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April 11, 2023

Consolidated Financial Results for the Fiscal Year Ended February 28, 2023 (Under Japanese GAAP)

Company name: KOHNAN SHOJI CO., LTD.
Listing: Tokyo
Securities code: 7516
URL: https://www.hc-kohnan.com/
Representative: NAOTARO HIKIDA, PRESIDENT
Inquiries: TETSUYA TAKEUCHI, GENERAL MANAGER OF ACCOUNTING DEPARTMENT
Telephone: +81-6-6397-1621

Scheduled date of annual general meeting of shareholders: May 25, 2023
Scheduled date to commence dividend payments: May 26, 2023
Scheduled date to file annual securities report: May 26, 2023
Preparation of supplementary material on financial results: Yes
Holding of financial results briefing: Yes (for institutional investors)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the fiscal year ended February 28, 2023 (from March 1, 2022 to February 28, 2023)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Operating revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
February 28, 2023	439,024	–	22,019	–	20,732	–	13,235	–
February 28, 2022	441,222	(0.2)	25,788	(16.6)	24,206	(18.7)	15,590	(16.4)

Note: Comprehensive income For the fiscal year ended February 28, 2023: ¥13,347 million [–%]
For the fiscal year ended February 28, 2022: ¥15,754 million [(15.7)%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
Fiscal year ended	Yen	Yen	%	%	%
February 28, 2023	431.11	430.98	9.1	5.1	5.2
February 28, 2022	489.30	489.16	11.3	6.1	6.1

Reference: Share of profit (loss) of entities accounted for using equity method
For the fiscal year ended February 28, 2023: ¥– million
For the fiscal year ended February 28, 2022: ¥– million

Note: KOHNAN SHOJI CO., LTD. (the "Company") has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the fiscal year ended February 28, 2023, and each figure for the fiscal year ended February 28, 2023 is the figure after applying the accounting standard and relevant ASBJ regulations. The percentage of year-on-year change is not shown.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
February 28, 2023	419,249	149,555	35.7	4,917.97
February 28, 2022	398,076	142,444	35.8	4,531.40

Reference: Equity
As of February 28, 2023: ¥149,555 million
As of February 28, 2022: ¥142,444 million

Note: The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the fiscal year ended February 28, 2023, and each figure as of February 28, 2023 is the figure after applying the accounting standard and relevant ASBJ regulations.

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
February 28, 2023	9,402	(17,935)	5,428	9,199
February 28, 2022	17,436	(12,677)	(7,286)	12,224

2. Cash dividends

	Annual dividends per share					Total cash dividends (Total)	Payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended February 28, 2022	–	35.00	–	35.00	70.00	2,273	14.3	1.6
Fiscal year ended February 28, 2023	–	45.00	–	45.00	90.00	2,826	20.9	1.9
Fiscal year ending February 29, 2024 (Forecast)	–	47.00	–	48.00	95.00		21.7	

3. Consolidated financial forecasts for the fiscal year ending February 29, 2024 (from March 1, 2023 to February 29, 2024)

(Percentages indicate year-on-year changes.)

	Operating revenue		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
Six months ending August 31, 2023	230,050	3.5	14,000	3.7	13,000	1.6	8,500	(0.3)	276.87
Full year	453,200	3.2	22,800	3.5	20,900	0.8	13,450	1.6	438.11

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): No

(2) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

(ii) Changes in accounting policies due to other reasons: No

(iii) Changes in accounting estimates: No

(iv) Restatement: No

Note: For details, please refer to the attached materials on page 13 "3. Consolidated financial statements and significant notes thereto, (5) Notes to consolidated financial statements, Notes - Changes in accounting policies."

(3) Number of issued shares (common shares)

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

As of February 28, 2023	34,682,113 shares
As of February 28, 2022	34,682,113 shares

(ii) Number of treasury shares at the end of the period

As of February 28, 2023	4,272,157 shares
As of February 28, 2022	3,247,218 shares

(iii) Average number of shares outstanding during the period

Fiscal year ended February 28, 2023	30,699,483 shares
Fiscal year ended February 28, 2022	31,862,633 shares

Note: The number of treasury shares excluded from the calculation of the number of treasury shares at the end of the period and the average number of shares outstanding during the period includes shares of the Company held by Custody Bank of Japan, Ltd. (Trust Account E), as trust assets for the executive officer incentive plan "Employee Share Benefit Trust (J-ESOP)," the employee incentive plan "Employee Share Benefit Trust (J-ESOP)," and the "Employee Share Benefit Trust (employee stock holding association disposal type)."

Reference: Overview of non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended February 28, 2023 (from March 1, 2022 to February 28, 2023)

(1) Non-consolidated operating results (Percentages indicate year-on-year changes.)

	Operating revenue		Operating profit		Ordinary profit		Profit	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
February 28, 2023	388,941	–	20,762	–	19,384	–	12,280	–
February 28, 2022	395,357	(0.6)	25,410	(16.1)	23,774	(18.3)	15,423	(15.1)

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
February 28, 2023	400.00	399.88
February 28, 2022	484.05	483.91

Note: KOHNAN SHOJI CO., LTD. (the "Company") has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the fiscal year ended February 28, 2023, and each figure for the fiscal year ended February 28, 2023 is the figure after applying the accounting standard and relevant ASBJ regulations. The percentage of year-on-year change is not shown.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
February 28, 2023	399,930	147,708	36.9	4,857.23
February 28, 2022	379,973	141,800	37.3	4,510.92

Reference: Equity
As of February 28, 2023: ¥147,708 million
As of February 28, 2022: ¥141,800 million

Note: The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the fiscal year ended February 28, 2023, and each figure as of February 28, 2023 is the figure after applying the accounting standard and relevant ASBJ regulations.

