



*FY2019 (6/18-5/19) Interim Results Explanatory Meeting  
January 18, 2019*

The earnings forecasts appearing in this material are based on the business environment at the present time, and there is the possibility that actual earnings may differ from forecasts for various reasons. Furthermore, only inquiries in Japanese are handled. Inquiries should be direct to Mr. Kasai or Mr. Tamura (045-914-8241) in the Corporate Planning office.

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# 1H FY 2019 Consolidated Results

# 1. Profit and Loss Statement (Consolidated)

|                  | 1H FY2018<br>(consolidated) |           | 1H FY2019<br>(consolidated) |           |                |                     |
|------------------|-----------------------------|-----------|-----------------------------|-----------|----------------|---------------------|
|                  | (million yen)               | Share (%) | (million yen)               | Share (%) | YoY change (%) | % of projection (%) |
| Net sales        | 130,967                     | 100.00    | 140,728                     | 100.00    | 107.5          | 98.9                |
| Gross profit     | 35,384                      | 27.02     | 38,661                      | 27.47     | 109.3          | 99.1                |
| SG&A expenses    | 29,280                      | 22.36     | 31,981                      | 22.73     | 109.2          | 98.9                |
| Operating profit | 6,103                       | 4.66      | 6,680                       | 4.75      | 109.4          | 100.0               |
| Recurring profit | 6,279                       | 4.80      | 6,873                       | 4.88      | 109.5          | 100.5               |
| Net profit       | 4,276                       | 3.27      | 4,667                       | 3.32      | 109.1          | 102.1               |

## 2. Balance Sheet (Consolidated)

|   | (million yen)                  |  |               |
|---|--------------------------------|--|---------------|
|   | May 31, 2018<br>(consolidated) | November 30,<br>2018<br>(consolidated) | Change        |
| <b>Total assets</b>                     | <b>121,412</b>                 | <b>125,541</b>                         | <b>+4,129</b> |
| Current assets                          | 71,212                         | 71,462                                 | +250          |
| Fixed assets                            | 50,200                         | 54,079                                 | +3,878        |
| <b>Total liabilities</b>                | <b>52,035</b>                  | <b>52,547</b>                          | <b>+512</b>   |
| Current liabilities                     | 47,019                         | 47,256                                 | +236          |
| Fixed liabilities                       | 5,015                          | 5,291                                  | +275          |
| <b>Total net assets</b>                 | <b>69,377</b>                  | <b>72,993</b>                          | <b>+3,616</b> |
| <b>Total liabilities and net assets</b> | <b>121,412</b>                 | <b>125,541</b>                         | <b>+4,129</b> |

### Main causes of changes

#### ■ Total assets

- Increase of 584 million yen in accounts receivable
- Increase of 695 million yen in merchandise
- Decrease of 595 million yen in cash equivalent, etc.
- Increase of 1,020 million yen in buildings and structures
- Increase of 2,266 million yen in land

#### ■ Total liabilities

- Decrease of 253 million yen in accounts payable
- Increase of 452 million yen in accrued expenses
- Increase of 102 million yen in asset retirement obligations

#### ■ Total net assets

- Posted net income of 4,667 million yen
- 1,074 million yen dividend payment

### 3. New Store Openings

■ OTC: **20 store** openings/Prescription drug stores: **5 store** openings (in-store pharmacies: 5 stores)

Store closures OTC: **3 stores** Contract expiration: 2 stores Improvement management efficiency: 1 store  
 Prescription drug stores: **2 stores** Contract expiration: 1 store (in-store pharmacy)  
 Improvement management efficiency: 1 store (dedicated prescription drug store)

|   |   | Kanagawa | Tokyo | Shizuoka | Chiba | Other | Total |
|---|---|----------|-------|----------|-------|-------|-------|
| FYE May<br>2019 2Q<br><br>Total<br>number<br>of stores<br>as of FYE | OTC   | 324      | 96    | 80       | 36    | 40    | 576   |
|   | In-store pharmacies                             | 95       | 25    | 16       | 8     | 9     | 153   |
|   | Rate of pharmacy<br>establishment in OTC stores | 29.3%    | 26.0% | 20.0%    | 22.2% | 22.5% | 26.6% |
|   | Dedicated prescription<br>drug stores           | 25       | 6     | 0        | 2     | 2     | 35    |
|   | Total number of stores                          | 349      | 102   | 80       | 38    | 42    | 611   |

