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Consolidated Financial Results for the Three Months Ended June 30, 2019 <under Japanese GAAP>

August 9, 2019

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 Listing: Tokyo Stock Exchange
 Securities code: 3088
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 Scheduled date to file Quarterly Securities Report August 9, 2019
 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, 2019 (from April 1, 2019 to June 30, 2019)

(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, 2019	145,856	0.9	9,175	(1.5)	9,825	(1.5)	6,519	(1.8)
June 30, 2018	144,564	5.2	9,318	13.5	9,979	12.8	6,641	14.9

Note: Comprehensive income Three months ended June 30, 2019 ¥6,156 million [(25.7%)]
 Three months ended June 30, 2018 ¥8,289 million [16.1%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2019	63.53	63.50
June 30, 2018	62.76	62.73

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	%	Yen
As of June 30, 2019	317,666	211,836	66.7	2,063.72
March 31, 2019	318,324	209,269	65.7	2,038.76

Reference: Equity Three months ended June 30, 2019 ¥211,792 million
 Fiscal year ended March 31, 2019 ¥209,226 million

2. Cash dividends

	Annual dividends				
	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
Fiscal year ending March 31, 2020	–				
Fiscal year ending March 31, 2020 (forecast)		35.00	–	35.00	70.00

Note: Revisions to dividends forecasts most recently announced: None

3. Consolidated earnings forecasts for the year ending March 31, 2020 (from April 1, 2019 to March 31, 2020)

(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
Half year	305,000	6.2	19,000	12.0	20,000	8.8	12,500	7.9	121.80
Full year	600,000	4.2	37,000	2.7	39,900	2.4	26,000	3.9	253.35

Note: Revisions to earnings forecasts most recently announced: None

*** Notes**

- (1) Changes in significant subsidiaries during the three months ended June 30, 2019 (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, 2019	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 June 30, 2019	6,645,526 shares
As of March 31, 2019	6,648,168 shares

c. Average number of shares during the period

Three months ended June 30, 2019	102,624,144 shares
Three months ended June 30, 2018	105,826,079 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 (137,984 shares as of June 30, 2019 and 140,660 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.

- * 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.

○Attached Material Index

1. Qualitative Information.....	2
(1) Details of operating results	2
(2) Details of financial position.....	4
(3) Consolidated earnings forecasts and other forward-looking statements	4
2. Quarterly Consolidated Financial Statements and Significant Notes Thereto.....	5
(1) Quarterly consolidated balance sheets	5
(2) Quarterly consolidated statement of income and consolidated statement of comprehensive income	7
Quarterly consolidated statement of income	7
Quarterly consolidated statement of comprehensive income	8
(3) Notes to quarterly consolidated financial statements	9
(Notes on going concern assumption).....	9
(Notes when there are significant changes in amounts of equity)	9
(Segment information).....	9
(Significant events after reporting period)	10
3. Supplementary information.....	11
Net sales and purchases	11

1. Qualitative Information

(1) Details of operating results

(1) Operating results

During the three months ended June 30, 2019 (from April 1, 2019, to June 30, 2019), the Japanese economy continued to show indications of improvement according to various economic indicators. However, uncertainty lingered against the backdrop of trade frictions, with concerns over changes in stock prices all over the world, trends of oil prices and exchange rates, changes in corporate earnings and consumer sentiment resulting from any of the external factors mentioned above, and the consumption environment remained unfavorable.

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

In such an environment, given that the Group delivered satisfactory results with respect to the medium-term strategic themes which had been worked on until the previous fiscal year, we have set, on a rolling basis, the three new strategic themes of “Contributing to Local Communities in the Beauty and Health Fields with Expertise and Originality,” “Creation of New Businesses without Being Confined by Existing Frameworks,” and “Advancement of Group Management to Enhance Corporate Value,” and have rolled them forward.

More specifically, we promoted coordination with local healthcare facilities at the 24 stores that are designated as “Health-Support Pharmacies” by the Ministry of Health, Labour and Welfare, and 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 (currently 958 stores including new stores (an increase of 29 stores 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, we launched three new dietary supplement products containing plant-derived ingredients as part of a new series in a product line developed under the supervision of our registered dietitians, added “HMB3000 with CREATINE” and two protein drink products to the “matsukiyo LAB athlete line” that provides daily support to athletes, and started to sell “EXSTRONG BODY & SALT ENERGY DRINK,” which contains salt and citric acid, as a new product in the popular energy drink product line.

As for products planned jointly with national brand manufacturers, we have started to sell “DEW JELLY LOTION MARINE FLORAL” under an aging care brand of Kanebo Cosmetics Inc., as a new product that is distributed exclusively through the Group stores for a limited number.

