous fiscal year. We have therefore set, on a rolling basis, and worked on the following new three strategic themes: “Contributing to Local Communities in the Health and Beauty Fields with Expertise and Originality,” “Creation of New Businesses Without Being Confined by Existing Frameworks,” and “Advancement of Group Management to Enhance Corporate Value.” At the same time, the Group has actively promoted measures to expand the Group’s share in the future. For example, aiming to survive the competition among drugstores in Japan by gaining a dominant presence in the health & beauty area, the Company entered into a Memorandum of Understanding and a capital and business alliance agreement on business integration with cocokara fine Inc.

More specifically, we promoted coordination with local healthcare facilities at the 34 stores (10 store increase from the end of the previous fiscal year) that are designated as “Health-Support Pharmacies” by the Ministry of Health, Labour and Welfare. We also started nation-wide offering of contracts for the Community Pharmacy Support Program, which had previously been offered only in certain areas. At the same time, we pushed forward with near-distance store openings in major cities aimed for area share expansion and the expansion into new locations to capture inbound demand, together with the expansion of tax-free stores among existing stores (1,095 stores including new stores (166 store increase from the end of the previous fiscal year)). By utilizing various data obtained from these stores, the Group has been able to offer an optimal product line-up that suits the location and environment of each store.

The Group also strove to expand the private brand product lineup. For example, taking global business expansion into consideration, we launched “matsukiyo facial mask (moisturizing/resilient and elastic type),” a skin care mask product developed from a new perspective. Also, as part of a new series in a product line developed under the supervision of our registered dietitians, we launched three new “matsukiyo LAB Foods with Function Claims supplement” products focusing on modern health concerns, and “medical treatment products for athletes” from the popular athlete lineup. We also established a new product brand, “Replica Notes,” launching a fabric softener and fabric refresher as starters. We have been progressively adopting English descriptions on packages of pharmaceuticals to cater to the rapidly growing needs of foreign travelers visiting Japan, whose number has tripled in five years. We also added a new color to the ARGELAN Colour Lip Stick product line, which was a huge hit during the limited run last year. We thus launched the products in three colors in an effort to make them a go-to product for customers. We also established a joint private brand development project with Kindai University in a new initiative of industrial-academia collaboration.

As for products planned jointly with national brand manufacturers, we have started to sell, new products that are distributed exclusively through the Group stores. These are the moisturizer-based clear finish foundation under the “Integrate Flat Skin Maker N” and “Integrate Fast Skin Maker N” brands of Shiseido Company, Limited (limited-quantity products); “DEW JELLY LOTION MARINE FLORAL” under an aging care brand of Kanebo Cosmetics Inc. (limited-quantity products), as well

as “ROHTO Lycee RICH PREMIUM” under the “ROHTO Lycee” eye drops brand of ROHTO Pharmaceutical Co., Ltd. a new product targeting working female consumers with serious eye fatigue.

As part of our ongoing efforts, we worked to improve management efficiency based on KPI (key performance indicators of the Group) management and to promote performance improvements at each business company. The Group also strove to increase the number of customer contact points (point card members, LINE friends, downloads of official apps, and SNS followers from overseas), which are among the strengths of the Group, and the total number of such points reached over 69.5 million.

As new initiatives, we promoted the transition to cashless payment methods by making available the use of the “PayPay” smartphone payment service at about 1,600 Group stores (with some exception) all over Japan effective June 8, 2019. Since June 11, 2019, about 1,700 Group stores in Japan and overseas have started to appear in the “Pokémon GO” game as PokéStops and Gyms. These are some examples of our new efforts to expand services and promote visit to our stores, aimed to attract new customers as well as existing customers.

Regarding overseas businesses, the network of cross-border electronic commerce stores in China continued to grow steadily. Matsumotokiyoshi stores in Thailand have been in business for four years now, and we have worked on scrap and build, bringing the total to 31 stores. The Group has opened the ninth store in Taiwan. We have also been preparing for opening the first store in Vietnam, establishing “Matsumoto Kiyoshi Vietnam Joint Stock Company” with Lotus Food Group, and have announced a plan to enter into Hong Kong as the next area of the business expansion. In this manner, the Group is striving to capture not only inbound demand in Japan, but also foreign customer demand in their home countries.