2. Non-consolidated financial forecasts for the fiscal year ending February 29, 2024 (from March 1, 2023 to February 29, 2024)

(Percentages indicate year-on-year changes.)

	Operating revenue		Ordinary profit		Profit		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending August 31, 2023	205,900	4.4	12,180	0.3	7,580	(7.6)	246.91
Full year	405,700	4.3	19,550	0.9	12,750	3.8	415.31

* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

1. Consolidated subsidiary KOHNAN VIETNAM CO., LTD. has its fiscal year-end at the end of December, so there is a two-month difference from the consolidated fiscal year-end (end of February).

   For the fiscal year under review, the company's financial statements as of the end of December have been used, with important transactions occurring during the interval between then and the consolidated fiscal year-end (end of February) adjusted as necessary for consolidation.

2. Forward-looking statements in these materials, such as the forecast for financial results, are based on information currently available to the Company and assumptions deemed reasonable. They do not constitute a promise by the Company regarding their achievement. Furthermore, actual performance and so forth may differ considerably due to various factors. For notes regarding the assumptions and conditions of the financial results forecast and use of the financial results forecast, please refer to the attached materials on page 3 "1. Overview of operating results and others, (4) Future forecast."

   The Company plans to hold financial results briefings for institutional investors on Tuesday, April 11 and Friday, April 14, 2023.

Attached Material

1. Overview of operating results and others

(1) Overview of operating results for the fiscal year under review

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the fiscal year ended February 28, 2023. As a result, because the accounting treatment of revenue is different from that of the previous fiscal year, year-on-year changes and percentage year-on-year changes are not given in explanations of operating results below.

During the fiscal year ended February 28, 2023, under the prolonged impact of the novel coronavirus disease (COVID-19), the Japanese economy showed signs of moving towards normalization of socio-economic activity. On the other hand, the combination of rapid depreciation of the yen and the global surge in resource prices that has taken place against the background of heightened geopolitical risks caused by the Russian invasion of Ukraine and other factors, has resulted in continued uncertainty with regard to the outlook for business conditions. Furthermore, the environment for consumer spending has grown increasingly harsh mainly due to impacts of increasing costs of commodities needed for daily living.

Under these conditions, the KOHNAN Group (the "Group") is working on various measures to achieve the plan of its Medium-Term Management Plan Part III, "We love KOHNAN!! just fit for you, now and always," which was released in April 2021.

In the area of store expansion, we opened 12 Home Center KOHNAN stores, 12 KOHNAN PRO stores, 3 CAMP DEPOT stores, 1 BEAVER PRO store, 3 KOHNAN VIETNAM stores, and 6 KEN DEPOT stores. We also closed 1 Home Center KOHNAN store and 2 KEN DEPOT stores. This brought the number of stores as of the end of the fiscal year under review to 536 (319 Home Center KOHNAN stores, 114 KOHNAN PRO stores, 9 CAMP DEPOT stores, 6 Home Center BEAVERTOZAN stores, 5 BEAVER PRO stores, 11 KOHNAN VIETNAM stores, 69 KEN DEPOT corporate stores and 3 KEN DEPOT franchise stores).

Since the fiscal year of KOHNAN VIETNAM CO., LTD. is from January 1, 2022 to December 31, 2022, the number of its stores as of December 31, 2022 is presented as the number of stores at the consolidated fiscal year-end.

As result of these developments, operating revenue for the fiscal year under review was ¥439,024 million (¥441,222 million for the previous fiscal year). Selling, general and administrative expenses for the fiscal year under review were ¥153,704 million (¥150,225 million for the previous fiscal year), and operating profit was ¥22,019 million (¥25,788 million for the previous fiscal year).

Mainly due to the decline in operating profit, ordinary profit was ¥20,732 million (¥24,206 million for the previous fiscal year), while profit attributable to owners of parent came to ¥13,235 million (¥15,590 million for the previous fiscal year).

(2) Overview of financial position for the fiscal year under review

As of February 28, 2023, total assets stood at ¥419,249 million, up ¥21,173 million from the previous fiscal year-end. The main factors were an increase in merchandise and finished goods of ¥15,785 million, an increase in accounts receivable - trade of ¥2,932 million, an increase in buildings and structures of ¥4,148 million, a decrease in cash and deposits of ¥3,024 million, and a decrease in leased assets, of ¥3,026 million.

Total liabilities were ¥269,694 million, up ¥14,062 million from the previous fiscal year-end. The main factors were an increase in short-term borrowings of ¥11,750 million and an increase in accounts payable - trade of ¥2,747 million.

Total net assets stood at ¥149,555 million, an increase of ¥7,110 from the previous fiscal year-end. As a result, the equity ratio was 35.7%, down 0.1 percentage points from the previous fiscal year.

(3) Overview of cash flows for the fiscal year under review

Cash and cash equivalents as of February 28, 2023 had decreased ¥3,024 million from the previous fiscal year end to ¥9,199 million.

The status of cash flows during the fiscal year under review and the main factors are as follows.

