



***FYE 5/2019 (6/18-5/19) Results Explanatory Meeting
July 11, 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.

FYE 5/2019 Results

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FYE 5/2020 Forecasts

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FYE 5/2019 Results

1. Profit and Loss Statement (Consolidated)

| | FYE 5/2018 (consolidated) | | FYE 5/2019 (consolidated) | | | |
|------------------|------------------------------|--------------|------------------------------|--------------|-------------------|--|
| | (million yen) | Share (%) | (million yen) | Share (%) | YoY change (%) | % of adjustment in projection (%) |
| Net sales | 268,161 | 100.0 | 286,299 | 100.0 | 106.8 | 98.4 |
| Gross profit | 73,681 | 27.5 | 78,953 | 27.6 | 107.2 | 98.1 |
| SG&A expenses | 59,819 | 22.3 | 64,711 | 22.6 | 108.2 | 98.2 |
| Operating profit | 13,861 | 5.2 | 14,241 | 5.0 | 102.7 | 97.7 |
| Recurring profit | 14,236 | 5.3 | 14,623 | 5.1 | 102.7 | 98.1 |
| Net profit | 9,540 | 3.6 | 9,719 | 3.4 | 101.9 | 99.4 |

2. Balance Sheet (Consolidated)

| | End of FYE 5/2018 (Consolidated) | End of FYE 5/2019 (Consolidated) | Change |
|---|-------------------------------------|-------------------------------------|-----------------|
| Total assets | 121,412 | 133,315 | + 11,902 |
| Current assets | 71,212 | 75,763 | + 4,551 |
| Fixed assets | 50,200 | 57,551 | + 7,351 |
| Total liabilities | 52,035 | 56,426 | + 4,391 |
| Current liabilities | 47,019 | 50,718 | + 3,699 |
| Fixed liabilities | 5,015 | 5,707 | + 691 |
| Total net assets | 69,377 | 76,889 | + 7,511 |
| Total liabilities and net assets | 121,412 | 133,315 | + 11,902 |

(million yen)

3. New Store Openings

- OTC: **44 store openings** (plan: 52 stores) /
Prescription drug stores: **25 store openings** (plan: 25 stores)

| | | Kanagawa | Tokyo | Shizuoka | Chiba | Other | Total |
|---|------------------------|----------|-------|----------|-------|-------|-------|
| FYE May 2019 Number of store openings | OTC | 23 | 6 | 7 | 4 | 4 | 44 |
| | In-store pharmacies | 15 | 5 | 2 | 1 | 2 | 25 |

Store closures OTC: **4 stores** Contract expiration: 2 stores Improvement of management efficiency: 2 stores
Prescription drug stores **2 stores** Contract expiration: 1 store (in-store pharmacy) Improvement of management efficiency: 1 store (dedicated prescription drug store)

- Continued to **carry out dominant store openings**
- Store openings (**new types of business**)
⇒ 2 Cremo stores/2 joint store openings with other types of business
- Opened 25 prescription drug stores (in-store pharmacies) as planned

| | | Kanagawa | Tokyo | Shizuoka | Chiba | Other | Total |
|--|---|----------|-------|----------|-------|-------|-------|
| May 31, 2019 Number of stores | OTC | 337 | 99 | 83 | 39 | 41 | 599 |
| | In-store pharmacies | 105 | 30 | 18 | 9 | 11 | 173 |
| | Rate of pharmacy establishment in OTC stores | 31.2% | 30.3% | 21.7% | 23.1% | 26.8% | 28.9% |
| | Dedicated prescription drug stores | 25 | 6 | 0 | 2 | 2 | 35 |
| | Total number of stores | 362 | 105 | 83 | 41 | 43 | 634 |

3. New Store Openings

■ Cremo: 2 stores



■ Joint Store Openings with Other Types of Business: 2 stores

- Attract specialty stores handling 3 types of perishables inside Create stores



4. Renovation of Existing Stores

■ OTC: 30 stores

- Focus on health & beauty: 11 stores
 - ⇒ (1) Renovation of non-food stores and shopping center stores
 - (2) Renew old types of MD
- Optimization of perishables sections: 19 stores
 - ⇒ Increase or decrease perishables sections flexibly depending on store locations and needs

