Financial Results for the Fiscal Year Ended (FYE) March 15, 2017 [Japanese GAAP] (Consolidated)

April 27, 2017

Company Name	CAWACHI LIMITED		Exchange listed on:		Tokyo Stock Exchange, first section
Security Code	2664	URL	http://www.cawachi.co.jp/		
Representative	(Title)	President Director	(Name)	Shinji Kawachi	
Contact	(Title)	General Manager, Finance Department	(Name)	Yoritsugu Komatsu	(TEL) 0285 (32) 1131

Scheduled date of the Ordinary General Meeting of Shareholders	June 13, 2017
Scheduled commencement date of dividend payment	June 14, 2017
Scheduled filing date of the securities report	June 14, 2017
Supplemental information for financial results:	Available
Investor meeting presentation:	Scheduled (for securities analysts and institutional investors)

(Amounts rounded down to the nearest millions of yen.)

1. Consolidated Financial Results for the FYE March, 2017 (From March 16, 2016 to March 15, 2017)

(1) Consolidated Operating Results (Percent represents comparison changes from the previous year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of the parent	
	million yen	%	million yen	%	million yen	%	million yen	%
FYE March, 2017	266,423	2.2	5,723	22.9	7,062	20.2	3,510	77.7
FYE March, 2016	260,624	0.9	4,656	65.5	5,875	55.2	1,975	—

(Note) Comprehensive income: FYE 3/2017 ¥ 3,553 million (87.1 %)
FYE 3/2016 ¥ 1,899 million (— %)

	Profit per share	Profit per share – diluted	Profit to Shareholders' equity	Ordinary income to Assets	Operating income to Net sales
	yen	yen	%	%	%
FYE March, 2017	153.47	153.40	4.0	3.9	2.1
FYE March, 2016	85.39	85.34	2.3	3.3	1.8

(Reference) Equity method investment gain (loss): FYE March, 2017 ¥ — million
FYE March, 2016 ¥ — million

(2) Consolidated Financial Positions

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	million yen	million yen	%	yen
FYE March, 2017	180,852	89,099	49.3	3,910.07
FYE March, 2016	178,794	87,532	49.0	3,782.88

(Reference) Shareholders' equity: FYE March, 2017 ¥ 89,095 million
FYE March, 2016 ¥ 87,522 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 the end of the year
	million yen	million yen	million yen	million yen
FYE March, 2017	8,835	(5,241)	(3,681)	25,685
FYE March, 2016	11,089	(5,181)	(1,287)	25,773

2. Dividends

	Annual dividends					Total amount of annual dividends	Dividend payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	End of 1Q	End of 2Q	End of 3Q	End of the year	Total			
	yen	yen	yen	yen	yen	million yen	%	%
FYE March, 2016	—	0.00	—	45.00	45.00	1,041	52.7	1.2
FYE March, 2017	—	0.00	—	45.00	45.00	1,025	29.3	1.2
FYE March, 2018 (forecast)	—	0.00	—	45.00	45.00		21.8	

3. Forecast of Consolidated Results for FYE March, 2018 (March 16, 2017 to March 15, 2018)

(Percentage represents changes from the previous year for Full year, and on YoY basis for Quarterly results.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of the parent		Profit per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
2Q (cumulative)	140,200	2.8	3,450	7.2	4,100	6.6	2,500	4.5	109.72
Full year	275,000	3.2	6,500	13.6	7,800	10.4	4,700	33.9	206.27

*NOTES

(1) Changes in major subsidiaries during the cumulative quarter under review (Change in specific subsidiaries that will accompany a change in scope of consolidation): None

Newly consolidated:	- company (companies)	(name of company)
Excluded:	- company (companies)	(name of company)

(2) Change in accounting policies or estimates and retrospective restatements

1) Change in accounting policies in accordance with revision of accounting standards: Yes
2) Change in accounting policies other than item 1) above: None
3) Change in accounting estimates: None
4) Retrospective restatements: None

(3) Number of shares issued (common stock)

1) Number of shares issued at the end of the period (including treasury stock)	FYE 3/2017	24,583,420 shares	FYE 3/2016	24,583,420 shares
2) Number of shares of treasury stock at the end of the period	FYE 3/2017	1,797,347 shares	FYE 3/2016	1,446,885 shares
3) Average number of shares issued during the period	FYE 3/2017	22,871,347 shares	FYE 3/2016	23,133,703 shares

* This summary of consolidated financial results is not subject to audit.

