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Consolidated Financial Results for the Three Months Ended June 30, 2020 <under Japanese GAAP>

August 11, 2020

Company name: **Matsumotokiyoshi Holdings Co., Ltd.**
 Listing: Tokyo Stock Exchange
 Securities code: 3088
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 Scheduled date to file Quarterly Securities Report: August 13, 2020
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: None
 Holding of quarterly financial results presentation meeting: None

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the three months ended June 30, 2020 (from April 1, 2020 to June 30, 2020)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended								
June 30, 2020	131,614	(9.8)	5,609	(38.9)	6,311	(35.8)	3,876	(40.5)
June 30, 2019	145,856	0.9	9,175	(1.5)	9,825	(1.5)	6,519	(1.8)

Note: Comprehensive income Three months ended June 30, 2020 ¥5,742 million [(6.7%)]
 Three months ended June 30, 2019 ¥6,156 million [(25.7%)]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
June 30, 2020	37.76	37.75
June 30, 2019	63.53	63.50

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of				
June 30, 2020	343,941	231,450	67.3	2,254.44
March 31, 2020	351,809	229,304	65.2	2,233.54

Reference: Equity As of June 30, 2020 ¥231,407 million
 As of March 31, 2020 ¥229,261 million

2. Cash dividends

	Annual cash dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2020	–	35.00	–	35.00	70.00
Fiscal year ending March 31, 2021	–				
Fiscal year ending March 31, 2021 (forecast)		35.00	–	35.00	70.00

Note: Revisions to dividends forecasts most recently announced: None

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
For the six months ending September 30, 2020	265,000	(11.8)	9,500	(48.4)	10,000	(49.1)	6,500	(49.8)	63.32
Fiscal year ending March 31, 2021	570,000	(3.5)	30,500	(18.8)	33,000	(17.5)	21,000	(19.8)	204.59

Note: Revisions to earnings forecasts most recently announced: None

*** Notes**

- (1) Changes in significant subsidiaries during the three months ended June 30, 2020 (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Adoption of special accounting treatments for preparing quarterly consolidated financial statements: None
- (3) 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

(4) Number of issued shares (common shares)

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

As of June 30, 2020	109,272,214 shares
As of March 31, 2020	109,272,214 shares

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

As of June 30, 2020	6,627,096 shares
As of March 31, 2020	6,627,096 shares

c. Average number of shares during the period

Three months ended June 30, 2020	102,645,118 shares
Three months ended June 30, 2019	102,624,144 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 June 30, 2020 and 127,754 shares as of March 31, 2020). 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.

* Quarterly financial results reports are exempt from quarterly review 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 4 of the attachment.

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1. Qualitative Information

(1) Details of operating results

(1) Operating results

Throughout the three months ended June 30, 2020 (from April 1, 2020 to June 30, 2020), the Japanese economy faced an extremely difficult situation. Due to the effect of the novel coronavirus disease (COVID-19), corporate earnings and business confidence aggravated and the pace of increase in capital investment clearly slowed down. As the effect of COVID-19 continued, the employment and income environment also weakened.

The drugstore industry in which the Company operates also 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, prioritizing the security and safety of its customers and employees as a mission of drugstores that are a “life line” and a “social infrastructure,” the Group continued the operation of many stores with shortened business hours and temporary close. At the same time, the Group worked on its three new key strategies of “further advancement of digitalization,” “further advancement of globalization,” and “expansion of business scale in specialized areas.” Aiming to survive the competition among drugstores in Japan by gaining a dominant presence in the health and beauty area, the Company started a capital and business alliance with cocokara fine Inc. in April 2020 in contemplation of management integration with the company.

More specifically, as part of 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. The number of customer contact points (point card members, LINE friends, and downloads of official apps), which are among the strengths of the Group, has exceeded 71.1 million in total as of June 30, 2020.

In terms of further advancement of globalization, keeping in mind the immigration restrictions issued by the Japanese government in connection with the spread of COVID-19, the Group aims 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 accumulate through our active efforts to develop and provide products that become popular overseas. The number of stores overseas has increased to 44 in total as of June 30, 2020, with 32 stores in Thailand and 12 stores in Taiwan. We are also preparing for the opening of the first store in Vietnam.