- Continued to **deepen dominant store openings** and **expand openings in a range of store formats**  
 ⇒ **Crema, large-scale stores incorporating Crema essence, joint store openings with other types of business, small-scale station front stores, shopping center stores, in-store type openings**
- Opened 5 prescription drug stores in 1H due to extension of pharmacist OTC training period starting in current fiscal year ⇒ plan to open 20 stores in 2H

### 4. Renovation of Existing Stores

■ OTC: **23 stores**

- Focus on health & beauty: **7 stores**
- Optimization of perishables sections: **16 stores**

■ Prescription drug stores: **3 stores**

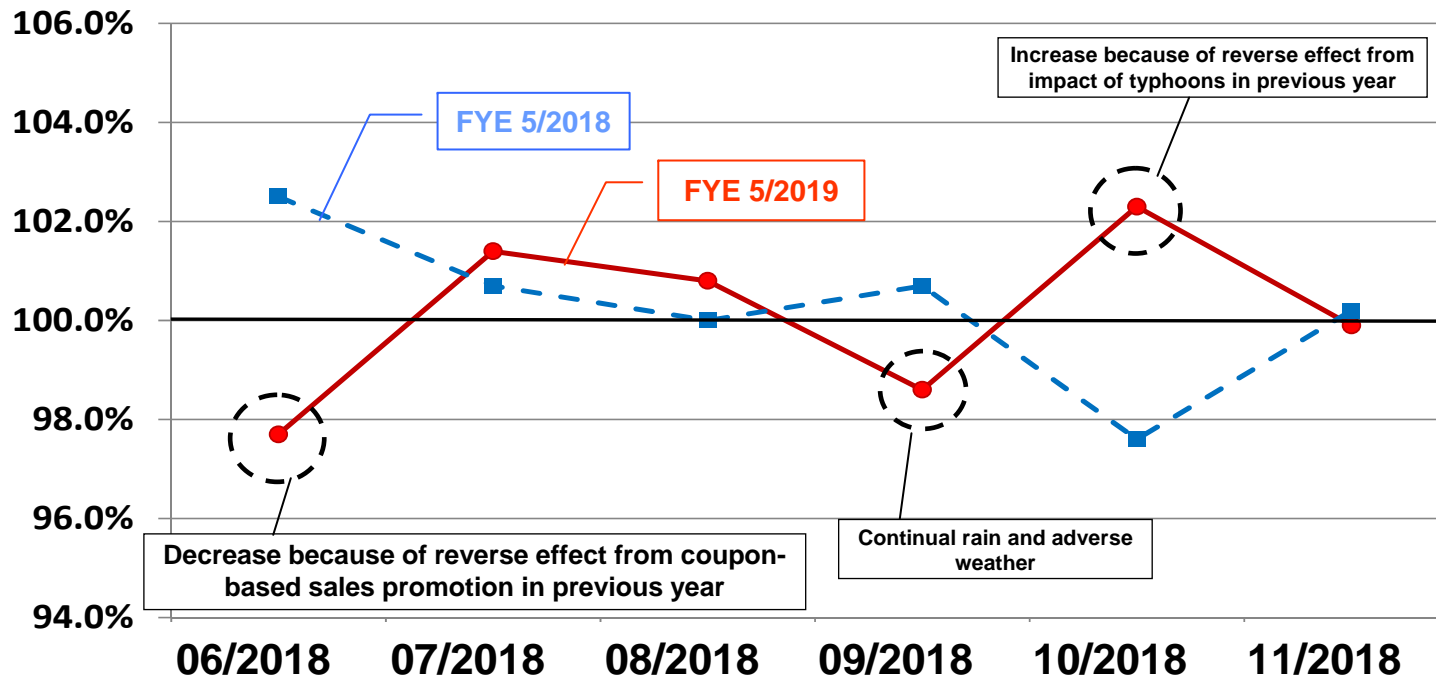
- Extension of pharmacies and customer waiting space in response to increase in number of prescriptions: **2 stores**
- Installation of sterile dispensary as core store for home medical care market, extension of pharmacies and customer waiting space: **1 store**

# 5. Performance Highlights

## Net Sales

- **107.5%** vs. previous year (98.9% vs. plan), **100.1%** vs. previous year for existing stores
- Reverse effect owing to discount coupon-based sales promotion in previous June
- Slump in sales of seasonal products due to adverse weather including summer heatwave and warm winter
- Measures to increase frequency of store visits through EDLP measures and focus on food worked on since previous fiscal year bolstered sales.
- Sales in Prescription Department remained strong.