■ Prescription drug stores: 8 stores

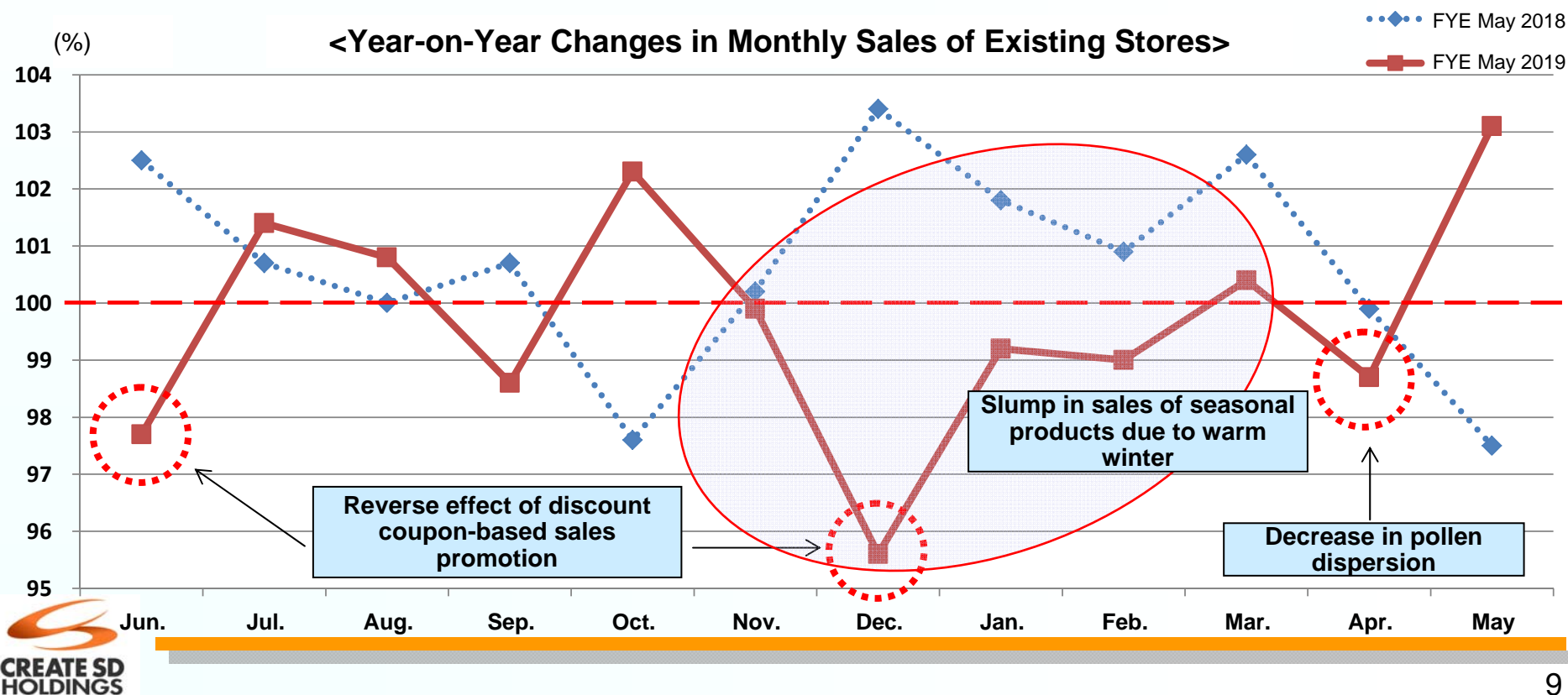
- Renovation in response to collaborations with medical institutions: 3 stores
- Extension of pharmacies and customer waiting space in response to increase in number of prescriptions: 3 stores
- Installation of sterile dispensary in response to increase in demand for home medical care, and extension of pharmacies: 2 stores

