

Financial Results for the Fiscal Year Ended (FYE) March 15, 2018 [Japanese GAAP] (Consolidated)

April 26, 2018

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 12, 2018
Scheduled commencement date of dividend payment			June 13, 2018
Scheduled filing date of the securities report			June 13, 2018
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, 2018 (From March 16, 2017 to March 15, 2018)

(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, 2018	268,205	0.7	4,573	(20.1)	6,060	(14.2)	3,869	10.2
FYE March, 2017	266,423	2.2	5,723	22.9	7,062	20.2	3,510	77.7

(Note) Comprehensive income: FYE 3/2018 ¥ 3,841 million (8.1 %)
FYE 3/2017 ¥ 3,553 million (87.1 %)

	Profit per share	Profit per share – diluted	Profit to Shareholders' equity	Ordinary income to Assets	Operating income to Net sales
	yen	yen	%	%	%
FYE March, 2018	169.71	-	4.3	3.3	1.7
FYE March, 2017	153.47	153.40	4.0	3.9	2.1

(Reference) Equity method investment gain (loss): FYE March, 2018 ¥ — million
FYE March, 2017 ¥ — million

(2) Consolidated Financial Positions

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	million yen	million yen	%	yen
FYE March, 2018	183,303	91,880	50.1	4,028.96
FYE March, 2017	180,852	89,099	49.3	3,910.07

(Reference) Shareholders' equity: FYE March, 2018 ¥ 91,880 million
FYE March, 2017 ¥ 89,095 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, 2018	8,600	(6,257)	(2,104)	25,924
FYE March, 2017	8,835	(5,241)	(3,681)	25,685

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, 2017	—	0.00	—	45.00	45.00	1,025	29.3	1.2
FYE March, 2018	—	0.00	—	45.00	45.00	1,026	26.5	1.1
FYE March, 2019 (forecast)	—	0.00	—	45.00	45.00		25.7	

3. Forecast of Consolidated Results for FYE March, 2019 (March 16, 2018 to March 15, 2019)

(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)	139,600	1.2	2,900	(6.7)	3,700	(4.6)	2,300	(9.0)	100.86
Full year	272,000	1.4	5,000	9.3	6,500	7.3	4,000	3.4	175.40

***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: None

2) Change in accounting policies other than item 1) above: Yes

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)

2) Number of shares of treasury stock at the end of the period

3) Average number of shares issued during the period

FYE 3/2018	24,583,420 shares	FYE 3/2017	24,583,420 shares
FYE 3/2018	1,778,447 shares	FYE 3/2017	1,797,347 shares
FYE 3/2018	22,797,480 shares	FYE 3/2017	22,871,347 shares

* This summary of consolidated financial results is not subject to audit by certified public accountants or an audit firm.

* 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. Overview of Results of Operations, etc. (1) Overview of Results of Operations for the Current Fiscal Year” of the attached documents for the assumptions underlying the forecasts and cautions when using the forecasts.

○Contents of Attached Documents

1. Overview of Results of Operations, etc.	2
(1) Overview of Results of Operations for the Current Fiscal Year	2
(2) Overview of Financial Position for the Current Fiscal Year	3
(3) Principles of Appropriation of Profits and Dividend Payment for the Current Fiscal Year and the Next Fiscal Year	4
2. Basic Policy on Selecting Accounting Standards	4

1. Overview of Results of Operations, etc.

(1) Overview of Results of Operations for the Current Fiscal Year

(Results of operations for the current fiscal year)

During the fiscal year ended March 2018, Japan's economic outlook remained uncertain with concerns over a slowdown in overseas economies and increase of geopolitical risks, etc., although the economy showed a moderate recovery against the backdrop of increased corporate earnings and improved employment conditions. Although real wages improved gradually and signs of recovery in consumer spending appeared, consumers have continued to cut back on spending due to concerns about a possible increase in various burdens in the future.

In the drugstore sector, to which the Cawachi Group ("the Group") belongs, the Group has seen an increasingly tough business environment with continuously intensifying price competition among different retail sectors and different store formats, as well as more new store openings by competitors.

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 strategically adjusted pricing and merchandising to match up against competitors, while strengthening the health and beauty counseling function to enhance our expertise.

In terms of new store openings, the Group opened 19 stores (of which two are our subsidiary's) in dominant areas in Kanto and Tohoku, and closed one in Aomori for relocation. The Group also launched dispensing pharmacy operations at 10 existing stores in dominant areas, and closed one. Accordingly, the Group has a total of 329 stores (an increase of 18 stores compared with the end of previous fiscal year) of which 106 (an increase of nine stores compared with the end of previous fiscal year) have an in-store dispensing pharmacy.