(Year-on-Year Changes in Sales and No. of Customers at Existing Stores)



## 5. Performance Highlights

### Net Sales

|                             | 1H FY2018                  |              | 1H FY2019                  |              |                   |
|-----------------------------|----------------------------|--------------|----------------------------|--------------|-------------------|
|                             | Net sales<br>(million yen) | Share<br>(%) | Net sales<br>(million yen) | Share<br>(%) | YoY change<br>(%) |
| Medical and health products | 30,684                     | 23.6         | 33,061                     | 23.7         | 107.7             |
| (O T C)                     | 20,499                     | 15.8         | 21,612                     | 15.5         | 105.4             |
| (Prescription)              | 10,185                     | 7.8          | 11,448                     | 8.2          | 112.4             |
| Cosmetics                   | 18,626                     | 14.4         | 19,799                     | 14.2         | 106.3             |
| Food products               | 51,238                     | 39.4         | 55,942                     | 40.0         | 109.2             |
| Daily products              | 22,143                     | 17.0         | 23,185                     | 16.6         | 104.7             |
| Other                       | 7,294                      | 5.6          | 7,735                      | 5.5          | 106.0             |
| Total                       | 129,988                    | 100.0        | 139,725                    | 100.0        | 107.5             |

\* "Other" includes items such as stationery, baby products, clothing, pet products, gardening products, and film development services.

• Expert and convenient dispensing and food are drivers.



# 5. Performance Highlights

## Gross Profit Ratio

■ **Gross profit ratio 27.7% +0.5% vs. previous year, +0.1% vs. plan**

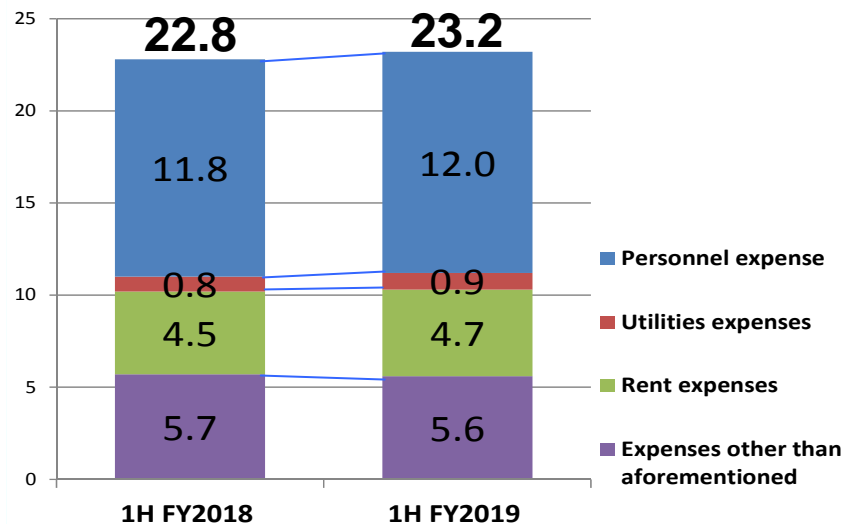
- Review of sales promotion measures (switch from discount coupon-based sales promotion to points-based sales promotion to maintain frequency of store visits)
- Growth in dispensing sales share
- Streamlining of logistics
- Improvement in merchandise purchasing
- Improvement in gross profit due to renovation of existing stores

## SG&A Ratio

■ **SG&A ratio 23.2%, +0.4% vs. previous year, ±0.0% vs. plan**

**Personnel expense ratio: 12.0%, +0.2% vs. previous year, -0.2% vs. plan**

**Other SG&A ratio: 11.2%, +0.2% vs. previous year, +0.2% vs. plan**



**(Personnel expense ratio factors behind increase vs. previous year)**

- Increase in unit costs (employee wage increases and hourly pay), increase in personnel due to increase in store openings

**(Personnel expense ratio factors behind increase vs. plan)**

- Review of standards for personnel allocation to match location environment and products handled for each store, control of working hours Working hours at existing stores **97.1%** vs. previous year

**(Other SG&A ratio factors behind increase vs. plan)**

- Increase in utilities expenses due to heatwave
- Increase in rent expenses due to an increase in large-scale store openings

