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Consolidated Financial Results for the Six Months Ended August 31, 2023 [Japanese GAAP]

October 11, 2023

Company name: **MINISTOP Co., Ltd.**
Stock exchange listing: Tokyo Stock Exchange (Prime Market)
Code number: 9946
URL: https://www.ministop.co.jp/corporate/ir/
Representative: Akihiro Fujimoto, President and Representative Director
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Phone: +81-43-212-6472
Scheduled date of filing quarterly securities report: October 12, 2023
Scheduled date of commencing dividend payments: November 8, 2023
Availability of supplementary explanatory materials on quarterly financial results: Available
Schedule of quarterly financial results briefing session: Scheduled (for institutional investors and analysts)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Six Months Ended August 31, 2023 (March 1, 2023 – August 31, 2023)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Gross operating revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
August 31, 2023	40,708	(4.5)	456	–	759	62.6	603	(96.0)
August 31, 2022	42,643	–	5	–	467	–	15,058	–

(Note) Comprehensive income: Six months ended August 31, 2023: ¥618 million [(95.8)%]
Six months ended August 31, 2022: ¥14,704 million [–%]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
August 31, 2023	20.81	20.81
August 31, 2022	519.11	519.06

(Note) The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and other standards from the beginning of the first quarter ended May 31, 2022. The figures for the six months ended August 31, 2022 reflect these accounting standards, and therefore, changes from the previous corresponding period are not shown.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of August 31, 2023	82,615	42,099	49.5
As of February 28, 2023	79,217	40,610	51.3

(Reference) Equity: As of August 31, 2023: ¥40,934 million
As of February 28, 2023: ¥40,606 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended February 28, 2023	–	10.00	–	10.00	20.00
Fiscal year ending February 29, 2024	–	10.00			
Fiscal year ending February 29, 2024 (Forecast)			–	10.00	20.00

(Note) Revision to the dividend forecast announced most recently: None

3. Consolidated Financial Results Forecast for the Fiscal Year Ending February 29, 2024 (March 1, 2023 – February 29, 2024)

(% indicates changes from the previous corresponding period.)

	Gross operating revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	83,000	2.1	900	–	1,100	–	93	–	3.21

(Note) Revision to the financial results forecast announced most recently: None

*** Notes:**

(1) Changes in significant subsidiaries during the period under review: None
(Changes in specified subsidiaries resulting in changes in scope of consolidation)
Newly included: –
Excluded: –

(2) Accounting treatment particularly for the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
1) Changes in accounting policies due to the revision of accounting standards: None
2) Changes in accounting policies other than 1) above: None
3) Changes in accounting estimates: None
4) Retrospective restatement: None

(4) Total number of issued and outstanding shares (common shares)
1) Total number of issued and outstanding shares at the end of the period (including treasury shares):

August 31, 2023:	29,372,774 shares
February 28, 2023:	29,372,774 shares

2) Total number of treasury shares at the end of the period

August 31, 2023:	363,833 shares
February 28, 2023:	363,578 shares

3) Average number of shares during the period:

Six months ended August 31, 2023:	29,009,062 shares
Six months ended August 31, 2022:	29,009,223 shares

* These quarterly consolidated financial results are outside the scope of a quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of financial results forecast and other notes
Forward-looking statements contained in this document, including financial results forecast, are based on information currently available to the Company and certain assumptions that the Company considers reasonable, and actual financial results, etc. may significantly differ from the projections due to various factors. For the use of financial results forecast, please see “1. Qualitative Information on Quarterly Financial Results (3) Explanation of Consolidated Financial Results Forecast and Other Forecasts” on page 8 of the attachments.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

In the six months ended August 31, 2023, the Japanese government reclassified COVID-19 in May as a Class V Infectious Disease prescribed in the Act on the Prevention of Infectious Diseases and Medical Care for Patients with Infectious Diseases. The reclassification lifted COVID-related movement restrictions entirely, increased the opportunities to go out, and helped social and economic activities to go back to normal. In addition, the intense heat that started in July made personal consumption active, and the economy recovered gradually. However, consumption behaviors continued to be affected by rises in raw material and energy prices due to unstable global situations as well as hikes in prices due to the yen's depreciation, and the economic outlook remained unpredictable. Furthermore, climate change has affected the lives of consumers, urgently requiring efforts to realize a sustainable society.

