

Financial Results for the Fiscal Year Ended (FYE) March 15, 2023 [Japanese GAAP] (Consolidated)

April 28, 2023

Company Name	CAWACHI LIMITED		Exchange listed on:	Tokyo Stock Exchange
Security Code	2664	URL	https://www.cawachi.co.jp/	
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		Corporate Officer		
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Scheduled date of the Ordinary General Meeting of Shareholders	June 14, 2023			
Scheduled commencement date of dividend payment	June 15, 2023			
Scheduled filing date of the securities report	June 15, 2023			
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, 2023 (From March 16, 2022 to March 15, 2023)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
FYE March, 2023	281,871	-	6,611	-	7,672	-	4,177	-
FYE March, 2022	279,462	(1.8)	7,709	(27.0)	8,698	(24.9)	4,830	(32.0)

(Note) Comprehensive income: FYE March, 2023 ¥4,193 million (-%)
 FYE March, 2022 ¥4,832 million (-32.2%)

	Profit per share	Profit per share – diluted	Profit to Shareholders' equity	Ordinary profit to Assets	Operating profit to Net sales
	yen	yen	%	%	%
FYE March, 2023	187.06	186.85	3.9	4.0	2.3
FYE March, 2022	216.44	216.07	4.7	4.5	2.8

(Reference) Equity method investment gain (loss): FYE March, 2023 ¥ - million
 FYE March, 2022 ¥ - million

(Note) Effective from the beginning of the fiscal year under review, the Company began to apply the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc., and the numbers for the FYE March, 2023 are ones after applying it. Therefore, percentage changes compared with the previous fiscal year are not indicated.

(2) Consolidated Financial Positions

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	million yen	million yen	%	yen
FYE March, 2023	194,496	107,725	55.3	4,818.93
FYE March, 2022	191,721	104,649	54.5	4,682.61

(Reference) Shareholders' equity: FYE March, 2023 ¥107,627 million
 FYE March, 2022 ¥104,523 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, 2023	9,817	(5,840)	(4,485)	38,450
FYE March, 2022	6,868	(4,536)	(4,607)	38,959

2. Dividends

	Annual dividends per share					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, 2022	-	0.00	-	50.00	50.00	1,116	23.1	1.1
FYE March, 2023	-	0.00	-	50.00	50.00	1,116	26.7	1.1
FYE March, 2024 (forecast)	-	0.00	-	50.00	50.00		26.6	

3. Forecast of Consolidated Results for FYE March, 2024 (March 16, 2023 to March 15, 2024)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	million yen	%	million yen	%	million yen	%	million yen	%	
2Q (cumulative)	146,100	2.5	3,700	(8.2)	4,200	(8.1)	2,550	(9.3)	114.17
Full year	286,500	1.6	6,000	(9.2)	7,000	(8.8)	4,200	0.5	188.05

***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)

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

3) Average number of shares issued during the period

FYE March, 2023	24,583,420 shares	FYE March, 2022	24,583,420 shares
FYE March, 2023	2,249,122 shares	FYE March, 2022	2,261,722 shares
FYE March, 2023	22,334,298 shares	FYE March, 2022	22,318,733 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.

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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 15, 2023, the Japanese economy showed signs of recovery in activity due to an easing of restriction on personal activities, among other factors, amid continued impacts from the spread of COVID-19. However, uncertainty over the economic outlook remained, affected by soaring resource prices and foreign exchange movements as well as heightened geopolitical risks.

A budget-minded trend in consumer spending has become even more widespread due to, for example, a rising cost of living prompted by merchandise price hikes stemming from increased utility bills and higher raw material prices.

The drugstore sector, to which the Cawachi Group (“the Group”) belongs, remained in a tough environment due to cross-segment competition brought on by price hikes on various goods and to continued opening of new stores by competitors, despite expanding business through in-store dispensing pharmacy installation and seeing signs of recovery in inbound tourism-related demand.

Under these circumstances, the Group kept opening new in-store dispensing pharmacies as a way to enhance our expertise and strove to sell infection-prevention products as a measure to deal with infections. Moreover, the Group endeavored to enhance customer convenience through refurbishing stores, extending opening hours, and expanding vegetable-selling stores, among other measures. In an effort to remain relatively competitive amid a series of price hikes stemming from soaring raw material prices, we worked to promote sales while seeking to secure merchandise and lower selling prices by conducting bulk purchasing that leveraged our logistics system. Meanwhile, to streamline its store operations, the Group moved to introduce self-checkout machines at the end of the previous fiscal year. We strove to curb personnel expenses by improving their utilization rates. In addition, we restrained power consumption by taking power-saving measures such as reducing lighting at stores. However, as utility bills climbed due to higher fuel adjustment costs, selling, general & administrative expenses went up accordingly.