Cash flows from operating activities

Operating activities provided net cash of ¥9,402 million (down ¥8,034 million year on year). This mainly reflected profit before income taxes of ¥19,541 million, depreciation of ¥13,378 million, and an increase in trade payables of ¥2,848 million, partially offset by an increase in trade receivables of ¥2,931 million, an increase in inventories of ¥16,225 million, and income taxes paid of ¥6,978 million.

Cash flows from investing activities

Investing activities used net cash of ¥17,935 million (up ¥5,257 million year on year). This was mainly the result of purchase of property, plant and equipment of ¥14,525 million and purchase of intangible assets of ¥1,093 million.

Cash flows from financing activities

Financing activities provided net cash of ¥5,428 million (up ¥12,715 million year on year). This mainly reflected proceeds from short-term borrowings of ¥87,000 million and proceeds from long-term borrowings of ¥28,500 million, which were more than offset by repayments of short-term borrowings of ¥75,250 million, repayments of long-term borrowings of ¥25,978 million, purchase of treasury shares of ¥4,000 million, repayments of lease liabilities of ¥2,451 million, and dividends paid of ¥2,549 million.

	Fiscal year ended February 28, 2022	Fiscal year ended February 28, 2023
Equity ratio (%)	35.8	35.7
Equity ratio based on market value (%)	28.8	23.0
Ratio of cash flow to interest-bearing debt (years)	9.4	18.3
Interest coverage ratio (times)	11.8	10.5

Equity ratio: shareholders' equity / total assets
Equity ratio based on market value: market value of stock / total assets
Ratio of cash flow to interest-bearing debt: interest-bearing debt / operating cash flow
Interest coverage ratio: Operating profit with interest and dividend income added / interest expenses

(Notes) 1. The market value of stock is calculated as the closing price at the end of the fiscal year × the number of issued shares at the end of the fiscal year (after deducting treasury shares).

2. For operating cash flows, cash flows from operating activities in the consolidated statements of cash flows is used. For interest-bearing debt, all liabilities on the consolidated balance sheets for which interest is recorded are used. Moreover, for interest expenses, interest expenses on the consolidated statements of income is used.

(4) Future forecast

In the next fiscal year, despite signs that the economic impact of the novel coronavirus disease (COVID-19) will diminish, the Japanese economy was impacted by stagnant consumer sentiment due to inflation and by rising costs, such as raw material expenses, logistics expenses, utilities expenses and personnel expenses, and future uncertainty in the business environment is expected to continue.

Turning to the outlook for full-year consolidated financial results, the Company is forecasting operating revenue of ¥453,200 million (up 3.2% year on year), operating profit of ¥22,800 million (up 3.5% year on year), ordinary profit of ¥20,900 million (up 0.8% year on year), and profit attributable to owners of parent of ¥13,450 million (up 1.6% year on year).

The Company resolved at a Board of Directors meeting held on March 20, 2023 to make HOME IMPROVEMENT HIROSE Co., Ltd. a subsidiary by acquiring the issued shares of the said company (hereinafter, the "Share Acquisition"), and concluded a share transfer agreement on the same date. Concerning the Share Acquisition, the execution date of the share transfer is scheduled for June, 1, 2023 and the execution of the share transfer is conditional upon the Company expecting to acquire at least two-thirds of the voting rights in the said company through the Share Acquisition and the satisfaction of other certain conditions stipulated in the share transfer agreement. Although the said company will become a consolidated subsidiary of the Company starting from the fiscal year ending February 29, 2024 as a result of the Share Acquisition, the impact is currently being examined and is not reflected in the above outlook. If any matters requiring disclosure arise in the future, the Company will promptly announce them.

In addition, the Company resolved at a Board of Directors meeting held on September 20, 2022 to conduct an absorption-type merger with the Company's wholly owned subsidiary BEAVERTOZAN Co., Ltd., and concluded an absorption-type merger agreement on the same date with an effective date of March 1, 2023. Because the merger is a merger with the Company's wholly owned subsidiary, the impact on the outlook for consolidated financial results is immaterial. Note that the impact of the merger is reflected in the forecast of non-consolidated financial results for the fiscal year ending February 29, 2024.

2. Basic policy regarding selection of accounting standards

The Group adopts the Japanese GAAP as the accounting standards in order to ensure comparability among other domestic companies in the same industry.

3. Consolidated financial statements and significant notes thereto

(1) Consolidated balance sheet

(Millions of yen)

	As of February 28, 2022	As of February 28, 2023
Assets		
Current assets		
Cash and deposits	12,242	9,218
Accounts receivable - trade	10,636	13,568
Merchandise and finished goods	93,113	108,898
Raw materials and supplies	1,115	1,494
Advance payments to suppliers	29	25
Prepaid expenses	4,546	4,751
Other	2,204	3,346
Allowance for doubtful accounts	(3)	(10)
Total current assets	123,884	141,292
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	109,851	113,999
Machinery, equipment and vehicles, net	1,018	875
Tools, furniture and fixtures, net	5,063	5,646
Land	50,191	50,471
Leased assets, net	20,559	17,533
Construction in progress	887	867
Total property, plant and equipment	187,571	189,393
Intangible assets		
Trademark right	3,410	3,078
Customer-related assets	2,536	2,311
Goodwill	15,245	14,086
Leasehold interests in land	4,604	4,653
Software	1,947	2,110
Other	425	648
Total intangible assets	28,169	26,888
Investments and other assets		
Investment securities	3,920	4,793
Long-term loans receivable	103	84
Long-term prepaid expenses	1,378	1,680
Guarantee deposits	46,781	48,458
Retirement benefit asset	97	102
Deferred tax assets	6,123	6,525
Other	316	250
Allowance for doubtful accounts	(270)	(220)
Total investments and other assets	58,451	61,675
Total non-current assets	274,192	277,957
Total assets	398,076	419,249