Under these circumstances, on a mission of 'We realize a society full of beaming smiles with "deliciousness" and "convenience,"' the Group has formulated a policy for the first fiscal year of the FY2023–2025 Medium-term Management Plan of strengthening its competitiveness of individual store model (establishing the model) and promoting strategic growth and promoted the establishment of the "new combo store model" and new businesses. As a result, operating profit for the six months ended August 31, 2023 was ¥456 million, up ¥450 million year on year. In the six months ended August 31, 2022, we transferred all shares held in MINISTOP Korea Co., Ltd. and recorded a gain on sale of shares of subsidiaries and associates of ¥23,831 million. We have positioned fiscal 2023 as a stage to produce the effects of utilizing the proceeds from the sale of the shares and actively investing in new businesses, including the MINISTOP store business and the Vietnam business. In the domestic business, we promoted the establishment of the "new combo store model" for the store business, which enhanced competitiveness of individual stores. We also promoted the sale of cold sweets and beverages, in which we excel, in response to the record-breaking heat that started in July in a timely manner. As a result, per day per existing store sales and gross profit ratio increased. Furthermore, we promoted the revitalization of 140 existing stores by the introduction of successful cassettes of the "new combo store model" and mindset renovation. We also completed the closure of unprofitable stores at the beginning of the fiscal year under review as we had planned. Moreover, we promoted reforms of the management and leadership structure and the company headquarters and increased the number of MINISTOP Partnership Agreement stores and make our management guidance more effective. As for the digital business, a new business in which we have been making investment, profit from delivery services grew as the scale of the business increased and contributed to the increase in profit of the Company, while sales from e-commerce increased as sales channels and product lineups expanded. Meanwhile, the occupational field business generated stable profit as the number of stores topped 1,000 stores in May and kept rising, and net sales per store increased. As a result, operating profit in the domestic business for the six months ended August 31, 2023 was ¥613 million, up ¥399 million year on year. In the overseas business, we promoted increasing stores in a new format with an enhanced lineup of products for daily use and establishing an operational model as the business of increasing directly managed stores for the Vietnam business. In addition, we promoted product reforms in response to consumption trends in Vietnam. As a result, net sales increased by ¥673 million, and operating loss decreased year on year. We have been promoting medium- to long-term reforms of management systems in order to steadily promote the growth of these domestic and overseas businesses.

As a result of the above, consolidated operating results for the six months ended August 31, 2023 were gross operating revenue of ¥40,708 million (down 4.5% compared to the same period of the previous fiscal year), operating profit of ¥456 million (up 7,904.0% compared to the same period of the previous fiscal year), ordinary profit of ¥759 million (up 62.6% compared to the same period of the previous fiscal year), and profit attributable to owners of parent of ¥603 million (down 96.0% compared to the same period of the previous fiscal year).

The operating results of each segment are as follows.

[Domestic business]

Net sales at all stores of MINISTOP alone compared with the same period of the previous fiscal year decreased by 1.8% due to the store closure at the beginning of the fiscal year under review, which we had planned earlier. We promoted the establishment of the “new combo store model,” which enhanced competitiveness of individual stores, taking measures, such as revitalization of existing stores through store investment focused on producing effects. As a result, net sales per day per existing store compared with the same period of the previous fiscal year for MINISTOP stores increased by 1.4%. Average per day per existing store customer numbers fell by 1.1%, while per day per existing store average customer purchase value increased by 2.5%. Per day per existing store sales of convenience store products decreased by 1.2% and per day per existing store sales of fast food products processed in store increased by 17.9%. Gross profit ratio increased by 1.0 percentage point from the same period of the previous fiscal year to 30.7% as we implemented a merchandising plan that redesigned the role of each category, with a focus on beverages, and high value-added products sold well.

Prices continued to climb, and customers’ consumption behavior became more strongly oriented towards the two axes: price and value. In order to meet customer’s needs, we took advantage of the Aeon Group’s resources as a measure to emphasize price and drew on our traditional strengths in developing high value-added products.

As for our lineup of affordably priced products, sales of beverages, ready-to-drink beverages, western liquors, and processed food, including ramen, were strong as we enhanced our product lineup with Aeon Group exclusive products, such as TOPVALU Best Price. Sales of sweets and snacks were also boosted as we introduced jumble display fixtures at 1,622 stores to increase customers’ willingness to buy. Regarding sales promotion plans, we systematically implemented the campaign of “More you buy, more you save” every month for sweets and stuffed breads. The campaign was well received and increased sales.