In terms of new store openings, the Group opened a total of 11 stores: two stores each in Yamagata, Ibaraki, Tochigi, and Chiba, and one store each in Saitama, Niigata, and Nagano, all of which are areas it currently operates. The Group also opened a total of 13 in-store dispensing pharmacies: three each in Ibaraki and Tochigi, two each in Miyagi and Yamagata, and one each in Fukushima, Chiba, and Niigata. The Group closed a total of two stores—one in Tochigi and another in Niigata (in-store dispensing pharmacy type)—for the purpose of relocation as well as one dispensing pharmacy.

Accordingly, the Group has a total of 364 stores (of which 144 have an in-store dispensing pharmacy).

As a result, the Group recorded net sales of 281,871 million yen (279,462 million yen for the previous fiscal year) on a consolidated basis for the current fiscal year under review. The Group recorded operating profits of 6,611 million yen (7,709 million yen for the previous fiscal year), ordinary profit of 7,672 million yen (8,698 million yen for the previous fiscal year), and profit attributable to owners of parent of 4,177 million yen (4,830 million yen for the previous fiscal year).

Effective from the beginning of the fiscal year under review, the Group began to apply the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. As our revenue accounting treatment for the fiscal year under review thus differed from that for the previous fiscal year, no percentage changes compared with the previous fiscal year are indicated in the business performance briefing.

(Sales)

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

Segment	Previous consolidated fiscal year (From March 16, 2021 to March 15, 2022)		Current consolidated fiscal year (From March 16, 2022 to March 15, 2023)	
	Amount (Mil. yen)	(%)	Amount (Mil. yen)	(%)
Pharmaceuticals	50,839	18.3	52,780	18.8
Cosmetics	20,816	7.5	21,421	7.6
Sundries	78,344	28.1	77,581	27.6
General food	128,544	46.1	129,164	46.0
Total	278,544	100.0	280,948	100.0

- (Notes) 1. Number of units sold is omitted because the Company's has an extensive product range.
2. Amounts above do not include rent revenue from real estate.
3. Effective from the beginning of the fiscal year under review, the Company began to apply the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc., and the numbers for the fiscal year ended March 15, 2023 are ones after applying it.

(Outlook for the next fiscal year)

For the fiscal year ending March 15, 2024, economic activity in Japan is predicted to recover moderately, helped by such factors as increased people flows and rebounding inbound tourism-related demand as a result of COVID-19 being downgraded as a class 5 disease. There is, however, persistent uncertainty about the future due to continued price hikes stemming from rising geopolitical risks, foreign exchange movements, higher fuel prices, and soaring raw material prices, among other factors. The consumer spending climate is forecasted to remain more challenging amid, among other factors, the budget-minded trend pushed by economic situation concerns and future worries in the face of continuously growing inflation and the cost of living.

In these circumstances, in order to cope with the rapidly changing business environment, the Group will work on systemization and mechanization based on DX promotion measures for the purpose of improving productivity and stepping up overall efficiency through a new logistics framework in order to further strengthen its business infrastructure. We will rein in rapidly rising utility bills by introducing power-saving equipment, among other steps, in order to deal with them.

Further, as a differentiation measure against increasingly fierce competition, we will continue to open dispensing pharmacies in our new stores. At the same time, we will make progress with measures for enhancing our expertise by strengthening functions that enable qualified specialists to provide counseling in order to maintain and step up people's health, including disease prevention and beauty, and extend their health longevity while enhancing our product lineup catering for people's growing health awareness as a measure to enhance their health and beauty care. Furthermore, 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 with functions as local infrastructure. We will do this while focusing on offering products that value safety at reasonable prices in an effort to respond to the consumption environment where people are increasingly conscious about protecting their living.

Regarding new store openings and closings, the Group plans to open 16 stores mainly in the areas where it currently operates, and to close two stores. Furthermore, to further make progress on measures for expertise enhancement, the Group plans to launch 11 in-store dispensing pharmacies at new and existing stores and to close two.

From the above, the Group forecasts, for the fiscal year ending March 2024, that the net sales will be 286,500 million yen, operating profit 6,000 million yen, ordinary profit 7,000 million yen, and profit attributable to owners of parent 4,200 million yen.

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

1) Assets, liabilities and net assets

Assets increased 2,775 million yen compared with the end of the previous fiscal year, to 194,496 million yen. This was due primarily to an increase in merchandise.

Liabilities decreased 300 million yen compared with the end of the previous fiscal year, to 86,771 million yen.

Net assets increased 3,075 million yen compared with the end of the previous fiscal year, to 107,725 million yen.

This was due primarily to an increase in retained earnings.

Equity ratio increased to 55.3% (year-on-year increase of 0.8 point).

2) Cash flows

Cash and cash equivalents as of the end of the fiscal year under review (hereinafter referred to as “fund”) amounted to 38,450 million yen (509 million yen decrease compared with the end of the previous fiscal year).