(Millions of yen)

	As of February 28, 2022	As of February 28, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	30,306	33,053
Electronically recorded obligations - operating	9,105	9,226
Short-term borrowings	9,187	20,937
Current portion of long-term borrowings	25,741	26,624
Lease liabilities	3,815	2,416
Accounts payable - other	6,673	7,155
Accrued expenses	3,017	2,609
Income taxes payable	3,717	3,574
Accrued consumption taxes	2,993	613
Unearned revenue	1,359	1,370
Advances received	2,272	–
Contract liabilities	–	4,622
Provision for bonuses	2,259	2,334
Provision for point card certificates	705	–
Provision for loss on disaster	–	72
Provision for bonuses for directors (and other officers)	211	170
Other	1,046	773
Total current liabilities	102,414	115,553
Non-current liabilities		
Long-term borrowings	85,988	87,626
Lease liabilities	22,651	21,197
Guarantee deposits received	10,543	10,397
Long-term accounts payable - other	14,336	14,146
Provision for loss on voluntary recall of goods	667	595
Provision for share awards	307	617
Asset retirement obligations	16,356	17,178
Deferred tax liabilities	2,109	1,911
Other	256	469
Total non-current liabilities	153,217	154,140
Total liabilities	255,632	269,694
Net assets		
Shareholders’ equity		
Share capital	17,658	17,658
Capital surplus	17,923	17,922
Retained earnings	118,946	129,682
Treasury shares	(12,483)	(16,220)
Total shareholders’ equity	142,045	149,043
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	142	198
Deferred gains or losses on hedges	(39)	(180)
Foreign currency translation adjustment	235	435
Remeasurements of defined benefit plans	60	58
Total accumulated other comprehensive income	399	511
Total net assets	142,444	149,555
Total liabilities and net assets	398,076	419,249

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

Consolidated statement of income

(Millions of yen)

	Fiscal year ended February 28, 2022	Fiscal year ended February 28, 2023
Net sales	425,704	423,136
Cost of sales	265,208	263,300
Gross profit	160,495	159,835
Operating revenue	15,517	15,888
Operating gross profit	176,013	175,724
Selling, general and administrative expenses	150,225	153,704
Operating profit	25,788	22,019
Non-operating income		
Interest and dividend income	129	83
Insurance claim income	72	65
Foreign exchange gains	183	350
Gain on investments in silent partnerships	282	284
Subsidy income	–	267
Other	266	203
Total non-operating income	934	1,255
Non-operating expenses		
Interest expenses	2,200	2,113
Other	316	429
Total non-operating expenses	2,516	2,542
Ordinary profit	24,206	20,732
Extraordinary income		
Gain on cancellation of guarantee deposits received	25	72
Gain on sale of non-current assets	5	1
Total extraordinary income	31	73
Extraordinary losses		
Impairment losses	971	899
Loss on retirement of non-current assets	62	93
Loss on disaster	–	271
Other	25	–
Total extraordinary losses	1,059	1,263
Profit before income taxes	23,177	19,541
Income taxes - current	7,867	6,857
Income taxes - deferred	(280)	(550)
Total income taxes	7,587	6,306
Profit	15,590	13,235
Profit attributable to owners of parent	15,590	13,235

Consolidated statement of comprehensive income

(Millions of yen)

	Fiscal year ended February 28, 2022	Fiscal year ended February 28, 2023
Profit	15,590	13,235
Other comprehensive income		
Valuation difference on available-for-sale securities	(17)	56
Deferred gains or losses on hedges	(22)	(141)
Foreign currency translation adjustment	176	199
Remeasurements of defined benefit plans, net of tax	26	(2)
Total other comprehensive income	163	112
Comprehensive income	15,754	13,347
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	15,754	13,347
Comprehensive income attributable to non-controlling interests	–	–

(3) Consolidated statement of changes in equity

Fiscal year ended February 28, 2022 (From March 1, 2021 to February 28, 2022)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	17,658	17,922	105,532	(8,062)	133,051
Cumulative effects of changes in accounting policies					–
Restated balance	17,658	17,922	105,532	(8,062)	133,051
Changes during period					
Dividends of surplus			(2,176)		(2,176)
Profit attributable to owners of parent			15,590		15,590
Purchase of treasury shares				(4,548)	(4,548)
Disposal of treasury shares		0		127	127
Net changes in items other than shareholders' equity					
Total changes during period	–	0	13,414	(4,421)	8,993
Balance at end of period	17,658	17,923	118,946	(12,483)	142,045

	Accumulated other comprehensive income					Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of period	159	(16)	58	34	235	133,287
Cumulative effects of changes in accounting policies						–
Restated balance	159	(16)	58	34	235	133,287
Changes during period						
Dividends of surplus						(2,176)
Profit attributable to owners of parent						15,590
Purchase of treasury shares						(4,548)
Disposal of treasury shares						127
Net changes in items other than shareholders' equity	(17)	(22)	176	26	163	163
Total changes during period	(17)	(22)	176	26	163	9,157
Balance at end of period	142	(39)	235	60	399	142,444