As for development of high value-added products that will satisfy customers and promotion of their value, among chicken and potatoes cooked in store to provide deliciousness of freshly cooked foods, our staples *Crunchy Chicken* and *X-cut French Fries* sold well. We also released a limited-time flavor at the “Curry Fair” we held in August, and it was well received. As for in-store handmade bentos, which combine rice cooked in store and side dishes to provide deliciousness of freshly cooked foods, voluminous products drove sales. We also increased value of side dishes in our bentos, including *Thin-crust Fried Chicken*, which we renewed in May with special efforts to increase deliciousness and efficiency in the manufacturing process, *Chicken Fillet and Shiso Rolls (Plum Flavored)*, and *Chinese Spring Roll with 10 Ingredients.* In addition, in our sales promotion plans for renewed products, we called attention to their value, which resulted in strong sales. As for cold sweets, including soft-serve ice cream, subsequent to the “Hokkaido Fair” we held in May, in which we promoted products we made with ingredients from Hokkaido with an exceptional effort to create deliciousness, we promoted branding to communicate our commitment to deliciousness to customers not only at our stores, but also through TV programs and social media. With regard to soft-serve ice cream, we pursued a project in July to try to set a world record of the most photos of soft serve ice cream uploaded to Twitter (currently X) in one hour and succeeded in setting a world record with uploaded photos totaling more than 20,000. Our efforts to put fresh emphasis on the value of our soft-serve ice cream, our signature product made with high-quality raw milk from Hokkaido, strengthened the brand. With regard to cold sweets, we promoted *Nagano Purple Soft*, which was launched in June, and *HALOHALO Frozen Kyoho Fruit* and *Mix and Drink! Subtly Bitter Coffee Jelly*, which were launched in July, in TV programs that introduced elaborately produced products, and they were well received. Carefully communicating our commitment to pursuing deliciousness to customers highlighted the value of the products. It also had promotional effects, and sales were strong. As for convenience store products, *Salted Butter Dorayaki*, a Japanese sweet and one of our staples, which we promoted through TV programs, drove sales as we emphasized that it was made particularly of ingredients produced in Hokkaido. We will continue to promote product development with a focus on realizing “deliciousness,” which is our mission, solidify the MINISTOP brand, and give emphasis to value.

In order to establish the “new combo store model,” which refines both convenience store products and fast food products processed in store to enhance the competitiveness of individual stores, we compared and assessed sales floor development of ours and that of our competitors regardless of their type of business at pilot model stores (“laboratory stores”), established a sales floor in line with customer needs, and rolled it out to other stores. At the same time, we promoted changes in our product lineups and reforms of our product development. In addition, we promoted a reform of the method to provide products for greater convenience for customers and speedy provision of products by digitalizing the process from ordering to provision of fast food products processed in store. In August, we introduced tablet terminals to receive orders and started taking mobile orders from the MINISTOP app. Furthermore, we promoted company-wide operational reforms to create sales floors that would always satisfy customers and revitalized 140 existing stores by standardizing the sales floor and introducing product lineups and successful cassettes established at laboratory stores in a package.

We have been promoting the introduction of successful cassettes of operational reforms, such as the introduction of work schedules and employee training, and making efforts at mindset renovation at all stores to foster a customer-first mindset, ensure that store operations are fully performed, and fully implement product rollout and sales promotion plans in store. Among the efforts at mindset renovation, work schedules, which were introduced to improve the efficiency of store operations and redesign work assignments by time zone to ensure that store operations are fully performed, have proved to have the effect of increasing productivity and sales, as after a learning period, they shed light on efficiency issues in store management and prompt efforts at improvements.

In terms of the revitalization of existing stores that involved capital investment, we introduced successful cassettes for facility renovation established at the laboratory stores and grew sales. As for frozen foods, whose market has been growing, we expanded sales floors to enhance the product lineup and created sales floors that would encourage a purchase combined with other products. As a result, sales increased after the renovation by more than 20% compared with the same period of the previous fiscal year. As for rice cooked in store, we placed it next to convenience store rice products and redesigned the entire rice product lineup to encourage a purchase of a combination of products. As a result, sales grew by more than 30% compared with the same period of the previous fiscal year. In addition, as for fast food products processed in store, we have established an ordering system that uses the self-checkout machines and set up order status monitors so that customers can place an order with ease. We have also started product promotion using digital colton. As a result, sales of cold sweets and potato fries after the renovation increased more than 30% compared with the same period of the previous fiscal year, before the renovation. The effect of the revitalization of existing stores to increase sales has been growing due to the steady progress of the mindset renovation, which includes the utilization of work schedules and employee training. We will continue to work with our franchise stores to promote efforts centered on mindset renovation so that we will increase our in-store execution capabilities and create sales floors that will satisfy customers.