(Cash flow from operating activities)

Net cash provided by operating activities amounted to 9,817 million yen (year-on-year increase of 2,948 million yen). This was due primarily to the fact that profit before income taxes was 6,572 million yen (year-on-year decrease of 1,115 million yen), depreciation was 4,350 million yen (year-on-year decrease of 73 million yen).

(Cash flow from investing activities)

Net cash used in investing activities amounted to 5,840 million yen (year-on-year increase of 1,304 million yen).

This was due primarily to the fact that purchase of property, plant and equipment associated with the opening of new stores amounted to 5,252 million yen (year-on-year increase of 1,279 million yen).

(Cash flows from financing activities)

Net cash used in financing activities amounted to 4,485 million yen (year-on-year decrease of 121 million yen).

This was due primarily to the fact that while proceeds from long-term borrowings were 6,500 million yen (year-on-year decrease of 1,150 million yen), repayments of long-term borrowings were 9,869 million yen (year-on-year decrease of 1,271 million yen), dividends paid were 1,116 million yen (year-on-year increase of 0 million yen).

(Trends of Cash Flow-related Indicators)

	FYE3/2019	FYE3/2020	FYE3/2021	FYE3/2022	FYE3/2023
Equity ratio (%)	50.7	50.3	51.9	54.5	55.3
Equity ratio on market value (%)	23.0	20.9	33.6	27.5	25.3
Ratio of interest-bearing debts to cash flows (years)	4.7	2.4	1.7	3.3	2.0
Interest coverage ratio (multiples)	84.4	178.8	246.8	138.0	235.1

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.

The Group is planning to propose an ordinary dividend of 50 yen per share for the current fiscal year in the 56th Ordinary General Meeting of Shareholders scheduled to be held on June 14, 2023.

The Group also plans to distribute an ordinary dividend of 50 yen per share in the following fiscal year.

Internal reserves will be used as funds primarily for opening of new stores 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.

3. Consolidated financial statements

(1) Consolidated balance sheets

(Millions of yen)

	As of March 15, 2022	As of March 15, 2023
Assets		
Current assets		
Cash and deposits	38,959	38,450
Accounts receivable - trade	5,850	6,604
Merchandise	31,402	32,961
Supplies	30	32
Other	5,179	5,474
Total current assets	81,422	83,523
Non-current assets		
Property, plant and equipment		
Buildings and structures	112,585	114,911
Accumulated depreciation	(72,758)	(74,785)
Buildings and structures, net	39,826	40,126
Land	49,601	49,292
Construction in progress	8	791
Other	25,019	25,016
Accumulated depreciation	(21,589)	(21,839)
Other, net	3,430	3,177
Total property, plant and equipment	92,867	93,388
Intangible assets		
Other	5,087	5,243
Total intangible assets	5,087	5,243
Investments and other assets		
Investment securities	79	101
Leasehold and guarantee deposits	7,832	7,633
Deferred tax assets	4,082	4,285
Other	348	321
Total investments and other assets	12,343	12,342
Total non-current assets	110,298	110,973
Total assets	191,721	194,496

(Millions of yen)

	As of March 15, 2022	As of March 15, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	40,625	41,923
Current portion of long-term borrowings	9,200	7,909
Income taxes payable	1,217	1,424
Provision for bonuses	1,188	1,204
Provision for point card certificates	1,352	–
Contract liabilities	–	2,046
Other	7,081	7,927
Total current liabilities	60,665	62,435
Non-current liabilities		
Long-term borrowings	13,719	11,640
Retirement benefit liability	8,217	8,693
Provision for point card certificates	524	–
Asset retirement obligations	2,996	3,078
Other	948	922
Total non-current liabilities	26,406	24,335
Total liabilities	87,071	86,771
Net assets		
Shareholders' equity		
Share capital	13,001	13,001
Capital surplus	14,901	14,902
Retained earnings	81,008	84,070
Treasury shares	(4,387)	(4,362)
Total shareholders' equity	104,524	107,612
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(0)	15
Total accumulated other comprehensive income	(0)	15
Share acquisition rights	126	98
Total net assets	104,649	107,725
Total liabilities and net assets	191,721	194,496

**(2) Consolidated statements of income and consolidated statements of comprehensive income
(Consolidated statements of income)**

(Millions of yen)