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 social media followers from overseas), which are among the strengths of the Group, and the total number of such points reached 63.23 million.

As new initiatives, we made 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 and Matsumotokiyoshi stores in Thailand has steadily expanded to 33 stores. For drugstore business in Taiwan, the Group has opened the third store in June 2019. 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, and “Hakata Sumiyoshi Store” and “Hakata Station Chikushi Exit Store” to expand share in the Hakata area in Fukuoka Prefecture; “Narita International Airport Terminal 2 3F Store” and “Narita International Airport Terminal 2 B1F Store” as international airport terminal franchise stores; and “APA HOTEL & RESORTS TOKYO BAY MAKUHARI Store” as a store inside a hotel. In total, the Group opened 27 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 17 stores for the purpose of revitalizing existing stores, and closing nine unprofitable stores without delay. As a result, the number of Group stores at the end of the three months ended June 30, 2019 was 1,672.

(* The total number of Group stores above does not include 33 stores managed by Central & Matsumotokiyoshi Ltd. in Thailand and three stores managed by Matsumotokiyoshi (Taiwan) Limited in Taiwan.)

CSR (corporate social responsibility) activities that the Group focuses on, include projects to support people who want to stay beautiful and healthy, such as the 27th Self-medication Forums held under the theme of “Learn Ways to Improve Oneself from Beauty and Health Experts to Start Today” and attended by a large number of customers.

As for ESG activities, an internal project worked on updating 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 updated 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, net sales were ¥145,856 million (up 0.9% year on year), operating profit was ¥9,175 million (down 1.5%), ordinary profit was ¥9,825 million (down 1.5%), and profit attributable to owners of parent was ¥6,519 million (down 1.8%).

Results of operations by segment were as follows:

Retail business

This 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, which resulted in shorter daylight hours, which was 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, one of the Group’s purchase segment, avoided visits to Japan during that time, to some extent affecting our sales to inbound tourists, which had been on steady increase.

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

In such an environment, operating results of the Other Retail business steadily improved due to new store openings that progressed at a favorable pace 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, but not as much as in the past two fiscal years in which we achieved two-digit year-on-year profit growth. Such results had already been reflected in the earnings forecasts announced at the beginning of the current fiscal year, and sales and earnings have been in line with the forecasts.

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 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 of the operating activities above, net sales of the retail business were ¥140,300 million (up 0.8% year on year), net sales of the wholesale business were ¥4,721 million (up 2.3%), and net sales of the management support business were ¥834 million (up 10.4%).

(2) Details of financial position

Total assets as of the end of the three months ended June 30, 2019 decreased by ¥657 million from the end of the previous fiscal year to ¥317,666 million. This was mainly as a result of a decrease of ¥1,117 million in notes and accounts receivable - trade.

Total liabilities decreased by ¥3,224 million to ¥105,830 million. This was mainly as a result of an increase of ¥2,439 million in accounts payable - trade as well as decreases of ¥4,808 million in income taxes payable and ¥1,735 million in provision for bonuses, respectively.

Net assets increased by ¥2,566 million to ¥211,836 million. This was mainly as a result of an increase of ¥2,922 million in retained earnings.

(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, 2020 that were announced on May 10, 2019.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly consolidated balance sheets

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	43,353	43,304
Notes and accounts receivable - trade	23,472	22,355
Merchandise	76,160	78,361
Supplies	663	681
Other, net	25,298	23,997
Allowance for doubtful accounts	(7)	(8)
Total current assets	168,942	168,693
Non-current assets		
Property, plant and equipment		
Land	40,156	40,156
Other	33,203	33,630
Total property, plant and equipment	73,360	73,787
Intangible assets		
Goodwill	5,756	5,528
Other	4,146	4,207
Total intangible assets	9,903	9,735
Investments and other assets		
Leasehold and guarantee deposits	37,337	37,437
Other	28,855	28,085
Allowance for doubtful accounts	(74)	(71)
Total investments and other assets	66,118	65,451
Total non-current assets	149,382	148,973
Total assets	318,324	317,666

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Liabilities		
Current liabilities		
Accounts payable - trade	64,119	66,559
Income taxes payable	7,406	2,598
Provision for bonuses	3,723	1,988
Provision for point card certificates	2,783	3,134
Asset retirement obligations	4	9
Other	13,790	14,293
Total current liabilities	91,828	88,582
Non-current liabilities		
Provision for share-based remuneration	134	159
Provision for share-based remuneration for directors (and other officers)	39	39
Retirement benefit liability	234	240
Asset retirement obligations	7,201	7,289
Other	9,615	9,517
Total non-current liabilities	17,226	17,247
Total liabilities	109,054	105,830
Net assets		
Shareholders' equity		
Share capital	22,051	22,051
Capital surplus	22,994	22,994
Retained earnings	177,270	180,193
Treasury shares	(20,765)	(20,758)
Total shareholders' equity	201,551	204,480
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,674	7,311
Total accumulated other comprehensive income	7,674	7,311
Share acquisition rights	43	43
Total net assets	209,269	211,836
Total liabilities and net assets	318,324	317,666