Fiscal year ended February 28, 2023 (From March 1, 2022 to February 28, 2023)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	17,658	17,923	118,946	(12,483)	142,045
Cumulative effects of changes in accounting policies			50		50
Restated balance	17,658	17,923	118,997	(12,483)	142,096
Changes during period					
Dividends of surplus			(2,549)		(2,549)
Profit attributable to owners of parent			13,235		13,235
Purchase of treasury shares				(4,000)	(4,000)
Disposal of treasury shares		(0)		263	262
Net changes in items other than shareholders' equity					
Total changes during period	–	(0)	10,685	(3,736)	6,947
Balance at end of period	17,658	17,922	129,682	(16,220)	149,043

	Accumulated other comprehensive income					Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of period	142	(39)	235	60	399	142,444
Cumulative effects of changes in accounting policies						50
Restated balance	142	(39)	235	60	399	142,495
Changes during period						
Dividends of surplus						(2,549)
Profit attributable to owners of parent						13,235
Purchase of treasury shares						(4,000)
Disposal of treasury shares						262
Net changes in items other than shareholders' equity	56	(141)	199	(2)	112	112
Total changes during period	56	(141)	199	(2)	112	7,059
Balance at end of period	198	(180)	435	58	511	149,555

(4) Consolidated statement of cash flows

(Millions of yen)

	Fiscal year ended February 28, 2022	Fiscal year ended February 28, 2023
Cash flows from operating activities		
Profit before income taxes	23,177	19,541
Depreciation	12,982	13,378
Amortization of goodwill	1,158	1,158
Increase (decrease) in provision for bonuses for directors (and other officers)	–	(41)
Increase (decrease) in provision for loss on voluntary recall of goods	(90)	(71)
Increase (decrease) in provision for share awards	307	309
Gain on cancellation of guarantee deposits received	(25)	(72)
Gain on sale of non-current assets	(5)	(1)
Impairment losses	971	899
Loss on disaster	–	271
Loss on retirement of non-current assets	62	93
Subsidy income	–	(267)
Interest and dividend income	(129)	(83)
Interest expenses	2,200	2,113
Decrease (increase) in trade receivables	(2,066)	(2,931)
Decrease (increase) in inventories	(5,130)	(16,225)
Increase (decrease) in trade payables	(1,585)	2,848
Increase (decrease) in advances received	(88)	(2,272)
Increase (decrease) in contract liabilities	–	4,622
Increase (decrease) in accrued consumption taxes	(481)	(2,380)
Other, net	(254)	(2,613)
Subtotal	31,002	18,275
Interest and dividends received	79	73
Interest paid	(2,196)	(2,113)
Payments associated with disaster loss	–	(28)
Subsidies received	–	173
Income taxes refund (paid)	(11,449)	(6,978)
Net cash provided by (used in) operating activities	17,436	9,402
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,343)	(14,525)
Purchase of intangible assets	(1,744)	(1,093)
Payments of guarantee deposits	(2,601)	(3,428)
Proceeds from refund of guarantee deposits	1,781	1,769
Guarantee deposits received	238	380
Refund of guarantee deposits received	(535)	(455)
Other, net	(473)	(582)
Net cash provided by (used in) investing activities	(12,677)	(17,935)

(Millions of yen)

	Fiscal year ended February 28, 2022	Fiscal year ended February 28, 2023
Cash flows from financing activities		
Proceeds from short-term borrowings	101,500	87,000
Repayments of short-term borrowings	(98,750)	(75,250)
Proceeds from long-term borrowings	26,051	28,500
Repayments of long-term borrowings	(26,375)	(25,978)
Repayments of lease liabilities	(2,778)	(2,451)
Collection of accounts receivable installment and others on sales of assets	1,211	1,206
Repayments of installment payables	(1,548)	(1,311)
Dividends paid	(2,176)	(2,549)
Purchase of treasury shares	(4,548)	(4,000)
Other, net	127	262
Net cash provided by (used in) financing activities	(7,286)	5,428
Effect of exchange rate change on cash and cash equivalents	89	80
Net increase (decrease) in cash and cash equivalents	(2,439)	(3,024)
Cash and cash equivalents at beginning of period	14,663	12,224
Cash and cash equivalents at end of period	12,224	9,199

(5) Notes to consolidated financial statements

Uncertainties of entity's ability to continue as going concern

Not applicable

Notes - Changes in accounting policies

Application of accounting standard for revenue recognition, etc.

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the fiscal year under review, and it has recognized revenue at the time the control of promised goods or services is transferred to the customer at the amount expected to be received upon exchange of said goods or services. The main changes resulting from the application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations are as follows.

1. Revenue recognition for the point system operated by the Group

   Based on the point system operated by the Group, some members of the Group award points to members in accordance with the purchase amount, and provide goods or services equivalent to the points used. Previously, in preparation for the usage of points granted, the amount expected to be used in future was recorded as a points reserve and a provision for points was recorded in selling, general and administrative expenses. However, the points granted have now been identified as a performance obligation, and the method has been changed to one of deferred revenue recognition.

2. Revenue recognition for the point system operated by other companies

   Based on the point systems operated by other companies, points granted to customers following sales of merchandise were previously recorded in selling, general and administrative expenses, but the method has been changed to one of recognizing revenue by deducting from the transaction price an amount equivalent to points awarded.

3. Revenue recognition for agent transactions

   For transactions in which the Group's role in providing goods or services to the customer is equivalent to that of an agent, the total amount received as consideration from the customer was previously recognized as revenue, but the method has been changed to one of recognizing the net revenue after deducting the amount to be paid to related parties from the total amount of consideration.