5. Performance Highlights

Net Sales

■ **106.8%** vs. previous year (98.4% vs. plan), **99.7%** vs. previous year for existing stores

- Reverse effect owing to discount coupon-based sales promotion in previous June/December
- Slump in sales of seasonal products due to adverse weather, including heatwave and warm winter, and decrease in pollen dispersion
- Delay in store openings/Internal competition



5. Performance Highlights

Net Sales

- Sales by segment are driven by specialties (prescriptions) and convenience (foods)
- Prescription Department's sales composition ratio **increased 0.6 points to 8.7%**

| | FYE 5/2018 | | FYE 5/2019 | | |
|-----------------------------|----------------------------|--------------|----------------------------|--------------|-------------------|
| | Net sales (million yen) | Share (%) | Net sales (million yen) | Share (%) | YoY change (%) |
| Medical and health products | 65,044 | 24.4 | 69,940 | 24.6 | 107.5 |
| (O T C) | 43,388 | 16.3 | 45,305 | 15.9 | 104.4 |
| (Prescription) | 21,655 | 8.1 | 24,635 | 8.7 | 113.8 |
| Cosmetics | 37,449 | 14.1 | 39,307 | 13.8 | 105.0 |
| Food products | 104,819 | 39.4 | 112,939 | 39.7 | 107.7 |
| Daily products | 43,932 | 16.5 | 46,255 | 16.3 | 105.3 |
| Other | 14,987 | 5.6 | 15,828 | 5.6 | 105.6 |
| Total | 266,233 | 100.0 | 284,270 | 100.0 | 106.8 |

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

5. Performance Highlights

Gross Profit Ratio

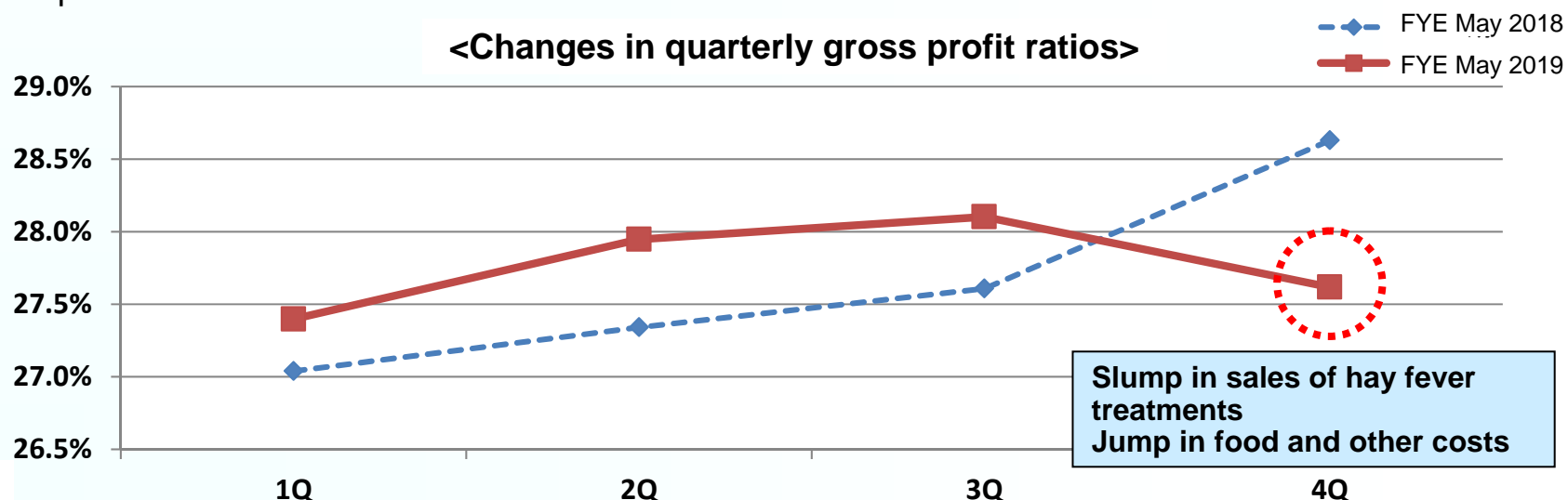
■ Gross profit ratio **27.8%** +0.1 point vs. previous year, ± 0.0 points vs. plan