	Fiscal year ended March 15, 2022	Fiscal year ended March 15, 2023
Net sales	279,462	281,871
Cost of sales	216,313	217,824
Gross profit	63,149	64,047
Selling, general and administrative expenses	55,439	57,435
Operating profit	7,709	6,611
Non-operating income		
Interest income	24	21
Dividend income	2	2
Sponsorship money income	149	152
Commission income	807	824
Revenue from sales of electric power	195	186
Other	218	254
Total non-operating income	1,399	1,442
Non-operating expenses		
Interest expenses	49	41
Commission expenses	156	142
Depreciation	65	59
Other	137	137
Total non-operating expenses	409	381
Ordinary profit	8,698	7,672
Extraordinary income		
Gain on sale of non-current assets	0	10
Insurance claim income	–	137
Total extraordinary income	0	148
Extraordinary losses		
Loss on sale of non-current assets	21	9
Loss on retirement of non-current assets	33	64
Impairment losses	944	911
Loss on disaster	5	230
Other	6	33
Total extraordinary losses	1,011	1,248
Profit before income taxes	7,687	6,572
Income taxes - current	2,922	2,604
Income taxes - deferred	(65)	(209)
Total income taxes	2,857	2,394
Profit	4,830	4,177
Profit attributable to owners of parent	4,830	4,177

(Consolidated statements of comprehensive income)

(Millions of yen)

	Fiscal year ended March 15, 2022	Fiscal year ended March 15, 2023
Profit	4,830	4,177
Other comprehensive income		
Valuation difference on available-for-sale securities	1	15
Total other comprehensive income	1	15
Comprehensive income	4,832	4,193
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,832	4,193

(3) Consolidated statements of changes in equity

Fiscal year ended March 15, 2022

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	13,001	14,899	77,293	(4,411)	100,782
Changes during period					
Dividends of surplus			(1,115)		(1,115)
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		1		24	26
Profit attributable to owners of parent			4,830		4,830
Net changes in items other than shareholders' equity					
Total changes during period	–	1	3,715	24	3,741
Balance at end of period	13,001	14,901	81,008	(4,387)	104,524

	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	(2)	(2)	76	100,857
Changes during period				
Dividends of surplus				(1,115)
Purchase of treasury shares				(0)
Disposal of treasury shares				26
Profit attributable to owners of parent				4,830
Net changes in items other than shareholders' equity	1	1	49	51
Total changes during period	1	1	49	3,792
Balance at end of period	(0)	(0)	126	104,649

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	13,001	14,901	81,008	(4,387)	104,524
Changes during period					
Dividends of surplus			(1,116)		(1,116)
Disposal of treasury shares		1		24	26
Profit attributable to owners of parent			4,177		4,177
Net changes in items other than shareholders' equity					
Total changes during period	–	1	3,061	24	3,088
Balance at end of period	13,001	14,902	84,070	(4,362)	107,612

	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	(0)	(0)	126	104,649
Changes during period				
Dividends of surplus				(1,116)
Disposal of treasury shares				26
Profit attributable to owners of parent				4,177
Net changes in items other than shareholders' equity	15	15	(28)	(12)
Total changes during period	15	15	(28)	3,075
Balance at end of period	15	15	98	107,725

(4) Consolidated statements of cash flows

(Millions of yen)

	Fiscal year ended March 15, 2022	Fiscal year ended March 15, 2023
Cash flows from operating activities		
Profit before income taxes	7,687	6,572
Depreciation	4,424	4,350
Impairment losses	944	911
Loss on retirement of non-current assets	9	9
Increase (decrease) in provision for bonuses	(176)	16
Increase (decrease) in retirement benefit liability	498	476
Increase (decrease) in provision for loss on disaster	(134)	–
Interest and dividend income	(27)	(24)
Interest expenses	49	41
Loss (gain) on sale of non-current assets	21	2
Increase (decrease) in provision for point card certificates	175	–
Increase(decrease) in contract liabilities	–	169
Decrease (increase) in trade receivables	(482)	(753)
Decrease (increase) in inventories	(670)	(1,560)
Increase (decrease) in trade payables	(594)	1,297
Other, net	167	1,019
Subtotal	11,891	12,527
Interest and dividends received	3	3
Interest paid	(49)	(42)
Income taxes paid	(4,977)	(2,671)
Net cash provided by (used in) operating activities	6,868	9,817
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,973)	(5,252)
Proceeds from sale of property, plant and equipment	109	50
Purchase of intangible assets	(526)	(455)
Purchase of long-term prepaid expenses	(58)	(55)
Payments of leasehold and guarantee deposits	(116)	(244)
Proceeds from refund of leasehold and guarantee deposits	27	112
Other, net	1	4
Net cash provided by (used in) investing activities	(4,536)	(5,840)
Cash flows from financing activities		
Proceeds from long-term borrowings	7,650	6,500
Repayments of long-term borrowings	(11,140)	(9,869)
Purchase of treasury shares	(0)	–
Proceeds from disposal of treasury shares	0	0
Dividends paid	(1,115)	(1,116)
Other, net	(1)	–
Net cash provided by (used in) financing activities	(4,607)	(4,485)
Net increase (decrease) in cash and cash equivalents	(2,276)	(509)
Cash and cash equivalents at beginning of period	41,235	38,959
Cash and cash equivalents at end of period	38,959	38,450