The application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations is subject to the transitional treatment provided for in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the fiscal year under review was added to or deducted from the opening balance of retained earnings of the fiscal year under review, and thus the new accounting policy was applied from such opening balance.

For the fiscal year under review, as a result of this change, net sales decreased by ¥9,632 million, cost of sales decreased by ¥8,172 million and selling, general and administrative expenses decreased by ¥1,512 million, while operating profit, ordinary profit and profit before income taxes each increased by ¥52 million. In addition, the opening balance of retained earnings increased by ¥50 million.

Due to the application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations, "Advances received" and "Provision for point card certificates" under current liabilities of the consolidated balance sheet as of the end of the previous fiscal year has been included in "Contract liabilities" under current liabilities from the fiscal year under review.

Application of accounting standard for fair value measurement, etc.

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019) and relevant ASBJ regulations from the beginning of the fiscal year under review, and it has applied the new accounting policy provided for by the Accounting Standard for Fair Value Measurement, etc. prospectively in accordance with the transitional measures provided for in paragraph 19 of the Accounting Standard For Fair Value Measurement, and paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). There is no impact on the consolidated financial statements.

Additional information

Transactions for issuing shares of the Company to employees, etc. through a trust

1. Executive officer incentive plan "Employee Share Benefit Trust (J-ESOP)"

   In accordance with a resolution of the Board of Directors meeting held on January 11, 2019, the Company has introduced a "Employee Share Benefit Trust (J-ESOP)" plan for executive officers, an executive officer incentive plan that uses shares of the Company from January 25, 2019.

   (1) Overview of transactions

   In accordance with the Executive Officer Share Benefit Regulations formulated upon introduction of the plan, it is a system for providing shares of the Company to executive officers of the Company who satisfy certain conditions.

   To acquire shares to be provided in the future beforehand, the Company entrusts money to Custody Bank of Japan, Ltd. (Trust Account E) as a trust asset for the executive officer incentive plan "Employee Share Benefit Trust (J-ESOP)" system, and the trust bank uses the entrusted money as financial funds to acquire the Company's shares through the trading markets or by receiving the Company's disposal of treasury shares.

   (2) Shares of the Company remaining in the trust

   Shares of the Company that remain in the trust are recorded as treasury shares under net assets at their carrying value in the trust (excluding the amount of incidental expenses). The carrying value and number of these treasury shares were ¥31 million and 11,400 shares as of the previous fiscal year-end and ¥28 million and 10,500 shares as of the end of the fiscal year under review.

   (3) Carrying value of borrowings recorded under application of the gross amount method

   Not applicable

2. Employee incentive plan "Employee Share Benefit Trust (J-ESOP)"

   In accordance with a resolution of the Board of Directors meeting held on July 12, 2021, the Company has introduced the "Employee Share Benefit Trust (J-ESOP)" an incentive plan that provides shares of the Company to employees from July 26, 2021.

   (1) Overview of transactions

   In accordance with the Employee Officer Share Benefit Regulations formulated upon introduction of the plan, it is a system for providing shares of the Company to employees of the Company who satisfy certain conditions.

   To acquire shares to be provided in the future beforehand, the Company entrusts money to Custody Bank of Japan, Ltd. (Trust Account E) as a trust asset for the employee incentive plan "Employee Share Benefit Trust (J-ESOP)" system, and the trust bank uses the entrusted money as financial funds to acquire the Company's shares through the trading markets or by receiving the Company's disposal of treasury shares.

   (2) Shares of the Company remaining in the trust

   Shares of the Company that remain in the trust are recorded as treasury shares under net assets at their carrying value in the trust (excluding the amount of incidental expenses). The carrying value and number of these treasury shares were ¥3,996 million and 940,700 shares as of the previous fiscal year-end and ¥3,994 million and 940,300 shares as of the end of the fiscal year under review.

   (3) Carrying value of borrowings recorded under application of the gross amount method

   Not applicable

3. "Employee Share Benefit Trust (employee stock holding association disposal type)"

   In accordance with a resolution of the Board of Directors meeting held on July 12, 2021, the Company introduced a "Employee Share Benefit Trust (employee stock holding association disposal type)" from July 30, 2021.

(1) Overview of transactions

This plan is an incentive plan for returning the benefit of an increase in the Company's stock price to all employees who are enrolled in the "KOHNAN SHOJI Employee Shareholders Association" (hereinafter, the "Shareholders Association").

The trustee of the plan acquires at once beforehand all of the shares of the Company expected to be acquired by the Shareholders Association over the five years following the establishment of the trust, using the Trust Account E set up at Custody Bank of Japan, Ltd. and sells the shares of the Company when the Shareholders Association acquires them. Until the trust is terminated, in the case where an amount corresponding to a gain on sale of shares has accumulated within the entrusted assets of the trust through sales to the Shareholders Association, the amount is distributed as residual assets to persons enrolled in the Shareholders Association who satisfy the qualifying conditions for beneficiaries. Moreover, since the Company guarantees borrowings for the trustee to acquire the Company's shares, upon termination of the trust, in cases where there is a loan balance in an amount corresponding to a loss on sale of the shares, the Company is to settle the balance in accordance with the guarantee contract.

(2) Shares of the Company remaining in the trust

Shares of the Company that remain in the trust are recorded as treasury shares under net assets at their carrying value in the trust (excluding the amount of incidental expenses). The carrying value and number of these treasury shares were ¥428 million and 96,900 shares as of the previous fiscal year-end and ¥177 million and 40,100 shares as of the end of the fiscal year under review.