With regard to the expansion of business scale in specialized areas, in an increasingly competitive environment, the Group is working 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. We promoted coordination with local healthcare facilities at the 34 stores designated as Health Support Pharmacies by the Ministry of Health, Labour and Welfare, while expanding the member store network of the Community Pharmacy Support Program, which now includes 94 stores. As for the private brand product lineup, the Group strove to expand the lineup by including products with surprise and fun, which is characteristic of Matsumotokiyoshi Group. For example, we launched “BCAA7100 POWDER” obtaining the Informed Choice certification, which is an internationally recognized anti-doping certification, as a “matsukiyo LAB” athlete lineup product and “EXSTRONG ENERGY GUMMY” and “EXSTRONG HAPPY & SALT ENERGY DRINK” from our popular energy drink category. The Company is also working to develop high value added products. For example, we completely redesigned “Retinotime,” an aging care brand jointly developed with Naris Cosmetics Co., LTD., into “THE RETINOTIME”

and launched “THE RETINOTIME WRINKLE DAY MILK UV,” a quasi-drug, medicinal UV emulsion for daytime protection with wrinkle reduction effect, which has been proven for the first time in Japan.

As for new store openings, with the opening of “Drugstore Matsumotokiyoshi Kino Wakayama Store,” our first store in Wakayama Prefecture, we have finally succeeded in having our stores in all 47 prefectures of Japan. During the three months ended June 30, 2020, we opened 18 stores, closed nine stores, and renovated nine stores. As a result, the number of Group stores at the end of June 2020 was 1,726. (* The total number of Group stores above does not include 32 stores managed by Central & Matsumotokiyoshi Ltd. in Thailand and 12 stores managed by Matsumotokiyoshi (Taiwan) Limited in Taiwan.)

In the area of environmental protection, the Group discontinued the free distribution of polyethylene shopping bags effective April 1 before it was mandated on July 1, 2020. Instead, we have made available for purchase shopping bags made of materials that include a plant-based biomass content of 30% and our original reusable bags made of 100% recycled polyester, in order to reduce CO2 emissions and protect the environment.

In the area of employee programs, we paid “special allowances” to the store staff for their services in April and May, which fell within the period of the state of emergency declared by the government concerning COVID-19. This was in appreciation of the understanding and cooperation of the store staff who made it possible for many of the stores within the Group to continue to operate under such a nationwide declaration of the state of emergency. In addition, we are making efforts to improve the working environment of our employees. For example, we have introduced a new interest-free “Employee Emergency Loan Program” to support an environment in which employees working within the Group can lead their lives as securely as possible and continue to work.

As a result, net sales were ¥131,614 million (down 9.8% year on year), operating profit was ¥5,609 million (down 38.9% year on year), ordinary profit was ¥6,311 million (down 35.8% year on year), and profit attributable to owners of parent was ¥3,876 million (down 40.5% year on year).

Operating results by segment were as follows:

<Retail business>

In the first quarter, special procurement demand arose for masks, disinfectants, daily necessities, food, etc., due to the effect of COVID-19, particularly at suburban stores. On the other hand, due to the stay-home recommendations and the promotion of working from home, stores in central Tokyo and other downtown locations had decreased customer traffic. Sales were also affected mainly by shorter business hours, temporary close of tenant shops, and temporary close during weekends of near-distance opening stores. However, once the state of emergency declaration was lifted nationwide, customer traffic at stores in central Tokyo and other downtown locations started to increase. Inbound sales were small mainly due to the effect of immigration restrictions.

The prescription business struggled with people’s reluctance to go to medical institutions under the COVID-19 pandemic and a decrease in prescription drug sales, but its net sales were about the same as year earlier partly owing to new openings of prescription stores.

<Wholesale business>

Similar to the retail business, the wholesale business faced a difficult situation, but achieved a geographic expansion due to new openings of franchise stores and an increase in the number of member stores of the Community Pharmacy Support Program.

As a result, net sales of the retail business segment were ¥126,009 million (down 10.2% year on year), net sales of the wholesale business segment were ¥4,571 million (down 3.2% year on year), and net sales of the management support business segment were ¥1,032 million (up 23.8% year on year).

(2) Details of financial position

Total assets as of the end of the first quarter ended June 30, 2020 decreased by ¥7,867 million from the end of the previous fiscal year to ¥343,941 million. This was mainly due to a decrease of ¥5,139 million in cash and deposits.

Total liabilities decreased by ¥10,013 million to ¥112,491 million. This was mainly due to a decrease of ¥6,115 million in income taxes payable and a decrease of ¥3,641 million in accounts payable - trade.

Net assets increased by ¥2,145 million to ¥231,450 million. This was mainly due to an increase of ¥1,864 million in valuation difference on available-for-sale securities.