## 5. Performance Highlights (Dispensing Department)

- Prescription drug unit prices fell due to the April NHI price revisions, but the number of prescriptions remained strong

|   | 1H FY2018 | 1H FY2019 | Change |
|---|-----------|-----------|--------|
| Sales of prescriptions in all stores (million yen)    | 10,185    | 11,448    | 112.4  |
| Number of prescriptions (1,000 cases)                 | 1,121     | 1,319     | 117.6  |
| Prescription drug unit price (Yen)                    | 8,928     | 8,540     | 95.7   |
| Sales of existing stores (million yen)                | 10,113    | 10,750    | 106.3  |
| Number of prescriptions (1,000 cases)                 | 1,112     | 1,220     | 109.8  |
| Prescription drug unit price (Yen)                    | 8,941     | 8,672     | 97.0   |
| Sales of home-care services (million yen)             | 558       | 609       | 109.0  |
| Number of stores (stores)                             | 96        | 122       | +26    |
| Number of prescriptions (1,000 cases)                 | 36        | 40        | 111.4  |
| Gross profit ratio of prescriptions in all stores (%) | 41.3      | 40.7      | ▲0.6   |

## 5. Performance Highlights (Dispensing Department)

### Premiums for Local Support System

- **Number of stores with local support system premiums: 57 stores (+11 stores vs. previous year)**
- **Expansion of home-care service stores: 122 stores (+26 stores vs. previous year)**  
⇒ Expansion in home medical care site to 3 stores
- **Implementation of health consultations: 130 stores (+22 stores vs. previous year)**  
⇒ Expansion of number of stores implementing health consultations as added function of family pharmacy

### Premiums for Generics Dispensing System

- **Generics usage rate: 77.15% (+4.06% vs. end of previous year) \*Market: 73.2%**
- **Aimed to increase premiums, maintained improvement in usage rate**

|              |       |   |
|--------------|-------|---|
| Premium III: | 85% - | 21 stores (+13 stores vs. end of previous year) |
| Premium II:  | 80% - | 54 stores (+12 stores vs. end of previous year) |
| Premium I:   | 75% - | 56 stores (-6 stores vs. end of previous year)  |
| No premium:  |       | 57 stores (-16 stores vs. end of previous year) |

## 6. Profit and Loss Statement (Create SD)

|                  | 1H FY2018     |           | 1H FY2019     |           |                |                     |
|------------------|---------------|-----------|---------------|-----------|----------------|---------------------|
|                  | (million yen) | Share (%) | (million yen) | Share (%) | YoY change (%) | % of projection (%) |
| Net sales        | 129,988       | 100.0     | 139,725       | 100.0     | 107.5          | 98.9                |
| Gross profit     | 35,340        | 27.2      | 38,658        | 27.7      | 109.4          | 99.1                |
| SG&A expenses    | 29,658        | 22.8      | 32,400        | 23.2      | 109.2          | 99.0                |
| Operating profit | 5,681         | 4.4       | 6,257         | 4.5       | 110.1          | 99.6                |
| Recurring profit | 5,853         | 4.5       | 6,444         | 4.6       | 110.1          | 100.0               |
| Net profit       | 3,981         | 3.1       | 4,381         | 3.1       | 110.0          | 101.4               |

# FY 2019 Efforts in the second half

## 1. New Store Openings

### ■ OTC ... 2H plan: **32 stores**

- **Deepen dominant store openings** without relaxing store opening criteria and continue **openings in diverse store formats**
- In addition to conventional suburban store openings, plan store openings with Cremo format, joint store openings with other business types, station front and shopping center store openings, and in-store pharmacies

### ■ Prescription drug stores ...2H plan: **20 stores**

- Complete pharmacist OTC training and plan to open 20 stores in 2H

## 2. Renovation of Existing Stores

### ■ OTC...2H plan: **8 stores**, full-year plan: **15 stores**

- Focus on health & beauty lineup, review lineup, in-store prescription drug stores

### 3. Sales Promotions

#### ■ Review sales promotion methods

- Implement points-based sales promotion to increase frequency of store visits
- Issue coupons that match characteristics of customer purchases

#### ■ Release official smartphone app: **planned for March 2019**

- Provide point card function, distribute point coupons, disseminate variety of information

### 4. SG&A Expense Reduction

#### ■ Improve store operations

- Introduce expiration date checking system at **all stores**
- Enhance accuracy of computer-assisted ordering

#### ■ Reduce costs

- Appearance of reduction effect from **review of all expenses** tackled since 1H  
⇒ Expect to reduce outsourcing expenses, electricity rates, fixtures and fittings and other expenses from 2H