The MINISTOP Partnership Agreement has been designed to establish new relationships with franchise stores and facilitate growth together with them. The number of MINISTOP Partnership Agreement stores reached 517 stores as of August 31, 2023. As the number of the Partnership Agreement stores rises, in order for franchise stores and the company headquarters to grow together, we have promoted reforms of the management and leadership structure and the company headquarters with the aim of giving effective guidance on ordering method, designing operation plans, and stepping into the areas that we had not explored in the conventional management and leadership structure, such as securing and training human resources, to provide effective management guidance. As the qualitative shift in management guidance progressed in various aspects, including guidance on ordering method and formulation of manufacturing plans for fast food products processed in store, the year-on-year growth of per day per store sales of Partnership Agreement stores exceeded that of per day per store sales of all stores during the six months ended August 31, 2023. In addition, we have been promoting the introduction of order procedures and systems of ordering and proposing with the use of AI, which will increase the efficiency in management, at company-managed stores. We are working to improve the precision of these procedures and systems with the aim of rolling them out to all stores. Furthermore, we introduced tablet terminals at all stores in August. We will establish a system that enables interactive communication of information between franchise stores and the company headquarters and share information on popular products and roll out successful cases in real time to grow sales. We will work together with our franchise stores as a business community that will prosper as one to create sales floors that will meet customer needs by the reform of the management and leadership structure at the company headquarters and appropriate investments by franchise stores.

Regarding store development, six new stores were opened, and 58 stores were closed at the start of the fiscal year under review as we had planned. There were 1,855 stores as of August 31, 2023. In order to open stores with a focus on profitability based on our area strategy, we will construct a development system and build a new format that will embody the “new combo store model.”

We have been making investment in the digital business and the occupational field business as new businesses for growth. We have been making efforts to precisely meet the needs of customers in accordance with their consumption styles by expanding our sales channels. As for delivery services of the digital business, we carried out sales promotion plans, including distribution of coupons, in collaboration with multiple delivery service providers. In addition, we began selling ice cream, frozen food, and frozen fast food in response to the hot summer and with the aim of increasing convenience for daily use. We also extended the hours of business at some stores. As a result, sales in the delivery business grew by more than five times compared with the same period of the previous fiscal year. Profit of the business also increased and contributed to the increase in profit of the Company. As for e-commerce, we opened stores in multiple major e-commerce malls. We enhanced our lineup of seasonal gifts and high value-added products, including ramen from specialty stores and seasonings from overseas. Moreover, by streamlining our logistics infrastructure, we increased shipping speed of products, including our original frozen foods, and made other improvements in efficiency from the customer’s perspective. As a result, sales in e-commerce increased by more than 10 times compared with the same period of the previous fiscal year. We will continue renewing our e-commerce site and strengthening its coordination with the MINISTOP app and grow it as a platform for the digital business to acquire new customers so that it will be utilized for Online Merges with Offline (OMO) with actual stores.

In the occupational field business, the number of locations of MINISTOP POCKET stores, unmanned convenience stores set up in offices and other facilities, topped 1,080 as of August 31, 2023. We are increasing our share in the closed market of the occupational field. In addition, we captured the recovery in demand in offices as the COVID-19 pandemic came to an end and enhanced our product lineup based on customer needs. As a result, sales per location increased more than 20%. The business has thus been generating stable profit. We will continue to increase locations, by such means as cultivation of new markets, and make the most of the large number of locations to develop new services and increase revenue.

We position the MINISTOP app as an interface to connect actual stores with the digital business. We distributed coupons based on our analysis on customer purchase trends. We added a payment function in coordination with payment services in June and added a mobile order function in August to increase convenience. As a result, the number of downloads exceeded 1,150,000 as of August 31, 2023, and sales to its members more than doubled compared with the same period of the previous fiscal year. We will implement campaigns in coordination with payment service providers to acquire new members. We will also enhance the mobile ordering function to increase new digital touch points. We will thus increase sales to the members through the reform of the methods of providing fast food products processed in store. We will also generate business synergies by building a customer base for 1-to-1 marketing in order to utilize OMO in the “new combo store model.”

In an effort to steadily promote the establishment of the “new combo store model” and the growth of new businesses, we have been promoting medium- to long-term management system reforms to modify the company-wide business design and achieve results. We improved our decision-making process, redefined job requirements, and planned and implemented new human resources strategies to realize the operation of the “new combo store model” and the digital and Asia shifts. In addition, by clarifying weekly action plans and evaluations to generate results, we will implement the PDCA cycle more thoroughly and increase productivity.