* Explanation for appropriate use of operating results forecasts, other special notes

Forward-looking statements, including business forecasts, contained in this document are based on information available to Cawachi Ltd. and certain assumptions deemed reasonable as of the date of this document, and actual performance and results may differ significantly from the forecasts described here due to various factors. Please refer to “1. Analyses of Results of Operations and Financial Position (1) Analysis of Results of Operations” of the attached documents for the assumptions underlying the forecasts and cautions when using the forecasts.

○Contents of Attached Documents

1. Analyses of Results of Operations and Financial Position

(1) Analysis of Results of Operations

(Results of operations for the current fiscal year)

During the fiscal year ended March 2017, Japan's economic outlook remained uncertain with concerns over a slowdown in overseas economies, although the economy showed a moderate recovery against the backdrop of increased corporate earnings and improved employment conditions. Consumer spending remained weak as consumers continued to refrain from excessive spending because the economic outlook remained uncertain due to a weakening yen, etc., although the consumption of some big-ticket items rose while real wages improved gradually and stock prices increased.

In the drugstore industry, to which the Cawachi Group ("the Group") belongs, the Group has seen an increasingly tough business environment with new entrants from outside the industry and industry reorganization including these new entrants, amid a growing number of new store openings by competitors and continuously intensified price competition, as well as competition among retail companies.

Under such circumstances, the Group, to secure a more dominant position and improve efficiency through the establishment of a solid business base in each area, has increased new store openings in dominant areas and overhauled sales prices and product lineups to overcome intensified competition, while strengthening the health and beauty counseling function.

In terms of new store openings, the Group opened a total of 15 stores in the districts where it currently operates in the following prefectures: four stores in Tochigi, three stores in Ibaraki, two each in Fukushima and Niigata, and one each in Aomori, Miyagi, Chiba, and Nagano. The Group also launched dispensing pharmacy operations at 11 existing stores as follows: two each in Yamagata and Fukushima, and one each in Iwate, Miyagi, Gunma, Tochigi, Saitama, Chiba, and Niigata. Meanwhile, a total of five stores were closed for relocation: one store in Ibaraki, and one dispensing pharmacy each in Iwate, Miyagi, Tochigi, Tokyo, and Yamanashi.

Accordingly, the Group has a total of 311 stores (of which 97 have an in-store dispensing pharmacy).

As a result, the Group recorded net sales of 266,423 million yen (year-on-year increase of 2.2%) on a consolidated basis for the current fiscal year under review. The Group also recorded operating income of 5,723 million yen (year-on-year increase of 22.9%), ordinary income of 7,062 million yen (year-on-year increase of 20.2%), and net profit attributable to shareholders of the parent company of 3,510 million yen (year-on-year increase of 77.7%), due to the continued positive effects of installing self-checkout machines, LED lights, etc., as well as a reduction in heating and lighting expenses thanks to a decline in crude oil prices, etc.

(Sales)

The Group's net sales by segment are as follows.

Segment	Previous consolidated fiscal year (From March 16, 2015 to March 15, 2016)		Current consolidated fiscal year (From March 16, 2016 to March 15, 2017)		Year-on-year comparison (%)
	Amount (Mil. yen)	(%)	Amount (Mil. yen)	(%)	
Pharmaceuticals	44,380	17.0	44,723	16.8	100.8
Cosmetics	21,229	8.2	21,941	8.2	103.4
Sundries	74,530	28.6	76,369	28.7	102.5
General food	120,484	46.2	123,388	46.3	102.4
Total	260,624	100.0	266,423	100.0	102.2

(Note) Number of units sold is omitted because the Company's has an extensive product range.