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

Quarterly consolidated statement of income

Year to quarter end consolidated statement of income

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Net sales	144,564	145,856
Cost of sales	100,142	99,810
Gross profit	44,421	46,045
Selling, general and administrative expenses		
Provision for point card certificates	504	350
Salaries and allowances	11,082	11,592
Provision for bonuses	1,913	1,988
Retirement benefit expenses	246	260
Rent expenses on land and buildings	8,355	8,994
Other	13,001	13,683
Total selling, general and administrative expenses	35,103	36,869
Operating profit	9,318	9,175
Non-operating income		
Interest income	28	25
Dividend income	129	132
Gain on donation of non-current assets	157	131
Order handling commission	259	269
Other	100	104
Total non-operating income	676	662
Non-operating expenses		
Interest expenses	4	4
Foreign exchange losses	2	2
Cash over and short	3	3
Other	5	2
Total non-operating expenses	15	12
Ordinary profit	9,979	9,825
Extraordinary income		
Gain on sales of non-current assets	0	-
Gain on sales of investment securities	48	-
Total extraordinary income	48	-
Extraordinary losses		
Loss on retirement of non-current assets	103	49
Loss on store closings	60	9
Impairment loss	36	52
Total extraordinary losses	200	111
Profit before income taxes	9,827	9,714
Income taxes - current	2,331	2,195
Income taxes - deferred	853	998
Total income taxes	3,185	3,194
Profit	6,641	6,519
Profit attributable to owners of parent	6,641	6,519

Quarterly consolidated statement of comprehensive income

Year to quarter end consolidated statement of comprehensive income

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Profit	6,641	6,519
Other comprehensive income		
Valuation difference on available-for-sale securities	1,647	(362)
Total other comprehensive income	1,647	(362)
Comprehensive income	8,289	6,156
Profit attributable to		
Comprehensive income attributable to owners of parent	8,289	6,156
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 equity)

Not applicable.

(Segment information)

[Segment information]

I Three months ended June 30, 2018

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)
	Matsumoto-kiyoshi Retail	Other Retail	Matsumoto-kiyoshi Holdings Wholesale	Other Wholesale				
Net sales								
Sales from external customers	92,744	46,447	12	4,603	755	144,564	–	144,564
Intersegment sales or transfers	3	7	98,132	–	3,289	101,433	(101,433)	–
Total	92,748	46,455	98,144	4,603	4,045	245,998	(101,433)	144,564
Segment profit (loss)	7,256	2,110	378	63	(340)	9,469	(150)	9,318

(Notes) 1. The adjustment of negative ¥150 million to segment profit (loss) includes negative ¥221 million of amortization of goodwill and ¥70 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 Company 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 ¥36 million as an impairment loss under extraordinary loss.

The breakdown of the impairment loss is ¥32 million for Matsumotokiyoshi Retail, ¥4 million for Other Retail, and negative ¥0 million for consolidation eliminations and adjustments.

(Significant change in the amount of goodwill)

Not applicable.

II 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)
	Matsumoto-kiyoshi Retail	Other Retail	Matsumoto-kiyoshi 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 Company 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 loss.

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.

(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 fiscal year ending March 31, 2020 are as follows:

Segment name	Three months ended June 30, 2019	
	Amount (Millions of yen)	Change from the previous fiscal year (%)
Retail business	140,300	100.8
Wholesale business	4,721	102.3
Management support business	834	110.4
Total	145,856	100.9

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 ending March 31, 2020 are as follows:

Products	Three months ended June 30, 2019	
	Amount (Millions of yen)	Change from the previous fiscal year (%)
Retail business		
Medical and pharmaceutical products	44,257	103.1
Cosmetics	58,368	99.1
General merchandise	24,622	101.5
Food	12,770	99.2
Subtotal	140,018	100.7
Wholesale business	4,589	102.2
Total	144,608	100.8

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 ending March 31, 2020 are as follows:

Products	Three months ended June 30, 2019	
	Amount (Millions of yen)	Change from the previous fiscal year (%)
Retail business		
Medical and pharmaceutical products	27,573	100.3
Cosmetics	39,721	97.8
General merchandise	18,683	99.2
Food	11,156	98.2
Subtotal	97,136	98.8
Wholesale business	4,579	102.6
Total	101,715	99.0

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.