Network Service Inc. runs a co-operative distribution business for stores in Japan, operating 13 fixed-temperature centers, six ambient centers, and 10 frozen food distribution centers. In addition to reviewing the number of delivery routes and the mileage per route, it changed delivery formats, primarily for frozen products, to increase delivery efficiency. It has been working to reduce costs and environmental impact. Furthermore, to address the “2024 problem” in logistics, it is making efforts to resolve issues by a reform of distribution centers, which involves changing delivery times and increasing the efficiency in ways of work of delivery staff, and a reform of store operations.

Regarding our primary initiatives related to ESG, as for our efforts for CO_2 reduction, we are focusing on reducing power consumption in our stores, which accounts for 85.5% of CO_2 emissions covered by our estimation as a measure against climate change. With the goal of cutting CO_2 emissions by stores by 50% from fiscal 2013 levels by 2030, we have switched the sources of power used in some areas to renewable energy to promote decarbonization. In addition, we changed the lights used inside and outside the stores to LEDs and made efforts to save electricity at stores while striving to offer comfort to customers during the hot summer. As a result, average power consumption per store declined compared with the same period of the previous fiscal year.

As for our efforts for food loss reduction, as a means to encourage recycling resources, with the goal of reducing food loss by 50% from 2015 levels by 2025, we have been promoting "Reduce," an effort to reduce food waste by selling products at discount prices, at 90% of our stores. We have thus been engaged in biodiversity-friendly activities by working to recycle resources. As for our efforts to reduce plastic usage, we started on June 9 at all stores to serve soft-serve ice cream, our signature product, with an edible spoon instead of a spoon made of petroleum-derived plastic*. By discontinuing the use of disposable cutlery, we will work with customers to promote behavioral changes that can simultaneously achieve decarbonization and deplasticization. (*A plastic spoon is offered to customers with an allergy to wheat or soy.)

Regarding our initiatives related to social contribution activities, we have conducted fund-raising activities for the "Circle of Flowers" program throughout the year, which delivers flower seedlings to elementary schools. We have been engaged in these activities since 1991. In addition, through donation to AEON 1% Club Foundation, we have been contributing to its themes: Sound Development of the Next Generation, Promotion of Friendship with Foreign Countries, and Sustainable Development of Regional Communities.

Regarding initiatives for governance, we have assigned a full-time franchise compliance officer to provide support to franchise stores in their efforts at compliance with laws and regulations and increase the level of compliance in order to solve troubles, such as incidents and accidents, that occur at stores, and to identify their signs and prevent them.

As a result of the above, gross operating revenue in the domestic business for the six months ended August 31, 2023 was ¥36,856 million (down 6.6% compared with the same period of the previous fiscal year), and operating profit was ¥613 million (up 186.6% compared with the same period of the previous fiscal year).

[Overseas business]

In the Vietnam business, economic activities were on a recovery trend, and personal consumption grew in the previous year due to the relaxation of strict regulations to prevent the spread of COVID-19. However, in the six months ended August 31, 2023, the real GDP growth rate, weighed down primarily by the manufacturing industry, fell below the government's target, and consumption trends were affected by the December 31, 2022 expiration of the measures to reduce or exempt value-added taxes.

In these circumstances, in the Vietnam business, in which we have been making investment for growth as the business of increasing directly managed stores, we actively opened stores in a new format and remodeled existing stores. As a result, gross operating revenue increased by ¥673 million year on year, and operating loss shrunk.

MINISTOP VIETNAM COMPANY LIMITED promoted new store openings and remodeling of existing stores in a new one-stop convenience store format with an enhanced lineup of perishables. We also implemented a pricing strategy to give customers more incentives to visit our stores in new areas where small supermarkets are located. In addition, we promoted operational reforms to achieve efficient store operations as the business of increasing directly managed stores. As a result, net sales at all stores increased 24.0% year on year. The new format was introduced through 14 new store openings and seven existing store remodels, bringing the total number of stores as of June 30, 2023 to 151. In order to respond to changing consumer trends, we enhanced our lineup of low-priced ready-to-eat meals, such as dressed breads, noodles, and rice balls, and emphasized the price to encourage customers to visit our stores and promote a purchase combined with other products. We will continue to work to enhance our product lineup in terms of price to support consumption and develop high value-added drink menus and sweets to increase willingness to purchase. In addition, we have been promoting a freshness reform to increase the freshness of perishables, of which we have enhanced the lineup primarily in stores in the new format. We have been making comprehensive efforts, including building a delivery system that realizes a cold chain, decreasing order sizes, reducing the time for inspection at the time of store delivery, offering products in smaller packages, and establishing a procedure for discounting prices the day before use-by dates. We will thus continue to strive for a lineup of high-quality products that will satisfy customers. In our efforts at operational reforms, we have been building a store logistic support system as the business of increasing directly managed stores and promoting the introduction of work schedules and work procedure manuals to achieve perfect execution in store. We have also started the operation of a support desk to promote the improvement of store operations.