New store openings include “Obiyamachi Store,” the first store in Kochi Prefecture, near-distance openings of “Shinjuku Dori Store” and “Shinjuku Yasukuni Dori Store” to expand share in the Shinjuku area. We also opened new stores “Hakata Sumiyoshi Store” and “Hakata Station Chikushi Exit Store” to expand share in the Hakata area in Fukuoka Prefecture and “Shibuya Spain Zaka Store” with the aim of expanding share in the Shibuya area. We opened the “Narita International Airport Terminal 2 3F Store” and “Narita International Airport Terminal 2 B1F Store” as international airport terminal franchise stores and the “Central Japan International Airport Terminal 2 Store” as a directly-operated store, as well as the “APA HOTEL & RESORTS TOKYO BAY MAKUHARI Store” as a store inside a hotel. In total, the Group opened 95 new stores on the strength of its knowhow to open stores in a variety of formats.

In addition, the Group is proceeding steadily with revenue structure reform, for example, by carrying out a renovation of 48 stores for the purpose of revitalizing existing stores, and closing 32 stores for the expiry of contracts and unprofitable operations. The renovated stores include “Ikebukuro Part 2 Store” as an “urban-type store of the ever evolving.” As a result, the number of Group stores at the end of the fiscal year ended March 31, 2020 was 1,717.

(* The total number of Group stores above does not include 31 stores managed by Central & Matsumotokiyoshi Ltd. in Thailand and 9 stores managed by Matsumotokiyoshi (Taiwan) Limited in Taiwan.)

Social contribution activities that the Group focuses on included projects to support people who want to stay healthy and beautiful, such as the 27th and 28th Self-medication Forums held on April 18, 2019 and October 16, 2019, respectively, under the theme of “Learn Ways to Improve Oneself from Health and Beauty Experts to Start Today” and attended by a large number of customers.

As for ESG activities, an internal project worked on changing our uniform by actively collecting idea and requests from store employees, mainly focusing on the store’s cosmetics salespeople. As a result, the uniform of our cosmetics salespeople was changed for the first time in 11 years to one that is superior in terms of design and functionality. Going forward, the Group will continue the effort to be a corporate group in which women can feel rewarded at work and actively participate.

As a result of these initiatives, the Company was rated No. 1 as a Japanese drugstore brand in 2020 by Interbrand, the largest branding specialist company in the world, ranking 81st in Interbrand’s “Best Japan Brands 2020” ranking, which is based on the assessment of brand value of Japanese brands that are promoted globally.



We were also certified as an Excellent Health Management Company 2020 (large corporation section) by the Ministry of Economy, Trade and Industry in recognition of our various efforts in the field of health management.



As a result, the Group achieved record sales and profits as follows: net sales were ¥590,593 million (up 2.5% year on year), operating profit was ¥37,563 million (up 4.3% year on year), ordinary profit was ¥39,985 million (up 2.6% year on year), and profit attributable to owners of parent was ¥26,176 million (up 4.6% year on year).

Operating results by segment were as follows:

<Retail business>

The first quarter suffered from unfavorable weather conditions from the start. Temperature was generally low and rainfall during the rainy season was higher than the previous year's relatively short rainy season, which resulted in shorter daylight hours, making it very challenging for the performances of spring-summer season products.

During the longer-than-usual Golden Week holidays in April-May, sightseeing demand and the use of major facilities in Japan increased, and cost for travel increased significantly as a result. In this situation, foreign travelers avoided visits to Japan during that time, to some extent affecting our sales to inbound tourists, which had been on steady increase.

The second quarter also had unfavorable weather conditions, and with the rainy season a month longer than the previous year, seasonal products struggled during the period, except for early to mid-August. However, we managed to enjoy increasing demand prior to the consumption tax rise in October. While natural disasters in the last year had a negative impact, sales to inbound tourists grew steadily.

The third quarter suffered from reaction to the last-minute demand prior to the consumption tax rise in October. As many stores, mainly in the Kanto area, had to suspend operations before and after the attack of a large-scale typhoon, autumn season products remained in a severe situation, partly due to generally high temperature. Meanwhile, in November and December, sales to inbound tourists and others expanded smoothly thanks to the strengthening of private brand products and the success of other initiatives, despite the remaining impact of the consumption tax rise to some extent.

In the fourth quarter, winter seasonal products struggled due to the relatively warm weather. Since late January this year, special procurement demand has arisen for masks, disinfectants, daily necessities, food, etc., due to the effect of COVID-19, particularly at suburban stores. On the other hand, demand for cosmetics products dropped significantly mainly due to the need for wearing a mask and staying at home to prevent the spread of COVID-19. Sales to inbound tourists also decreased significantly because of stricter immigration restrictions after WHO announced COVID19 outbreak a pandemic.

The prescription business grew steadily as prescription drug sales increased due to various measures. For example, we prioritized the opening of stores that were expected to be highly profitable including the opening of a pharmacy space inside existing drugstores. Other measures included securing technical support fees and deepening tie-ups with local medical care as Health Support Pharmacy.