<Improvement factors>

- 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

<Factors for worsened 4Q performance>

- Slump in sales of seasonal products due to warm winter and decreased pollen dispersion
- Jump in food and other costs



5. Performance Highlights

SG&A Ratio

- SG&A ratio **23.08%** +0.31 points vs. previous year, -0.05 points vs. plan
Personnel expense ratio: **11.94%**, +0.19 points vs. previous year, -0.14 points vs. plan

Other expense ratio: 11.14%, +0.12 points vs. previous year, +0.10 points vs. plan

<Personnel expense ratio factors behind increase vs. previous year>

- Increase in unit labor costs (employee wage and hourly pay increases)

<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 at existing stores: **97.0%** vs. previous year

<Factors for increased other expense ratio>

- Rent expenses
⇒ Increase in rent expenses per store
- Utilities expenses
⇒ Increase in unit fuel adjustment costs mainly due to sharp oil price rises/Increases in basic utility charges and utility usage due to summer heatwave

5. Performance Highlights

Prescription Department

- Prescription drug unit prices fell due to the NHI price revisions
- The number of prescriptions remained strong due to the widespread acceptance of prescriptions
- Gross profit ratios are improving due to dispensing fee revisions

| | FYE May 2018 Full-year Actual | FYE May 2019 1H Actual | YoY change (%) | FYE May 2019 2H Actual | YoY change (%) | FYE May 2019 Full-year Actual | YoY change (%) |
|---|-------------------------------------|------------------------------|----------------------|------------------------------|----------------------|-------------------------------------|-------------------|
| Sales - All stores (Million yen) | 21,655 | 11,448 | 112.4 | 13,186 | 115.0 | 24,635 | 113.8 |
| Number of prescriptions (1,000 cases) | 2,410 | 1,319 | 117.6 | 1,479 | 114.8 | 2,799 | 116.1 |
| Prescription drug unit price (Yen) | 8,837 | 8,540 | 95.7 | 8,782 | 100.3 | 8,668 | 98.1 |
| Gross profit ratio - All stores (%) | 41.0 | 39.6 | ▲1.5 | 40.6 | ▲0.3 | 40.2 | ▲0.8 |
| Sales - Existing stores (Million yen) | 20,178 | 10,750 | 106.3 | 12,673 | 111.3 | 23,424 | 108.9 |
| Number of prescriptions (1,000 cases) | 2,213 | 1,220 | 109.8 | 1,413 | 110.7 | 2,634 | 110.3 |
| Prescription drug unit price (Yen) | 8,974 | 8,672 | 97.0 | 8,840 | 100.7 | 8,762 | 99.0 |

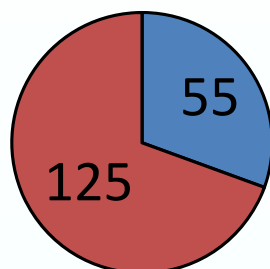
5. Performance Highlights

Prescription Department

■ Number of stores with local support system premiums:

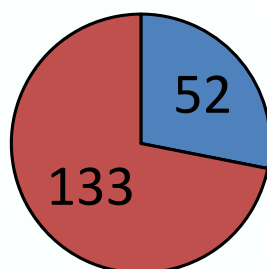
71 stores (+19 stores vs. previous year)