As a result of the above, gross operating revenue in the overseas business for the six months ended August 31, 2023 was ¥3,851 million (up 21.2% year on year), and operating loss was 157 million (operating loss of ¥208 million for the same period of the previous fiscal year).

(2) Explanation of Financial Position

(Overview of assets, liabilities, and net assets)

Total assets at the end of the second quarter of the fiscal year under review increased by ¥3,398 million compared with the end of the previous fiscal year to ¥82,615 million. This was mainly attributable to increases of ¥2,613 million in accounts receivable - other, ¥2,419 million in cash and deposits, ¥2,000 million in securities, and ¥817 million in investment securities and a decrease of ¥3,500 million in deposits paid to subsidiaries and associates.

Liabilities increased by ¥1,908 million compared with the end of the previous fiscal year to ¥40,516 million. This was mainly attributable to an increase of ¥2,455 million in accounts payable - trade and a decrease of ¥424 million in income taxes payable.

Net assets increased by ¥1,489 million compared with the end of the previous fiscal year to ¥42,099 million. This was mainly due to an increase of ¥1,160 in non-controlling interests and the recording of ¥603 million in profit attributable to owners of parent.

(Overview of cash flows)

Cash and cash equivalents at the end of the second quarter of the fiscal year under review amounted to ¥28,498 million, a decrease of ¥1,874 million from the end of the previous fiscal year.

1) Cash flows from operating activities

Net cash provided by operating activities was ¥3,009 million (a ¥2,604 million increase compared to the same period of the previous fiscal year). The main contributing factors were ¥624 million in profit before income taxes, in addition to factors increasing cash flows, which included ¥1,706 million in depreciation and a ¥2,377 million increase in trade payables, and factors reducing cash flows, which included ¥2,593 million increase in accounts receivable - other.

2) Cash flows from investing activities

Net cash used in investing activities was ¥5,465 million (an inflow of ¥5,054 million in the same period of the previous fiscal year). The main contributing factors were ¥2,812 million in purchase of securities, ¥1,745 million in purchase of property, plant and equipment, and ¥811 million in purchase of intangible assets.

3) Cash flows from financing activities

Net cash provided by financing activities was ¥437 million (an outflow of ¥812 million in the same period of the previous fiscal year). The main contributing factors were factors increasing cash flows, which included ¥1,160 million in proceeds from share issuance to non-controlling shareholders, and factors reducing cash flows, which included ¥392 million in repayments of lease liabilities and ¥290 million in dividends paid.

(3) Explanation of Consolidated Financial Results Forecast and Other Forecasts

The Group expects to achieve its plan by reforming products related to frequently purchased meals, redesigning sales floors from the customer's point of view, expanding examples of successful initiatives at prior experimental stores, conducting promotional activities mainly through the use of the MINISTOP app, promoting the creation of an efficient store operation system, and continuing efforts to improve management efficiency. The consolidated financial results forecast for the fiscal year ending February 29, 2024, which we announced on April 12, 2023, therefore, remains unchanged.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of February 28, 2023	As of August 31, 2023
Assets		
Current assets		
Cash and deposits	6,427	8,846
Accounts receivable - due from franchised stores	7,823	7,253
Securities	–	2,000
Merchandise	1,433	1,531
Accounts receivable - other	9,329	11,942
Deposits paid to subsidiaries and associates	24,000	20,500
Other	3,749	3,476
Allowance for doubtful accounts	(68)	(55)
Total current assets	52,694	55,495
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,055	6,243
Machinery, equipment and vehicles, net	1,338	1,267
Furniture and fixtures, net	1,897	2,679
Land	428	428
Leased assets, net	361	203
Construction in progress	53	48
Total property, plant and equipment	10,135	10,870
Intangible assets		
Software	3,457	2,923
Other	138	503
Total intangible assets	3,595	3,426
Investments and other assets		
Investment securities	78	896
Long-term loans receivable	1	1
Guarantee deposits	11,939	11,214
Deferred tax assets	5	3
Other	913	859
Allowance for doubtful accounts	(146)	(152)
Total investments and other assets	12,792	12,823
Total non-current assets	26,523	27,120
Total assets	79,217	82,615

(Million yen)