In such an environment, the Retail business steadily improved due to new store openings and other measures we have taken, including the revitalization of existing stores by renovation, raising the share

of private brand products in total sales, efficient and effective implementation of sales promotion measures, and management efficiency improvements by KPI-based management.

<Wholesale business>

In the wholesale business, the performance of seasonal products faced challenging conditions as in the retail business. However, the wholesale business grew steadily mainly due to capturing the last-minute demand before consumption tax hike, new store openings by companies under new and existing franchise agreements including the two stores opened at Narita International Airport Terminal 2, the capture of inbound demand, and an increase in the number of companies that have concluded a contract for the Community Pharmacy Support Program.

As a result, net sales in the retail business segment were ¥567,820 million (up 2.4% year on year), net sales in the wholesale business segment were ¥19,486 million (up 6.6% year on year), and net sales in the management support business segment were ¥3,286 million (up 4.4% year on year).

(2) Overview of financial position for the fiscal year under review

(Assets)

Total assets as of the end of the fiscal year ended March 31, 2020 increased by ¥33,484 million from the end of the previous fiscal year to ¥351,809 million. This was mainly due to a decrease of ¥14,985 million in cash and deposits, an increase of ¥41,653 million in investment securities, an increase of ¥5,070 million in merchandise, and an increase of ¥2,303 million in accounts receivable - other.

(Liabilities)

Liabilities increased by ¥13,449 million to ¥122,504 million. This was mainly due to a decrease of ¥6,653 million in accounts payable - trade and an increase of ¥18,400 million in long-term borrowings.

(Net assets)

Net assets increased by ¥20,035 million to ¥229,304 million. This was mainly due to an increase of ¥18,982 million in retained earnings.

(3) Overview of cash flows for the fiscal year under review

Cash and cash equivalents at the end of the fiscal year ended March 31, 2020 decreased by ¥14,985 million from the end of the previous fiscal year to ¥28,363 million.

The respective cash flow positions and the factors thereof in the fiscal year under review are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥24,764 million (¥21,897 million was provided in the previous fiscal year). This was mainly attributable to the recognition of profit before income taxes of ¥39,078 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥48,840 million (¥7,872 million was used in the previous fiscal year). This was mainly attributable to the purchase of shares of subsidiaries and associates of ¥39,173 million.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥9,089 million (¥22,290 million was used in the previous fiscal year). This was mainly attributable to proceeds from borrowings of ¥18,400 million.

(Capital resources and funding liquidity)

The Group mainly uses funds generated by operating activities to capital expenditures related to the opening of new stores.

(4) Future outlook

The outlook for the next fiscal year is expected to reflect a significant impact of the COVID-19 pandemic on the global economy, personal consumption, and corporate activities. The outlook is

expected to remain uncertain as there are also many other factors that can impact future corporate earnings, including oil prices, changes in exchange rates, status of stock prices, and geopolitical risks.

In such an environment, under the medium-term management strategies that we have formulated on a rolling basis, we have set and will work on “further advancement of digitalization,” “further advancement of globalization,” and “expansion of business scale in specialized areas” as three key strategic themes.

Through the capital and business alliance agreement on business integration with cocokara fine Inc., the Group will strive to achieve early realization and maximization of synergy and the expansion of our share by actively promoting, for example, mutual supply of PB products and the integration of purchases.

In consideration of the current situation mentioned above, net sales to decrease 3.5% year-on-year to ¥570.0 billion, operating profit to decrease 18.8% year-on-year to ¥30.5 billion, ordinary profit to decrease 17.5% year-on-year to ¥33.0 billion, and profit to decrease 19.8% year-on-year to ¥21.0 billion.

The earnings forecasts shown above are based on the assumption that the effect of the spread of COVID-19 will continue through the first half of the fiscal year and are subject to change depending on when it will come to an end.

If any developments that should be disclosed arise in the future, they will be promptly disclosed.

2. Management policies

(1) Basic management policy of the Company

The Group's management philosophy is "1st for you." Based on this motto, we have adopted the following basic management policy:

- Our company strives to ensure that everyone connected with our Group can enjoy beauty, health, and abundant lifestyles for as long as they like.
- Our company promotes self-medication to support the coming ageing society, and intends to serve as the local "family pharmacy" to help guard the health of our customers and their loved ones.
- Our company aims to become a corporate group essential in the fields of health and beauty through always creating new values and providing sincere services in these fields.
- Our company aims to become a corporate group trusted and supported by all its stakeholders, so shall continue to work unceasingly, constantly tackle challenges, and grow to achieve this.