As a result, the Group recorded net sales of 268,205 million yen (year-on-year increase of 0.7%) on a consolidated basis for the current fiscal year under review. The Group also recorded operating income of 4,573 million yen (year-on-year decrease of 20.1%) and ordinary income of 6,060 million yen (year-on-year decrease of 14.2%), due to higher selling, general and administrative expenses as a result of the increase in store openings in the second half of the fiscal year ended March 2018. Profit attributable to owners of the parent amounted to 3,869 million yen (year-on-year increase of 10.2%), due to the absence of the effect of an impairment loss in the current fiscal year which was recorded in the previous fiscal year.

(Sales)

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

Segment	Previous consolidated fiscal year (From March 16, 2016 to March 15, 2017)		Current consolidated fiscal year (From March 16, 2017 to March 15, 2018)		Year-on-year comparison (%)
	Amount (Mil. yen)	(%)	Amount (Mil. yen)	(%)	
Pharmaceuticals	44,723	16.8	45,431	16.9	101.6
Cosmetics	21,941	8.2	22,711	8.5	103.5
Sundries	76,369	28.7	76,002	28.3	99.5
General food	123,388	46.3	124,060	46.3	100.5
Total	266,423	100.0	268,205	100.0	100.7

(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 tough, given continued uncertainties with upward trends in prices and costs of living, although real wages are improving.

In such environment, the Group will focus on new store openings mainly in its dominant areas for the purpose of strengthening its business infrastructure, and promote system improvement to enhance store operation efficiency and optimize inventory levels including distribution for the purpose of increasing productivity. Furthermore, as a differentiation measure against increasingly fierce competition, while we continue to open dispensing pharmacies in our existing stores, we will make progress in measures for enhancing our expertise by strengthening the functions that enable qualified specialists, such as pharmacists, to provide counseling. This is aimed at health maintenance, health improvement, and healthy life extension activities including a growing appetite for beauty care and illness prevention as a measure for strengthening health and beauty care in response to people's growing health awareness. In addition, we will make every effort 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 plans to open 20 stores mainly in the areas where it currently operates. Furthermore, to further make progress on measures for expertise enhancement, the Group plans to launch seven in-store dispensing pharmacies at existing stores. Meanwhile, three stores and one dispensing pharmacy are scheduled to be closed.

From the above, the Group forecasts, for the fiscal year ending March 2019, that the net sales will be 272,000 million yen, operating income 5,000 million yen, ordinary income 6,500 million yen, and profit attributable to owners of the parent 4,000 million yen.

(2) Overview of Financial Position for the Current Fiscal Year

1) Assets, liabilities and net assets

Assets increased 2,450 million yen compared with the end of the previous fiscal year, to 183,303 million yen. This was due primarily to an 846 million yen increase in building and structures, 771 million yen increase in inventory and 449 million yen increase in land.

Liabilities at the end of the fiscal year under review decreased 330 million yen compared with the end of previous fiscal year, to 91,422 million yen. This was due primarily to a 564 million yen increase in accounts payable-other that is included in other current liabilities and 484 million yen increase in retirement benefit liabilities, while there was an 878 million yen decrease in long-term loans payable and 477 million yen decrease in accounts payable-trade.

Net assets at the end of the fiscal year under review increased 2,781 million yen compared with the end of the previous fiscal year, to 91,880 million yen, due primarily to increase in retained earnings.

Equity ratio increased to 50.1% (0.8 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") increased to 25,924 million yen (238 million yen increase 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 8,600 million yen (a decrease of 234 million yen compared with the previous fiscal year). This was mainly due to the fact that net income before income taxes was 5,787 million yen (an decrease of 83 million yen compared with the previous fiscal year) and depreciation was 4,931 million yen (an increase of 43 million yen compared with the previous fiscal year), while the amount of income taxes paid was 2,463 million yen (an increase of 56 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 6,257 million yen (an increase of 1,015 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 5,855 million yen (an increase of 767 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 2,104 million yen (a decrease of 1,577 million yen compared with the previous fiscal year). This was due mainly to the fact that repayment of long-term loans payable was 13,752 million yen (a decrease of 82 million yen compared with the previous fiscal year) and dividend payment was 1,025 million yen (a decrease of 15 million yen compared with the previous year), although proceeds from long-term loans payable was 12,700 million yen (an increase of 400 million yen compared with the previous fiscal year).

(Trends of Cash Flow-related Indicators)

	FYE3/2014	FYE3/2015	FYE3/2016	FYE3/2017	FYE3/2018
Equity ratio (%)	49.2	48.7	49.0	49.3	50.1
Equity ratio on market value (%)	23.5	27.1	26.8	38.6	31.5
Ratio of interest-bearing debts to cash flows (years)	3.5	6.4	3.2	3.8	3.8
Interest coverage ratio (multiples)	46.0	24.5	64.9	67.5	84.9

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 51st Ordinary General Meetings of Shareholders scheduled to be held on June 12, 2018.

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. 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.