(Outlook for the next fiscal year)

Japan’s economy in the coming fiscal year is expected to continue recovering gradually due to continued improvement in capital investment and employment conditions on the back of economic policies, in spite of remaining concerns about risks of a slowdown in overseas economies. However, the environment surrounding consumers is likely to remain harsh, given continued uncertainties with upward trends in prices and costs of living, as well as the lack of substantial increases in wages, although real wages are improving.

In such environment, the Group will continue implementing measures to strengthen its business infrastructure, centering on new store openings to achieve a more solid operating base in its dominant areas, improving the system for increasing productivity, and optimizing inventory levels. Further, as a differentiation measure against increasingly fierce competition, we will make progress in measures for specialist function enhancement by strengthening the functions that enable qualified specialists, such as pharmacists, to provide counseling. This will mean regional health check functions can be made available as part of health maintenance, health improvement, and healthy life extension activities conducted in response to people’s growing health awareness. At the same time, we will continue to open dispensing pharmacies in our core stores. In addition, we will work hard to improve the quality of consumers’ living and customer satisfaction by making further progress in building local community-based stores, focusing on offering products that value safety at reasonable prices in an effort to respond to the consumption environment.

Regarding new store openings, the Group has a plan to open 19 stores to enhance operating base in its dominant areas. Furthermore, to further make progress on measures for specialist function enhancement, the Group plans to launch 11 in-store dispensing pharmacies at core stores. Meanwhile, two stores and two dispensing pharmacies are scheduled to be closed for relocation.

From the above, the Group forecasts, for the fiscal year ending March 2018, that the net sales will be 275,000 million yen, operating income 6,500 million yen, ordinary income 7,800 million yen, and profit attributable to owners of the parent 4,700 million yen.

(2) Analysis of Financial Position

1) Assets, liabilities and net assets

Assets increased 2,058 million yen compared with the end of the previous fiscal year, to 180,852 million yen. This was due primarily to a 573 million yen decrease in land, and 2,324 million yen increase in inventory.

Liabilities at the end of the fiscal year under review increased 491 million yen compared with the end of previous fiscal year, to 91,753 million yen. This was due primarily to a 1,044 million yen increase in accounts payable-trade, 347 million yen increase in retirement benefit liabilities, 395 million yen increase in other current liabilities, and 1,484 million yen decrease in long-term loans payable.

Net assets at the end of the fiscal year under review increased 1,567 million yen compared with the end of the previous fiscal year, to 89,099 million yen, due primarily to increase in retained earnings.

Equity ratio increased to 49.3% (0.3 point increase from the previous fiscal year).

2) Cash flows

Cash and cash equivalents as of the end of the fiscal year under review (hereinafter referred to as “fund”) decreased to 25,685 million yen (87 million yen decrease compared with end of the previous fiscal year).

(Cash flow from operating activities)

Net cash from operating activities for the current fiscal year decreased to 8,835 million yen (a decrease of 2,254 million yen compared with the previous fiscal year). This was mainly due to the fact that net income before income taxes was 5,870 million yen (an increase of 1,935 million yen compared with the previous fiscal year), depreciation was 4,888 million yen (a decrease of 204 million yen compared with the previous fiscal year) and impairment loss was 1,078 million yen (a decrease of 1,337 million yen compared with the previous fiscal year), while the amount of income taxes paid was 2,406 million yen (an increase of 2,089 million yen compared with the previous fiscal year).

(Cash flow from investment activities)

Net cash used in investment activities for the current fiscal year amounted to 5,241 million yen (an increase of 59 million yen compared with the previous fiscal year), mainly as a result of acquisition of property, plant and equipment associated with opening of new stores, which amounted to 5,088 million yen (a decrease of 111 million yen compared with the previous fiscal year).

(Cash flow from financing activities)

Net cash used in financing activities for the current fiscal year amounted to 3,681 million yen (an increase of 2,394 million yen compared with the previous fiscal year). This was due mainly to the fact that repayment of long-term loans payable was 13,835 million yen (a decrease of 509 million yen compared with the previous fiscal year), payment for acquisition of treasury shares was 1,000 million yen (an increase of 999 million yen compared with the previous fiscal year), and dividend payment was 1,041 million yen (an increase of 0 million yen compared with the previous year) although proceeds from long-term loans payable was 12,300 million yen (a decrease of 1,700 million yen compared with the previous fiscal year).