(2) Performance targets

The Group aims to become a "corporate group indispensable to the health and beauty fields" and ultimately become "Asia's No. 1 health and beauty company."

As new management goals to be achieved in the meantime, we target to achieve group sales of ¥1,200 billion, an operating profit margin of 6.5% or higher, and a ROE of 10% or higher by the fiscal year ending March 31, 2024.

(3) Medium- to long-term corporate management strategies and issues to address

Aiming to become a "corporate group indispensable to the health and beauty fields" and ultimately become "Asia's No. 1 health and beauty company," the Group has set and will work on "further advancement of digitalization," "further advancement of globalization," and "expansion of business scale in specialized areas" as three key strategic themes.

The issues that the Group needs to address are as follows:

(i) Further advancement of digitalization

The Group focuses on strengthening our digital marketing infrastructure so that we can accurately understand changes in the lifestyles of customers and their preference and needs and close the distance to and deepen ties with each customer by leveraging the rapidly advancing IT technologies. As a result, we are working to create new pillars of revenue by, for example, developing unique products and providing brand marketing support for our manufacturing customers using the strong analytical capability that leverages the contact points with our over 69.5 million customers. By promoting further advancement of the technologies and knowhow that we have developed, we will strive to achieve revenue growth and the enhancement of corporate value.

(ii) Further advancement of globalization

The Group will aim to early establish a franchise in Asia where the consciousness of health and beauty is rising. To this end, the Group will create a mechanism to support the expansion of the overseas store network particularly in Asia, such as coupon distribution using overseas SNS and cashless payment services, as well as the expansion of global membership and make the most of the knowhow accumulated through our active efforts to develop and provide products that become popular overseas.

(iii) Expansion of business scale in specialized areas

In an increasingly competitive environment, the Group will not only strengthen M&A activities, franchise business, and business partnerships that leverages our unique structure and strengths, but also work to establish next growth drivers as soon as possible by mainly focusing on the promotion of area dominance in the three largest metropolitan areas and the expansion of the next-generation healthcare and prescription business.

3. Basic approach to the selection of accounting standards

The Group plans, for the time being, to continue to prepare its consolidated financial statements in accordance with Japanese accounting standards in consideration of comparability of the consolidated financial statements over periods and with those of other companies.

The Group also intends to respond appropriately to the application of the International Financial Reporting Standards (IFRS) in the future in consideration of the relevant domestic and international trends.

4. Consolidated Financial Statements and Significant Notes Thereto**(1) Consolidated balance sheet**

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	43,353	28,368
Notes and accounts receivable - trade	23,472	23,479
Merchandise	76,160	81,231
Supplies	663	673
Accounts receivable - other	17,249	19,553
Other	8,049	6,750
Allowance for doubtful accounts	(7)	(29)
Total current assets	168,942	160,027
Non-current assets		
Property, plant and equipment		
Buildings and structures	62,445	64,826
Accumulated depreciation	(38,370)	(39,804)
Buildings and structures, net	24,074	25,021
Land	40,156	40,073
Leased assets	15,202	16,697
Accumulated depreciation	(9,747)	(11,213)
Leased assets, net	5,454	5,483
Construction in progress	213	140
Other	13,177	14,071
Accumulated depreciation	(9,715)	(10,695)
Other, net	3,461	3,376
Total property, plant and equipment	73,360	74,095
Intangible assets		
Goodwill	5,756	4,870
Other	4,146	4,532
Total intangible assets	9,903	9,403
Investments and other assets		
Investment securities	21,691	63,345
Deferred tax assets	5,361	5,370
Leasehold and guarantee deposits	37,337	37,858
Other	1,801	1,782
Allowance for doubtful accounts	(74)	(72)
Total investments and other assets	66,118	108,283
Total non-current assets	149,382	191,782
Total assets	318,324	351,809

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	64,119	57,466
Lease obligations	1,888	2,004
Income taxes payable	7,406	7,385
Provision for bonuses	3,723	3,871
Provision for point card certificates	2,783	2,531
Asset retirement obligations	4	13
Other	11,902	12,929
Total current liabilities	91,828	86,202
Non-current liabilities		
long-term borrowings	—	18,400
Lease obligations	3,905	3,776
Deferred tax liabilities	2,680	3,212
Provision for share-based remuneration	134	134
Provision for share-based remuneration for directors (and other officers)	39	39
Retirement benefit liability	234	255
Asset retirement obligations	7,201	7,518
Other	3,029	2,963
Total non-current liabilities	17,226	36,301
Total liabilities	109,054	122,504
Net assets		
Shareholders' equity		
Share capital	22,051	22,051
Capital surplus	22,994	22,996
Retained earnings	177,270	196,253
Treasury shares	(20,765)	(20,707)
Total shareholders' equity	201,551	220,593
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,674	8,667
Total accumulated other comprehensive income	7,674	8,667
Share acquisition rights	43	43
Total net assets	209,269	229,304
Total liabilities and net assets	318,324	351,809