## 5. Initiatives by Prescription Drug Stores

### Establishment of Local Support System

#### ■ Expansion of home-care service stores

1H: 122 stores ⇒ FYE plan **141 stores (+19 stores)**

- Expand number of service stores by strengthening home-care service system and coordinating with home-care doctors

#### ■ Implement health consultation tailored to customer needs

1H: 130 stores ⇒ FYE plan **138 stores (+8 stores)**

- Organize health and nutrition seminars, provide blood tests

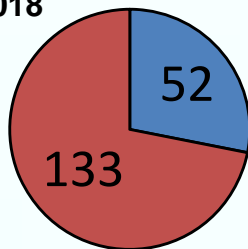
#### ■ Train family pharmacists

- Enhance pharmacist education and retention rates

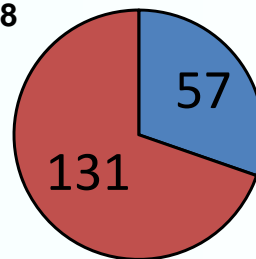
#### ■ **“Industry-government-academia collaboration projec”** with Tokai University and Kanagawa Prefecture

- Recommend specific health checkups using pharmacy health support functions

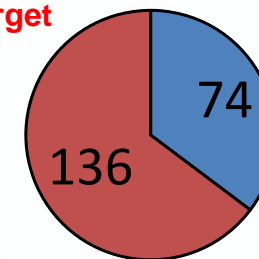
FYE May 2018



November 30, 2018



FYE May 2019 target



■ 35points ■ 0points

■ 35points ■ 0points

■ 35points ■ 0points



# 5. Initiatives by Prescription Drug Stores

## Generics Dispensing System

### ■ Generics usage rate

1H: 77.15% ⇒ FYE plan: **80.00% (+2.85%)**

- Continue aiming to increase premiums, and maintain improvement in usage rate

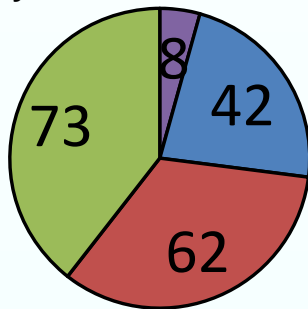
Premium III: 85% - **45** stores (+24 stores vs. 1H)

Premium II: 80% - **61** stores (+7 stores vs. 1H)

Premium I: 75% - **46** stores (-10 stores vs. 1H)

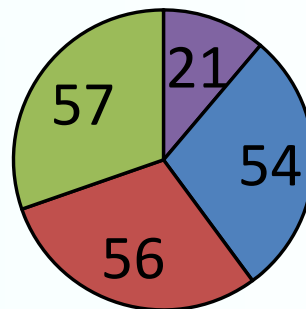
No premium: 58 stores (+1 store vs. 1H)

FYE May 2018



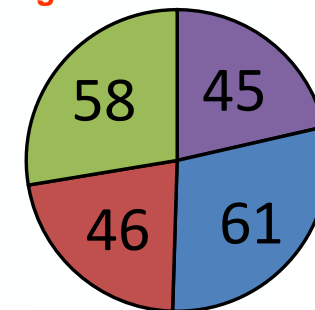
■ 26points ■ 22points ■ 18points ■ 0points

November 30, 2018



■ 26points ■ 22points ■ 18points ■ 0points

FYE May 2019 target



■ 26points ■ 22points ■ 18points ■ 0points

## 6. FYE 5/2019 Forecasts (Consolidated)

Full-year forecast does not change

|                  | FYE 5/2018<br>(consolidated results) |           | FYE 5/2019<br>(consolidated projection) |           |                |
|------------------|--------------------------------------|-----------|---|-----------|----------------|
|                  | (million yen)                        | Share (%) | (million yen)                           | Share (%) | YoY Change (%) |
| Net sales        | 268,161                              | 100.0     | 290,900                                 | 100.0     | 108.5          |
| Gross profit     | 73,681                               | 27.5      | 80,480                                  | 27.7      | 109.2          |
| SG&A expenses    | 59,819                               | 22.3      | 65,900                                  | 22.7      | 110.2          |
| Operating profit | 13,861                               | 5.2       | 14,580                                  | 5.0       | 105.2          |
| Recurring profit | 14,236                               | 5.3       | 14,900                                  | 5.1       | 104.7          |
| Net profit       | 9,540                                | 3.6       | 9,780                                   | 3.4       | 102.5          |