(3) Consolidated earnings forecasts and other forward-looking statements

No changes have been made to the consolidated earnings forecasts for the year ending March 31, 2021 that were announced on May 13, 2020.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto**(1) Quarterly consolidated balance sheet**

(Millions of yen)

	As of March 31, 2020	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	28,368	23,228
Notes and accounts receivable - trade	23,479	21,533
Merchandise	81,231	84,126
Supplies	673	634
Other	26,303	21,778
Allowance for doubtful accounts	(29)	(22)
Total current assets	160,027	151,279
Non-current assets		
Property, plant and equipment		
Land	40,073	40,073
Other	34,021	33,793
Total property, plant and equipment	74,095	73,867
Intangible assets		
Goodwill	4,870	4,660
Other	4,532	4,600
Total intangible assets	9,403	9,261
Investments and other assets		
Investment securities	63,345	65,865
Leasehold and guarantee deposits	37,858	37,637
Other	7,152	6,103
Allowance for doubtful accounts	(72)	(72)
Total investments and other assets	108,283	109,533
Total non-current assets	191,782	192,662
Total assets	351,809	343,941

(Millions of yen)

	As of March 31, 2020	As of June 30, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	57,466	53,824
Income taxes payable	7,385	1,270
Provision for bonuses	3,871	2,058
Provision for point card certificates	2,531	3,147
Asset retirement obligations	13	9
Other	14,933	15,154
Total current liabilities	86,202	75,465
Non-current liabilities		
long-term borrowings	18,400	18,400
Provision for share-based remuneration	134	165
Provision for share-based remuneration for directors (and other officers)	39	39
Retirement benefit liability	255	260
Asset retirement obligations	7,518	7,542
Other	9,953	10,616
Total non-current liabilities	36,301	37,026
Total liabilities	122,504	112,491
Net assets		
Shareholders' equity		
Share capital	22,051	22,051
Capital surplus	22,996	22,996
Retained earnings	196,253	196,532
Treasury shares	(20,707)	(20,707)
Total shareholders' equity	220,593	220,873
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,667	10,532
Remeasurements of defined benefit plans	—	1
Total accumulated other comprehensive income	8,667	10,534
Share acquisition rights	43	43
Total net assets	229,304	231,450
Total liabilities and net assets	351,809	343,941

(2) Quarterly consolidated statement of income and consolidated statement of comprehensive income**Quarterly consolidated statement of income**

(Millions of yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Net sales	145,856	131,614
Cost of sales	99,810	89,371
Gross profit	46,045	42,242
Selling, general and administrative expenses		
Provision for point card certificates	350	616
Salaries and allowances	11,592	11,589
Provision for bonuses	1,988	2,058
Retirement benefit expenses	260	270
Rent expenses on land and buildings	8,994	8,739
Other	13,683	13,358
Total selling, general and administrative expenses	36,869	36,633
Operating profit	9,175	5,609
Non-operating income		
Interest income	25	22
Dividend income	132	142
Gain on donation of non-current assets	131	92
Order handling commission	269	271
Share of profit of entities accounted for using equity method	—	60
Other	104	137
Total non-operating income	662	725
Non-operating expenses		
Interest expenses	4	11
Foreign exchange losses	2	1
Cash over and short	3	5
Other	2	5
Total non-operating expenses	12	23
Ordinary profit	9,825	6,311
Extraordinary income		
Gain on sales of non-current assets	—	0
Total extraordinary income	—	0
Extraordinary losses		
Loss on retirement of non-current assets	49	43
Loss on store closings	9	19
Impairment loss	52	6
Loss on COVID-19	—	557
Total extraordinary losses	111	627
Profit before income taxes	9,714	5,683
Income taxes - current	2,195	890
Income taxes - deferred	998	917
Total income taxes	3,194	1,807
Profit	6,519	3,876
Profit attributable to owners of parent	6,519	3,876

Quarterly consolidated statement of comprehensive income

(Millions of yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Profit	6,519	3,876
Other comprehensive income		
Valuation difference on available-for-sale securities	(362)	1,862
Share of other comprehensive income of entities accounted for using equity method	—	3
Total other comprehensive income	(362)	1,866
Comprehensive income	6,156	5,742
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,156	5,742
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes to quarterly consolidated financial statements*(Notes on going concern assumption)*

Not applicable.

(Notes when there are significant changes in amounts of shareholders' equity)

Not applicable.