(2) Consolidated statement of income and consolidated statement of comprehensive income
(Consolidated statement of income)

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Net sales	575,991	590,593
Cost of sales	396,509	401,154
Gross profit	179,482	189,438
Selling, general and administrative expenses		
Advertising expenses	1,388	1,788
Provision for point card certificates	167	—
Salaries and allowances	48,925	50,720
Provision for bonuses	3,723	3,871
Retirement benefit expenses	1,012	1,065
Depreciation	7,301	7,499
Rent expenses on land and buildings	34,226	36,483
Amortization of goodwill	932	904
Other	45,776	49,541
Total selling, general and administrative expenses	143,453	151,875
Operating profit	36,028	37,563
Non-operating income		
Interest income	116	103
Dividend income	338	361
Gain on donation of non-current assets	708	510
Order handling commission	1,035	1,087
Other	814	459
Total non-operating income	3,014	2,522
Non-operating expenses		
Interest expenses	17	18
Foreign exchange losses	9	5
Provision of allowance for doubtful accounts	—	10
Commission expenses	9	34
Cash over and short	13	15
Other	13	15
Total non-operating expenses	64	100
Ordinary profit	38,978	39,985
Extraordinary income		
Gain on sales of non-current assets	16	7
Gain on sales of investment securities	48	7
Insurance claim income	—	177
Total extraordinary income	65	191
Extraordinary losses		
Loss on retirement of non-current assets	331	220
Loss on store closings	87	86
Impairment loss	1,169	490
loss on disaster	—	108
Loss on valuation of shares of subsidiaries and associates	—	163
Other	85	28
Total extraordinary losses	1,674	1,098
Profit before income taxes	37,369	39,078
Income taxes - current	12,591	12,802
Income taxes - deferred	(257)	100
Total income taxes	12,333	12,902
Profit	25,035	26,176
Profit attributable to owners of parent	25,035	26,176

(Consolidated statement of comprehensive income)

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Profit	25,035	26,176
Other comprehensive income		
Valuation difference on available-for-sale securities	(325)	993
Total other comprehensive income	(325)	993
Comprehensive income	24,709	27,169
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	24,709	27,169
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated statement of changes in equity

Fiscal year ended March 31, 2019

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	22,051	23,024	158,593	(6,856)	196,813
Changes in items during period					
Dividends of surplus			(6,358)		(6,358)
Profit attributable to owners of parent			25,035		25,035
Purchase of treasury shares				(13,972)	(13,972)
Disposal of treasury shares		(29)		63	33
Net changes in items other than shareholders' equity					
Total changes in items during period	—	(29)	18,677	(13,909)	4,738
Balance at end of period	22,051	22,994	177,270	(20,765)	201,551

	Accumulated other comprehensive income		Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income		
Balance at beginning of period	8,000	8,000	57	204,871
Changes in items during period				
Dividends of surplus				(6,358)
Profit attributable to owners of parent				25,035
Purchase of treasury shares				(13,972)
Disposal of treasury shares				33
Net changes in items other than shareholders' equity	(325)	(325)	(14)	(340)
Total changes in items during period	(325)	(325)	(14)	4,398
Balance at end of period	7,674	7,674	43	209,269

Fiscal year ended March 31, 2020

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	22,051	22,994	177,270	(20,765)	201,551
Changes in items during period					
Dividends of surplus			(7,193)		(7,193)
Profit attributable to owners of parent			26,176		26,176
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		2		57	59
Net changes in items other than shareholders' equity					
Total changes in items during period	—	2	18,982	57	19,042
Balance at end of period	22,051	22,996	196,253	(20,707)	220,593

	Accumulated other comprehensive income		Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income		
Balance at beginning of period	7,674	7,674	43	209,269
Changes in items during period				
Dividends of surplus				(7,193)
Profit attributable to owners of parent				26,176
Purchase of treasury shares				(0)
Disposal of treasury shares				59
Net changes in items other than shareholders' equity	993	993		993
Total changes in items during period	993	993	—	20,035
Balance at end of period	8,667	8,667	43	229,304