(3) Carrying value of borrowings recorded under application of the gross amount method

At the end of the previous fiscal year: ¥453 million; at the end of the fiscal year under review: ¥256 million

Outbreak of fire at consolidated subsidiary of the Company

On June 13, 2022, a fire broke out at the Soka Sezaki store of consolidated subsidiary KEN DEPOT Corporation, and was extinguished on the following day, June 14.

This incident resulted in the damage and destruction by fire of the leased estate and accompanying facilities owned by the company. Accordingly, a provision for loss on disaster and a loss on destruction of non-current assets, etc. were recorded as "Loss on disaster" of ¥271 million under extraordinary losses in the consolidated statement of income. This disaster also caused property, plant and equipment in the consolidated balance sheet for the fiscal year under review to decrease by ¥33 million. The provision for loss on disaster includes losses related to the leased estate, such as the cost of dismantling and removing the building destroyed by fire, and payments to settle obligations to the extent that can be reasonably estimated, etc., resulting in a book value for "Provision for loss on disaster" of ¥72 million at the end of the fiscal year under review. The company is insured for the damage in question, but because the amounts, etc. to be received in relation to the fiscal year under review have not been finalized, and insurance income has not been recorded.

Absorption-type merger of consolidated subsidiary

The Company resolved at a Board of Directors meeting held on September 20, 2022 to conduct an absorption-type merger with the Company's wholly owned subsidiary BEAVERTOZAN Co., Ltd., and concluded an absorption-type merger agreement on the same date with an effective date of March 1, 2023.

1. Overview of business combination

(1) Name and business description of entity involved in the business combination

Name of entity involved in the business combination:	BEAVERTOZAN Co., Ltd.
Nature of business:	Home center business

(2) Date of the business combination

March 1, 2023

(3) Legal form of the business combination

The merger is an absorption-type merger in which the Company is the company surviving in the absorption-type merger and BEAVERTOZAN Co., Ltd. is the company disappearing in the absorption-type merger.

(4) Name of entity after the business combination

Unchanged.

(5) Purpose of the business combination

As the Group seeks to enhance corporate value by engaging in structural reforms of the business and the organization, the Company decided to conduct an absorption-type merger with the Company's wholly owned subsidiary BEAVERTOZAN Co., Ltd. with the objective of rationalizing the organization.

2. Overview of accounting treatment

In accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019), the Company will account for the business combination as a transaction under common control.

Segment information

[Segment information]

Segment information is omitted since the Group has only one segment, which conducts retail sales, sales of construction materials and so forth, and ancillary business.

[Related information]

Fiscal year ended February 28, 2022 (From March 1, 2021 to February 28, 2022)

1. Information by product and service

   This information is omitted since the amount of net sales to external customers in a single product and service classification exceeds 90% of net sales in the consolidated statement of income.

2. Information by region

   (1) Net sales

   This information is omitted since the amount of net sales to external customers in Japan exceeds 90% of net sales in the consolidated statement of income.

   (2) Property, plant and equipment

   This information is omitted since the amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment on the consolidated balance sheet.

3. Information by main customer

   This information is omitted since there are no customers who account for 10% or more of the amount of net sales in the consolidated statement of income within net sales to external customers.

Fiscal year ended February 28, 2023 (From March 1, 2022 to February 28, 2023)

1. Information by product and service

   This information is omitted since the amount of net sales to external customers in a single product and service classification exceeds 90% of net sales in the consolidated statement of income.

2. Information by region

   (1) Net sales

   This information is omitted since the amount of net sales to external customers in Japan exceeds 90% of net sales in the consolidated statement of income.

   (2) Property, plant and equipment

   This information is omitted since the amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment on the consolidated balance sheet.

3. Information by main customer

   This information is omitted since there are no customers who account for 10% or more of the amount of net sales in the consolidated statement of income within net sales to external customers.

[Information about impairment loss of non-current assets by reportable segment]

This information is omitted since the Group has only a single segment.

[Information about amortization and unamortized balance of goodwill by reportable segment]
This information is omitted since the Group has only a single segment.

[Information about gain on bargain purchase by reportable segment]
This information is omitted since the Group has only a single segment.

Per share information

(Yen)

	Fiscal year ended February 28, 2022	Fiscal year ended February 28, 2023
Net assets per share	4,531.40	4,917.97
Basic earnings per share	489.30	431.11
Diluted earnings per share	489.16	430.98

(Note) The basis for calculation of basic earnings per share and diluted earnings per share is as follows.

	Fiscal year ended February 28, 2022	Fiscal year ended February 28, 2023
Basic earnings per share		
Profit attributable to owners of parent (millions of yen)	15,590	13,235
Profit (loss) not attributable to common shareholders (millions of yen)	–	–
Profit attributable to owners of parent pertaining to common shares (millions of yen)	15,590	13,235
Average number of outstanding common shares during period (shares)	31,862,633	30,699,483
Diluted earnings per share		
Adjustments to profit attributable to owners of parent (millions of yen)	–	–
Increase in the number of common shares (shares)	9,400	9,400
(Of the above, stock options (shares))	(9,400)	(9,400)
Overview of potential shares not included in the calculation of diluted earnings per share because of having no dilutive effect	―――	―――

(Note) Shares of the Company held by Custody Bank of Japan, Ltd. (Trust Account E) as trust assets for the executive officer incentive plan “Employee Share Benefit Trust (J-ESOP),” the employee incentive plan “Employee Share Benefit Trust (J-ESOP),” and the “Employee Share Benefit Trust (employee stock holding association disposal type)” are included in treasury shares deducted when calculating the number of common shares at the end of the period used for calculating net assets per share and the average number of outstanding common shares during the period used as the basis for calculating basic earnings per share and diluted earnings per share.