(Segment information)

[Segment information]

I Three months ended June 30, 2019

1. Disclosure of net sales and profit (loss) by reportable segment

(Millions of yen)

	Retail business		Wholesale business		Management support business	Total	Adjustments (Note 1)	Amounts in the quarterly consolidated statement of income (Note 2)
	Matsumotokiyoshi Retail	Other Retail	Matsumotokiyoshi Holdings Wholesale	Other Wholesale				
Net sales								
Sales from external customers	92,461	47,838	14	4,706	834	145,856	—	145,856
Intersegment sales or transfers	1	8	97,215	—	3,623	100,848	(100,848)	—
Total	92,463	47,846	97,230	4,706	4,457	246,704	(100,848)	145,856
Segment profit (loss)	6,599	2,579	299	83	(227)	9,333	(158)	9,175

Notes: 1. The adjustment of negative ¥158 million to segment profit (loss) includes negative ¥213 million of amortization of goodwill and ¥55 million of intersegment transaction elimination.

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

2. Disclosure of impairment loss on non-current assets or goodwill for each reportable segment

(Significant impairment loss on non-current assets)

The Group regards primarily stores as a base unit for its minimum cash flow-generating unit, while grouping idle assets according to each property unit. With regard to the asset groups whose operating profit has consistently been negative and asset groups for which the market prices fell considerably, such as land, the Group wrote off their carrying amount to the recoverable amount and recognized the amount of the write-off of ¥52 million as an impairment loss under extraordinary losses.

The breakdown of the impairment loss is ¥15 million for Matsumotokiyoshi Retail, ¥33 million for Other Retail, ¥3 million for Management Support business and negative ¥0 million for consolidation eliminations and adjustments.

(Significant change in the amount of goodwill)

Not applicable.

II Three months ended June 30, 2020

1. Disclosure of net sales and profit (loss) by reportable segment

(Millions of yen)

	Retail business		Wholesale business		Management support business	Total	Adjustments (Note 1)	Amounts in the quarterly consolidated statement of income (Note 2)
	Matsumotokiyoshi Retail	Other Retail	Matsumotokiyoshi Holdings Wholesale	Other Wholesale				
Net sales								
Sales from external customers	77,966	48,043	43	4,528	1,032	131,614	—	131,614
Intersegment sales or transfers	2	2	87,456	—	2,809	90,271	(90,271)	—
Total	77,969	48,046	87,499	4,528	3,842	221,886	(90,271)	131,614
Segment profit (loss)	3,215	2,839	280	76	(664)	5,747	(138)	5,609

Notes: 1. The adjustment of negative ¥138 million to segment profit (loss) includes negative ¥194 million of amortization of goodwill and ¥56 million of intersegment transaction elimination.

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

2. Disclosure of impairment loss on non-current assets or goodwill for each reportable segment

(Significant impairment loss on non-current assets)

The Group regards primarily stores as a base unit for its minimum cash flow-generating unit, while grouping idle assets according to each property unit. With regard to the asset groups whose operating profit has consistently been negative and asset groups for which the market prices fell considerably, such as land, the Group wrote off their carrying amount to the recoverable amount and recognized the amount of the write-off of ¥6 million as an impairment loss under extraordinary losses.

The breakdown of the impairment loss is ¥6 million for Matsumotokiyoshi Retail, ¥0 million for Other Retail, and negative ¥0 million for consolidation eliminations and adjustments.

(Significant change in the amount of goodwill)

Not applicable.

(Significant events after reporting period)

Not applicable.

3. Supplementary information

Net sales and purchases

(1) Net sales by operating segment

Net sales by segment for the three months ended June 30, 2020 are as follows:

Segment name	Three months ended June 30, 2020	
	Amount (Millions of yen)	Change from the corresponding period of the previous fiscal year (%)
Retail business	126,009	89.8
Wholesale business	4,571	96.8
Management support business	1,032	123.8
Total	131,614	90.2

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 three months ended June 30, 2020 are as follows:

Products	Three months ended June 30, 2020	
	Amount (Millions of yen)	Change from the corresponding period of the previous fiscal year (%)
Retail business		
Medical and pharmaceutical products	36,745	83.0
Cosmetics	44,793	76.7
General merchandise	30,235	122.8
Food	13,960	109.3
Subtotal	125,734	89.8
Wholesale business	4,440	96.7
Total	130,174	90.0

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 three months ended June 30, 2020 are as follows:

Products	Three months ended June 30, 2020	
	Amount (Millions of yen)	Change from the corresponding period of the previous fiscal year (%)
Retail business		
Medical and pharmaceutical products	23,203	84.2
Cosmetics	29,761	74.9
General merchandise	22,599	121.0
Food	11,890	106.6
Subtotal	87,454	90.0
Wholesale business	4,379	95.6
Total	91,834	90.3

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.