(Trends of Cash Flow-related Indicators)

	FYE3/2013	FYE3/2014	FYE3/2015	FYE3/2016	FYE3/2017
Equity ratio (%)	52.9	49.2	48.7	49.0	49.3
Equity ratio on market value (%)	26.8	23.5	27.1	26.8	38.6
Ratio of interest-bearing debts to cash flows (years)	3.6	3.5	6.4	3.2	3.8
Interest coverage ratio (multiples)	31.7	46.0	24.5	64.9	67.5

Equity Ratio: Shareholders' equity/Total assets

Equity ratio on market value: Market capitalization/Total assets

Ratio of interest-bearing debt to cash flow: Interest-bearing debt/Cash flow

Interest coverage ratio: Cash flow/Interest expenses

Note 1: All figures are calculated based on consolidated financial results.

Note 2: Market capitalization is calculated based on number of shares issued excluding treasury stock.

Note 3: Cash flows are based on operating cash flows.

Note 4: Interest-bearing debt represents debt posted on the consolidated balance sheet and accompanied by interest payments.

(3) Principles of Appropriation of Profits and Dividend Payment for the Current Fiscal Year and the Next Fiscal Year

The Group recognizes that returning profit to shareholders is a top-priority management issue. Our basic policy calls for continuous and stable dividend payments, taking into account the future business prospects as well as the enhancement of internal reserves to ensure stable growth of the Group.

Under this basic policy, the Group is planning to propose an ordinary dividend of 45 yen per share at the end of the current fiscal year in the 50th Ordinary General Meetings of Shareholders scheduled to be held on June 13, 2017.

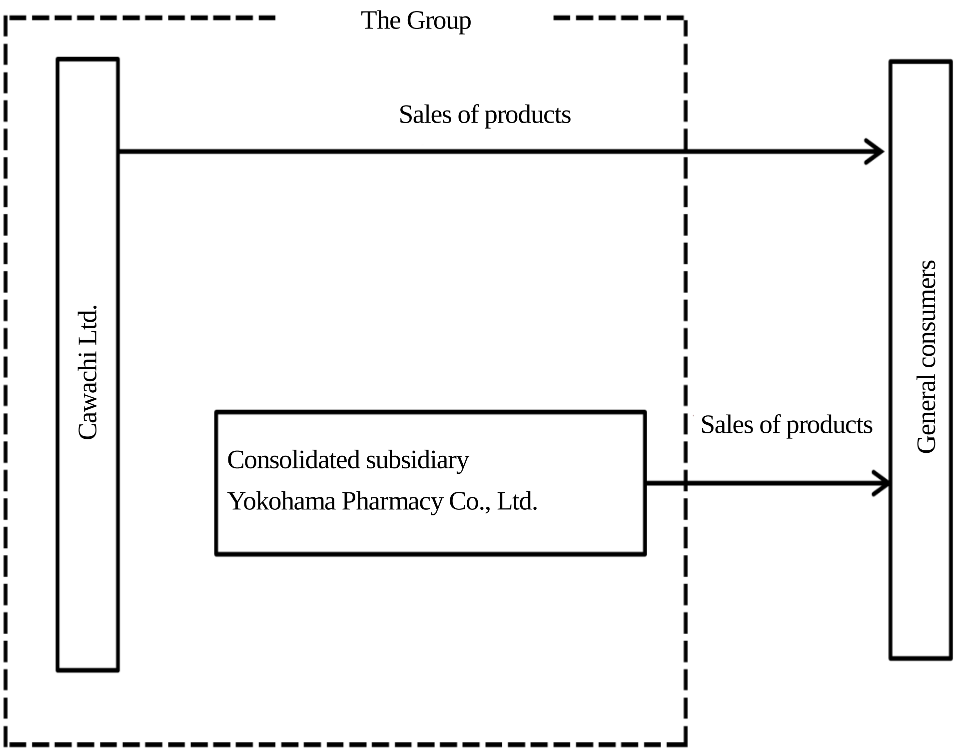
The Group plans to distribute an ordinary dividend of 45 yen per share in the following fiscal year.