	As of February 28, 2023	As of August 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	13,461	15,917
Accounts payable - due to franchised stores	174	384
Short-term borrowings	330	360
Current portion of long-term borrowings	169	185
Accounts payable - other	3,849	4,176
Income taxes payable	689	265
Deposits received	10,869	11,267
Provision for bonuses	193	201
Provision for loss on store closings	488	15
Provision for loss on business withdrawal	34	–
Other	1,809	1,512
Total current liabilities	32,071	34,285
Non-current liabilities		
Lease liabilities	185	52
Long-term guarantee deposits	3,923	3,866
Deferred tax liabilities	166	154
Retirement benefit liability	97	37
Asset retirement obligations	1,833	1,846
Other	329	273
Total non-current liabilities	6,535	6,230
Total liabilities	38,607	40,516
Net assets		
Shareholders' equity		
Share capital	7,491	7,491
Capital surplus	6,032	6,032
Retained earnings	27,917	28,230
Treasury shares	(642)	(642)
Total shareholders' equity	40,799	41,112
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	24	28
Foreign currency translation adjustment	(151)	(157)
Remeasurements of defined benefit plans	(65)	(48)
Total accumulated other comprehensive income	(192)	(177)
Share acquisition rights	3	3
Non-controlling interests	–	1,160
Total net assets	40,610	42,099
Total liabilities and net assets	79,217	82,615

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six months ended August 31

(Million yen)

	For the six months ended August 31, 2022	For the six months ended August 31, 2023
Gross operating revenue	42,643	40,708
Operating costs	21,221	18,998
Operating gross profit	21,421	21,709
Selling, general and administrative expenses	21,415	21,253
Operating profit	5	456
Non-operating income		
Interest income	209	204
Dividend income	1	1
Penalty income	49	22
Compensation income	165	8
Consumption taxes for prior periods	–	65
Other	47	17
Total non-operating income	472	319
Non-operating expenses		
Interest expenses	7	7
Other	3	9
Total non-operating expenses	11	16
Ordinary profit	467	759
Extraordinary income		
Gain on sale of non-current assets	37	8
Gain on sale of shares of subsidiaries and associates	23,831	–
Reversal of provision for loss on store closings	–	70
Other	74	7
Total extraordinary income	23,943	85
Extraordinary losses		
Loss on sale of non-current assets	–	0
Impairment losses	249	220
Loss on store closings	259	–
Provision for loss on store closings	56	–
Other	3	0
Total extraordinary losses	569	220
Profit before income taxes	23,841	624
Income taxes - current	4,151	33
Income taxes - deferred	4,629	(12)
Total income taxes	8,781	21
Profit	15,060	603
Profit attributable to non-controlling interests	1	–
Profit attributable to owners of parent	15,058	603

Quarterly Consolidated Statements of Comprehensive Income

Six months ended August 31

(Million yen)

	For the six months ended August 31, 2022	For the six months ended August 31, 2023
Profit	15,060	603
Other comprehensive income		
Valuation difference on available-for-sale securities	(2)	4
Foreign currency translation adjustment	(336)	(5)
Remeasurements of defined benefit plans, net of tax	(16)	16
Total other comprehensive income	(355)	14
Comprehensive income	14,704	618
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	14,699	618
Comprehensive income attributable to non-controlling interests	5	–

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	For the six months ended August 31, 2022	For the six months ended August 31, 2023
Cash flows from operating activities		
Profit before income taxes	23,841	624
Depreciation	1,851	1,706
Impairment losses	249	220
Increase (decrease) in allowance for doubtful accounts	1	(7)
Increase (decrease) in provision for loss on business	(108)	(34)
Increase (decrease) in retirement benefit liability	(60)	(60)
Interest and dividend income	(210)	(205)
Consumption taxes for prior periods	–	(65)
Interest expenses	7	7
Loss (gain) on sale of shares of subsidiaries and associates	(23,831)	–
Loss (gain) on sale and retirement of non-current assets	(37)	(8)
Reversal of provision for loss on store closings	–	(70)
Decrease (increase) in accounts receivable-due from franchised stores	(135)	569
Decrease (increase) in inventories	34	(55)
Decrease (increase) in accounts receivable - other	(1,835)	(2,593)
Decrease (increase) in other current assets	14	218
Increase (decrease) in trade payables	2,489	2,377
Increase (decrease) in due to franchised stores	98	209
Increase (decrease) in accounts payable - other	318	373
Increase (decrease) in deposits received	592	454
Increase (decrease) in other current liabilities	265	(7)
Other, net	348	(541)
Subtotal	3,895	3,113
Interest and dividends received	172	177
Interest paid	(7)	(7)
Income taxes refund (paid)	(3,654)	(274)
Net cash provided by (used in) operating activities	404	3,009
Cash flows from investing activities		
Purchase of securities	–	(2,812)
Purchase of property, plant and equipment	(675)	(1,745)
Proceeds from sale of property, plant and equipment	56	15
Purchase of intangible assets	(552)	(811)
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	5,424	–
Proceeds from collection of loans receivable	0	0
Payments of guarantee deposits	(20)	(40)
Proceeds from restoration of guarantee deposits	655	802
Proceeds from guarantee deposited	180	240
Payments for repayment of guarantee deposits	(189)	(277)
Other, net	174	(837)
Net cash provided by (used in) investing activities	5,054	(5,465)