(4) Consolidated statement of cash flows

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from operating activities		
Profit before income taxes	37,369	39,078
Depreciation	7,301	7,499
Impairment loss	1,169	490
Amortization of goodwill	932	904
Increase (decrease) in provision for bonuses	169	148
Increase (decrease) in allowance for doubtful accounts	(73)	21
Increase (decrease) in provision for point card certificates	167	(252)
Increase (decrease) in retirement benefit liability	13	21
Interest and dividend income	(455)	(464)
Interest expenses	17	18
Loss (gain) on sales of non-current assets	65	19
Loss on retirement of non-current assets	331	220
Decrease (increase) in trade receivables	(2,567)	(7)
Decrease (increase) in inventories	(6,461)	(5,080)
Decrease (increase) in accounts receivable - other	(903)	(1,423)
Increase (decrease) in trade payables	(1,492)	(6,653)
Increase (decrease) in accounts payable - other	(140)	805
Amount of lease and guarantee deposits offset against rent	1,255	1,193
Other	(1,431)	1,400
Subtotal	<u>35,267</u>	<u>37,941</u>
Interest and dividends received	341	364
Interest paid	(17)	(22)
Income tax paid	(15,989)	(16,098)
Income taxes refund	2,295	2,579
Net cash provided by (used in) operating activities	<u>21,897</u>	<u>24,764</u>
Cash flows from investing activities		
Purchase of shares of subsidiaries and associates	—	(39,173)
Purchase of property, plant and equipment	(4,598)	(4,521)
Purchase of intangible assets	(950)	(1,708)
Payments of leasehold and guarantee deposits	(2,364)	(2,108)
Proceeds from refund of leasehold and guarantee deposits	373	410
Purchase of investment securities	(0)	(1,034)
Proceeds from sales of investment securities	161	41
Other	(493)	(745)
Net cash provided by (used in) investing activities	<u>(7,872)</u>	<u>(48,840)</u>
Cash flows from financing activities		
Proceeds from long-term borrowings	—	18,400
Repayments of lease obligations	(1,980)	(2,149)
Purchase of treasury shares	(13,972)	(0)
Dividends paid	(6,356)	(7,192)
Other	19	32
Net cash provided by (used in) financing activities	<u>(22,290)</u>	<u>9,089</u>
Net increase (decrease) in cash and cash equivalents	<u>(8,264)</u>	<u>(14,985)</u>
Cash and cash equivalents at beginning of period	<u>51,613</u>	<u>43,349</u>
Cash and cash equivalents at end of period	<u>43,349</u>	<u>28,363</u>

(5) Notes to consolidated financial statements

(Notes on going concern assumption)

Not applicable.

(Notes - Changes in accounting policies)

Not applicable.

(Segment information)

[Segment information]

1. Description of reportable segments

The reportable segments of the Group are the components of the business of the Group for which separate financial information is available and that are subject to periodic examination by the Board of Directors for the determination of management resource allocation and the performance evaluation.

The Group operates in the following three business areas: retail business, wholesale business, and management support business. The “retail business” is the Group’s core business in which the Group runs its chain stores such as drugstores and health insurance prescription pharmacies. In the “wholesale business,” the Group supplies products to its affiliates and franchisees, etc. The “management support business” includes the provision of management and back-office services to group companies, store construction and repair works, and life insurance and nonlife insurance agency business. Each group company formulates and implements business strategies in the retail business and wholesale business areas, and the Company mainly provides business and management support services.

For reporting purposes, these businesses are divided into five reportable segments. The retail business is divided into the “Matsumotokiyoshi Retail” segment, which is the core of the retail business, and the “Other Retail” segment. Similarly, the wholesale business is divided into the “Matsumotokiyoshi Holdings Wholesale” segment and the “Other Wholesale” segment. The management support business on its own is the “Management Support” segment.

2. Calculation method of the amounts of net sales, profit or loss, assets, and other items by reportable segment

Accounting treatments adopted for operating segments being reported are largely the same as those described in “Significant matters forming the basis of preparing consolidated financial statements” in the most recent Securities Report (submitted on June 28, 2019). The profit or loss by reportable segment is calculated on the basis of operating profit. Intersegment revenue and transfers between segments are based on actual market price.

3. Disclosure of net sales, profit (loss), asset, and other items by reportable segment

Fiscal year ended March 31, 2019

	Retail business		Wholesale business		Management support business	Total	Adjustments (Note 1)	Amounts in the consolidated financial statement (Note 2)
	Matsumotokiyoshi Retail	Other Retail	Matsumotokiyoshi Holdings Wholesale	Other Wholesale				
Net sales								
Sales from external customers	365,672	188,883	163	18,122	3,149	575,991	—	575,991
Intersegment sales or transfers	15	33	383,828	—	14,125	398,003	(398,003)	—
Total	365,688	188,917	383,992	18,122	17,274	973,995	(398,003)	575,991
Segment profit (loss)	26,031	9,699	1,809	319	(1,214)	36,645	(617)	36,028
Segment assets	137,701	84,084	87,041	2,150	224,854	535,832	(217,507)	318,324
Other items								
Depreciation	3,568	2,173	15	39	1,665	7,461	(160)	7,301
Amortization of goodwill	7	48	—	—	—	55	876	932
Increase in property, plant and equipment	5,145	3,563	—	90	230	9,030	(182)	8,847
Increase in intangible assets	14	14	—	—	1,175	1,204	—	1,204