Internal reserves will be used as funds primarily for opening of new stores, sales floor expansion, and renovation.

2. Consolidated Group

The Group is engaged in the retail business, operating the following as its main business: drugstores with in-store dispensing pharmacy and drugstores selling pharmaceuticals, cosmetics, daily goods and foods.

The businesses within the Group are interrelated as in the following diagram.



3. Management Policy

(1) Basic Management Policy of the Group

The management philosophy of the Group is "to aim for the management that innovates on a daily basis and continues making improvements toward becoming the world's No.1 drugstore" and "to 'offer a hub for daily living' by leveraging the Group's excellent expertise as a drugstore operator to enable customers to live a healthy and affluent life and, thereby, contribute to society."

To this end, Cawachi Ltd. ("the Company") operates mega-drugstore format stores. (In general, a drugstore is defined as a store with a sales floor space of 90 tsubo (approx.3,200sq. ft.) or larger while the Company defines a store with a sales floor space of 400 tsubo (approx.14,000sq. ft.) or larger as a mega-drugstore.)

With respect to the characteristics of mega-drugstore format, they offer high convenience and are strongly connected to customers' lives by being located along major residential roads, carrying a wide selection of merchandise essential to healthy and daily living, offering such merchandise at low prices, and allowing customers to experience one-stop shopping in short periods of time.

The underlying basic concept is "pharmacy more," which means to "deliver a healthy and comfortable life to customers by offering a wide variety of products not limited to pharmaceutical products." To achieve this, the Group, under its customer-first philosophy, continues to run store operations pursuant to its unique mega-drugstore format featuring both expertise as a drugstore operator and a high degree of convenience for customers. We also make efforts to help maintain and improve customers' health and extend their health span.

Furthermore, the Group will continue fulfilling its social responsibilities and make efforts to win the support of its stakeholders, including customers, shareholders, business partners and employees, thus achieving sustainable growth.

(2) Target Management Benchmark

In an effort to improve shareholder value, the Group puts importance on obtaining adequate operating income and targets Return on Equity (ROE) of 6% or above in a medium to long term.

(3) Medium- to Long-Term Management Strategy

In a medium to long term, the drugstore industry is expected to continue facing severe competitions accelerated by market entry from retailers other than drugstore operators in addition to unrelenting willingness for new store openings by the Group's direct competitors. Along with the trend, companies in the industry are expected to actively seek mergers and acquisitions opportunities for survival.

Under these circumstances, the Group considers it is important that each store works to clearly differentiate itself from stores of other drugstore operators and become competitive enough to take root in each community. To this end, our policy is to promote our unique mega-drugstore format stores that offer both expertise as a drugstore operator and high convenience for customers. Additionally, we will actively promote opening a dispensing pharmacy within drugstores to respond to the aging society and strive to be "the most familiar healthcare center" that is the main provider of consumer healthcare specializing in beauty and health.

Placing the above as the Group's basic policy, our focus in a medium to long term is to open new stores to gain more market share, which centers on two types of stores: healthcare center-type, core store (mega-drugstore with in-store dispensing pharmacy) and satellite-type store (drugstore for small trading areas) that complements the core store for customer convenience. Further, the Group will work on streamlining logistics centers to improve profitability.

As mergers and acquisitions in the industry is expected to surge in the future, we will carefully and flexibly explore strategic alternatives that may be available to the Group as needed.

(4) Issues to Be Addressed of the Group

Since the Group's store network has expanded, we believe that improving operating efficiency at all levels by taking such measures as streamlining logistics network, reinforcing operational structures, and optimizing inventory levels is crucial for sustainable growth. We therefore endeavor to identify tasks to address and make improvement for better utilizing it. In addition, amid opening of more stores, we believe that training of human resources to be store managers and various experts is important, and will work to improve and practice education curricula to train human resources of the next generation.

4. Basic Policy on Selecting Accounting Standards

The Group has adopted Japanese accounting standards to ensure that its operating results are comparable with competitors in Japan.