The number of treasury shares at the end of the period that is deducted when calculating net assets per share was 1,049 thousand for the previous fiscal year and 990 thousand for the fiscal year under review. The average number of treasury shares during period deducted in calculating the basic earnings per share and diluted earnings per share was 620 thousand for the previous fiscal year and 1,019 thousand for the fiscal year under review.

Subsequent events

Business combination through acquisition

The Company resolved at a Board of Directors meeting held on March 20, 2023 to make HOME IMPROVEMENT HIROSE Co., Ltd. (hereinafter, “HI HIROSE”) a subsidiary by acquiring the issued shares of HI HIROSE (hereinafter, the “Share Acquisition”), and concluded a share transfer agreement on the same date.

1. Overview of business combination

(1) Name and business description of the acquiree

Name of the acquiree:	HOME IMPROVEMENT HIROSE Co., Ltd.
Nature of business:	Retail sales, etc. of housing-related supplies and foods

(2) Primary reasons for the business combination

By bringing HI HIROSE, which is based in the Kyushu region, into the Group, the Company expects to be able to further strengthen its business foundation in the Kyushu region while also expanding the scope of its business operations even more by newly entering the food supermarket business. In addition, the Company decided to conduct the Share Acquisition as it believes that, by providing and integrating the product planning capabilities, sales capabilities and management know-how, such as in the areas of logistics and systems, that have been cultivated by the Group, it will expand the scope of the Group’s medium- to long-term business operations as well as contribute to enhancing corporate value.

(3) Date of the business combination

June 1, 2023 (scheduled)

(4) Legal form of the business combination

Cash acquisition of shares

(5) Name of entity after the business combination

Unchanged.

(6) Ratio of voting rights acquired

Ratio of voting rights after acquisition: 100% (scheduled)

As of the date of the share transfer agreement, the Company held 10.31% of the voting rights.

Concerning the Share Acquisition, the execution of the share transfer is conditional upon the Company expecting to acquire at least two-thirds of the voting rights in HI HIROSE through the Share Acquisition and the satisfaction of other certain conditions stipulated in the share transfer agreement.

(7) Main basis for reaching a decision on business combination

The Company plans to acquire the shares with cash as consideration.

2. Acquisition cost of acquiree and components thereof by consideration type

In accordance with a confidentiality agreement between the related parties, the acquisition cost will not be disclosed. Note that, based on the results of due diligence conducted by an external expert, a share valuation was carried out and the acquisition price was decided through serious and extensive discussions with the counterparty.

(Note) The acquisition cost and the loss (gain) on step acquisition have not been confirmed at this stage.

3. Details and amounts of main acquisition-related costs

Not confirmed at this stage.

4. Amount of goodwill, reason for recognition, amortization method and amortization period

Not confirmed at this stage.

5. Amount and breakdown of assets acquired and liabilities assumed as of the date of the business combination

   Not confirmed at this stage.

Acquisition of treasury shares

The Company resolved at a Board of Directors meeting held on April 11, 2023 to acquire treasury shares in accordance with Article 156 of the Companies Act as applied pursuant to the provisions of paragraph (3), Article 165 of the Act, as follows.

1. Reason for conducting the acquisition of treasury shares

   The Company will acquire treasury shares to enhance shareholder returns and increase capital efficiency, and to execute an agile capital policy in response to changes in the management environment.

2. Details of the Board of Directors resolution regarding the acquisition of treasury shares

(1) Class of shares to be acquired	Common shares of the Company
(2) Number of shares to be acquired	1,000,000 shares (upper limit)
(3) Total amount of the acquisition price of the shares	¥3,000 million (upper limit)
(4) Period of acquisition	From April 12, 2023 to September 30, 2023
(5) Acquisition method	Market purchase on the Tokyo Stock Exchange

4. Other

(1) Net sales by product division

	Fiscal year ended February 28, 2022		Fiscal year ended February 28, 2023	
	Amount (millions of yen)	Year-on-year change (%)	Amount (millions of yen)	Year-on-year change (%)
Home improvement (DIY supplies)	201,114	104.4	207,336	–
Housekeeping (household supplies)	143,383	93.5	141,815	–
Pet and leisure (pet and leisure supplies)	68,374	100.6	60,549	–
Other	12,832	97.5	13,434	–
Total	425,704	99.7	423,136	–

(Notes) 1. The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the fiscal year under review. As a result, because the accounting treatment of revenue is different from that of the previous fiscal year, percentage year-on-year changes are not given in the detailed breakdown of net sales by product division.

2. The composition of each product division is as follows.

(1) Home improvement (Timber and building materials, tools, hardware and plumbing, painting and work supplies, gardening supplies, gardening plants, materials, exteriors, housing equipment, remodeling)

(2) Housekeeping (Dining supplies, interiors, electrical materials and lighting, daily necessities, storage supplies, chemicals, footwear and clothing, household goods, home appliances, nursing care supplies, food, alcoholic beverages)

(3) Pet and leisure (Automotive supplies, pet supplies, stationery and office supplies, cycling and leisure supplies)

(4) Other (100 Yen Shop, books, vending machines, kerosene)