Notes: 1. Adjustments are as follows:

- (1) The adjustment of negative ¥617 million to segment profit (loss) includes negative ¥876 million of amortization of goodwill and ¥259 million of intersegment transaction elimination.
- (2) The adjustment of negative ¥217,507 million to segment assets includes ¥5,515 million of the unamortized balance of goodwill and negative ¥223,022 million of intersegment transaction elimination.
- (3) The adjustment of negative ¥160 million to depreciation represents intersegment transaction elimination.
- (4) The adjustment of negative ¥182 million to increase in property, plant and equipment represents intersegment transaction elimination.

2. Segment profit (loss) is adjusted with operating profit stated in the consolidated statement of income.

Fiscal year ended March 31, 2020

(Millions of yen)

	Retail business		Wholesale business		Management support business	Total	Adjustments (Note 1)	Amounts in the consolidated financial statement (Note 2)
	Matsumoto-kiyoshi Retail	Other Retail	Matsumoto-kiyoshi Holdings Wholesale	Other Wholesale				
Net sales								
Sales from external customers	369,956	197,864	158	19,327	3,286	590,593	—	590,593
Intersegment sales or transfers	10	38	388,769	—	14,990	403,808	(403,808)	—
Total	369,966	197,902	388,928	19,327	18,276	994,401	(403,808)	590,593
Segment profit (loss)	25,148	11,972	1,688	375	(984)	38,200	(637)	37,563
Segment assets	142,401	129,546	90,436	2,296	211,382	576,063	(224,254)	351,809
Other items								
Depreciation	3,758	2,311	12	44	1,534	7,661	(161)	7,499
Amortization of goodwill	7	52	—	—	—	59	844	904
Investments in entities accounted for using equity method	—	39,242	—	—	—	39,242	—	39,242
Increase in property, plant and equipment	4,561	2,776	—	46	134	7,518	(142)	7,376
Increase in intangible assets	17	6	—	0	1,542	1,568	—	1,568

Notes: 1. Adjustments are as follows:

- (1) The adjustment of negative ¥637 million to segment profit (loss) includes negative ¥844 million of amortization of goodwill and ¥207 million of intersegment transaction elimination.
- (2) The adjustment of negative ¥244,254 million to segment assets includes ¥4,670 million of the unamortized balance of goodwill and negative ¥228,924 million of intersegment transaction elimination.
- (3) The adjustment of negative ¥161 million to depreciation represents intersegment transaction elimination.
- (4) The adjustment of negative ¥142 million to increase in property, plant and equipment represents intersegment transaction elimination.

2. Segment profit (loss) is adjusted with operating profit stated in the consolidated statement of income.

[Notes - Information associated with reportable segments]

Fiscal year ended March 31, 2019

1. Information for each product or service

(Millions of yen)

	Retail business	Wholesale business	Management support business	Total
Sales to external customers	554,556	18,286	3,149	575,991

2. Information for each region

(1) Net sales

The description is omitted as sales from external customers in Japan exceed 90% of net sales presented in the consolidated statements of income.

(2) Property, plant and equipment

The description is omitted as the Company does not have any property, plant and equipment outside Japan.

Fiscal year ended March 31, 2020

1. Information for each product or service

(Millions of yen)

	Retail business	Wholesale business	Management support business	Total
Sales to external customers	567,820	19,486	3,286	590,593

2. Information for each region

(1) Net sales

The description is omitted as sales from external customers in Japan exceed 90% of net sales presented in the consolidated statements of income.

(2) Property, plant and equipment

The description is omitted as the Company does not have any property, plant and equipment outside Japan.