(Million yen)

	For the six months ended August 31, 2022	For the six months ended August 31, 2023
Cash flows from financing activities		
Repayments of short-term borrowings	(80)	–
Purchase of treasury shares	(0)	(0)
Proceeds from share issuance to non-controlling shareholders	–	1,160
Dividends paid	(290)	(290)
Repayments of lease liabilities	(386)	(392)
Other, net	(55)	(40)
Net cash provided by (used in) financing activities	(812)	437
Effect of exchange rate change on cash and cash equivalents	121	144
Net increase (decrease) in cash and cash equivalents	4,768	(1,874)
Cash and cash equivalents at beginning of period	28,846	30,372
Cash and cash equivalents at end of period	33,615	28,498

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in shareholders' equity)

Not applicable.

(Segment information, etc.)

[Segment information]

I. For the six months ended August 31, 2022 (from March 1, 2022 to August 31, 2022)

1. Information on amounts of gross operating revenue, income (loss) and breakdown of revenue by reportable segment

(Million yen)

	Reportable segment		
	Domestic Business	Overseas Business	Total
Gross operating revenue			
Income from franchised stores Note 1	15,603	214	15,818
Sale of goods Note 2	14,700	2,852	17,553
Other Note 3	1,210	110	1,320
Revenue from contracts with customers	31,514	3,178	34,692
Other revenue Note 4	7,950	–	7,950
Gross operating revenue from outside customers	39,465	3,178	42,643
Inter-segment gross operating revenue or transfers	32	–	32
Total	39,498	3,178	42,676
Segment profit (loss) Note 5	214	(208)	5

Notes

1: Revenue from franchised stores includes income such as royalty income from franchised stores and net sales of products to franchised stores.

2: Sale of goods refers to sale of goods to customers at directly managed stores.

3: Other includes royalty income, digital signage advertising fees, solar-power-generated electricity sale income, etc. received from area franchisers.

4: Other revenue includes transportation service charges and fees received from product vendors and other business partners.

5: Segment profit (loss) corresponds to operating profit in the Quarterly Consolidated Statements of Income.

2. Information on impairment loss on non-current assets by reportable segment

(Million yen)

	Domestic Business	Overseas Business	Total
Impairment loss	246	3	249

II. For the six months ended August 31, 2023 (from March 1, 2023 to August 31, 2023)

1. Information on amounts of gross operating revenue, income (loss) and breakdown of revenue by reportable segment

(Million yen)

	Reportable segment		
	Domestic Business	Overseas Business	Total
Gross operating revenue			
Income from franchised stores Note 1	16,114	276	16,391
Sale of goods Note 2	11,335	3,503	14,839
Other Note 3	1,584	71	1,655
Revenue from contracts with customers	29,034	3,851	32,885
Other revenue Note 4	7,822	–	7,822
Gross operating revenue from outside customers	36,856	3,851	40,708
Inter-segment gross operating revenue or transfers	36	–	36
Total	36,892	3,851	40,744
Segment profit (loss) Note 5	613	(157)	456

Notes
1: Revenue from franchised stores includes income such as royalty income from franchised stores and net sales of products to franchised stores.
2: Sale of goods refers to sale of goods to customers at directly managed stores.
3: Other includes royalty income, digital signage advertising fees, solar-power-generated electricity sale income, etc. received from area franchisers.
4: Other revenue includes transportation service charges and fees received from product vendors and other business partners.
5: Segment profit (loss) corresponds to operating profit in the Quarterly Consolidated Statements of Income.

2. Information on impairment loss on non-current assets by reportable segment

(Million yen)

	Domestic Business	Overseas Business	Total
Impairment loss	219	0	220

(Revenue recognition)

Breakdown of revenue from contracts with customers

The breakdown of revenue from contracts with customers is as stated in “Notes to Quarterly Consolidated Financial Statements (Segment information, etc.).”