[Disclosure of impairment loss on non-current assets for each reportable segment]

Fiscal year ended March 31, 2019

(Millions of yen)

	Retail business		Wholesale business		Management support business	Unallocated amounts and elimination	Total
	Matsumoto-kiyoshi Retail	Other Retail	Matsumoto-kiyoshi Holdings Wholesale	Other Wholesale			
Impairment loss	763	319	—	—	97	(10)	1,169

Fiscal year ended March 31, 2020

(Millions of yen)

	Retail business		Wholesale business		Management support business	Unallocated amounts and elimination	Total
	Matsumoto-kiyoshi Retail	Other Retail	Matsumoto-kiyoshi Holdings Wholesale	Other Wholesale			
Impairment loss	314	155	—	—	24	(4)	490

[Amortization and unamortized balance of goodwill for each reportable segment]

Fiscal year ended March 31, 2019

(Millions of yen)

	Retail business		Wholesale business		Management support business	Unallocated amounts and elimination	Total
	Matsumoto-kiyoshi Retail	Other Retail	Matsumoto-kiyoshi Holdings Wholesale	Other Wholesale			
Current period amortization	7	48	—	—	—	876	932
Balance at end of period	63	177	—	—	—	5,515	5,756

Fiscal year ended March 31, 2020

(Millions of yen)

	Retail business		Wholesale business		Management support business	Unallocated amounts and elimination	Total
	Matsumoto-kiyoshi Retail	Other Retail	Matsumoto-kiyoshi Holdings Wholesale	Other Wholesale			
Current period amortization	7	52	—	—	—	844	904
Balance at end of period	56	143	—	—	—	4,670	4,870

[Information about gain on bargain purchase for each reportable segment]

Fiscal year ended March 31, 2019

Not applicable.

Fiscal year ended March 31, 2020

Not applicable.

(Notes - Per share information)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Net assets per share	2,038.76	2,233.54
Basic earnings per share	239.42	255.04
Diluted earnings per share	239.33	254.94

Notes: 1. The Company has introduced the Board Incentive Plan and the Share Grant ESOP Trust. For the purpose of calculating net assets per share, shares of the Company held by these trust accounts are included in the treasury shares that are deducted in the calculation of the total number of issued shares at the end of each period (140 thousand shares for the previous fiscal year and 127 thousand shares for the current fiscal year).

For the purpose of calculating basic earnings per share and diluted earnings per share, such shares are also included in the treasury shares that are deducted in the calculation of the average number of shares during each period (145 thousand shares for the previous fiscal year and 132 thousand shares for the current fiscal year).

2. The basis of calculation of basic earnings per share and diluted earnings per share is as follows.

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Basic earnings per share		
Profit attributable to owners of parent (Millions of yen)	25,035	26,176
Amount not attributable to common shareholders (Millions of yen)	—	—
Profit attributable to owners of parent related to common shares (million yen)	25,035	26,176
Average number of common shares during the period (Thousand shares)	104,567	102,637
Diluted earnings per share		
Adjustment to profit attributable to owners of parent (Millions of yen)	—	—
Increase in the number of common shares (Thousand shares)	40	40
Summary of potential shares not included in the calculation of diluted earnings per share as they are not dilutive	—	—

(Significant events after reporting period)

Not applicable.

5. Other information

Net sales and purchases

(1) Net sales by operating segment

Net sales by segment for the fiscal year ended March 31, 2020 are as follows:

Segment name	Fiscal year ended March 31, 2020	
	Amount (Millions of yen)	Change from the previous fiscal year (%)
Retail business	567,820	102.4
Wholesale business	19,486	106.6
Management support business	3,286	104.4
Total	590,593	102.5

Notes: 1. Intersegment transactions are eliminated.

2. Consumption taxes pertaining to sales are accounted for under the tax exclusion method.

(2) Net sales by product

Net sales by product for the fiscal year ended March 31, 2020 are as follows:

Products	Fiscal year ended March 31, 2020	
	Amount (Millions of yen)	Change from the previous fiscal year (%)
Retail business		
Medical and pharmaceutical products	180,028	102.1
Cosmetics	226,204	99.3
General merchandise	107,003	109.5
Food	53,426	103.1
Subtotal	566,662	102.4
Wholesale business	18,946	106.6
Total	585,609	102.5

Notes: 1. Net sales by product do not include sales of the management support business. In addition, the amounts above do not include operating revenue (rent income from tenants and royalty income from franchisees).

2. Consumption taxes pertaining to sales are accounted for under the tax exclusion method.

(3) Purchases by product

Purchases by product for the fiscal year ended March 31, 2020 are as follows:

Products	Fiscal year ended March 31, 2020	
	Amount (Millions of yen)	Change from the previous fiscal year (%)
Retail business		
Medical and pharmaceutical products	105,119	99.4
Cosmetics	158,046	98.5
General merchandise	77,851	105.9
Food	45,759	102.3
Subtotal	386,776	100.6
Wholesale business	18,874	106.6
Total	405,650	100.9

Notes: 1. Purchases by product do not include purchases of the management support business.

2. Consumption taxes pertaining to purchases are accounted for under the tax exclusion method.