March 30, 2018



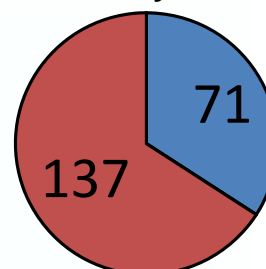
■ 32points ■ 0points

FYE May 2018



■ 35points ■ 0points

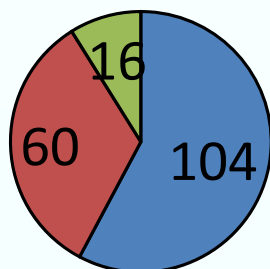
FYE May 2019



■ 35points ■ 0points

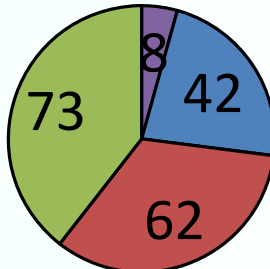
■ Generics usage rate: **78.55%** (+3.01pt vs. previous year) *Market: 75.7%

March 30, 2018



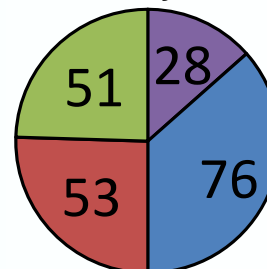
■ 22points ■ 18points ■ 0points

FYE May 2018



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

FYE May 2019



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

5. Performance Highlights

Prescription Department

■ Promotion of regional medical collaboration

- Attract regionally required medical institutions
- Obtain externally dispensed prescriptions
- Follow-up activities after the closure of pharmacies located close to hospitals

Increase in the number of prescriptions per store

■ Regional activities to improve symptoms of malaise

- Industry-academia-government collaboration activities by Kanagawa Prefecture, Hiratsuka City and Tokai University
 - ⇒ Recommend that participants in health consultations offered at pharmacies receive medical checkups

6. Profit and Loss Statement (Create SD)

| | FYE 5/2018 | | FYE 5/2019 | | | |
|------------------|---------------|-----------|---------------|-----------|----------------|-----------------------------------|
| | (million yen) | Share (%) | (million yen) | Share (%) | YoY change (%) | % of adjustment in projection (%) |
| Net sales | 266,233 | 100.0 | 284,270 | 100.0 | 106.8 | 98.4 |
| Gross profit | 73,663 | 27.7 | 78,915 | 27.8 | 107.1 | 98.1 |
| SG&A expenses | 60,619 | 22.8 | 65,612 | 23.1 | 108.2 | 98.2 |
| Operating profit | 13,044 | 4.9 | 13,302 | 4.7 | 102.0 | 97.6 |
| Recurring profit | 13,408 | 5.0 | 13,671 | 4.8 | 102.0 | 98.0 |
| Net profit | 9,159 | 3.4 | 9,218 | 3.2 | 100.6 | 100.6 |

FYE 5/2020 Forecasts

1. New Store Openings

■ OTC: 45 stores

- Carry out dominant store openings in areas where existing stores are located
⇒ (1) 50% in Kanagawa
(2) Focus on Tokyo, Chiba, and eastern Shizuoka
- Continue to open new types of stores
⇒ 2 Cremo stores/2 joint store openings with other types of business

■ Prescription drug stores: 30 stores

- Open all pharmacies within stores => Ratio of in-store pharmacies at year end: 31.6%
- Store openings in collaboration with regional medical institutions
⇒ (1) Store openings in collaboration with clinics
(2) Store openings to obtain externally dispensed prescriptions
- Stores handling prescriptions on a widespread basis using OTC stores' ability to attract customers
⇒ Promote store openings within existing OTC stores having strong abilities to attract customers

| | | |
|---|--|-------|
| May 31, 2019 Number of stores | OTC | 599 |
| | In-store pharmacies | 173 |
| | Rate of pharmacy establishment in OTC stores | 28.9% |
| | Dedicated prescription drug stores | 35 |
| | All stores | 634 |
| FYE May 2020 Number of store openings (plan) | OTC | 45 |
| | In-store pharmacies | 30 |
| | Dedicated prescription drug stores | - |
| | All stores | 45 |
| May 31, 2020 Number of stores (plan) | OTC | 642 |
| | In-store pharmacies | 203 |
| | Rate of pharmacy establishment in OTC stores | 31.6% |
| | Dedicated prescription drug stores | 35 |
| | All stores | 677 |

*Scheduled to close 2 OTC stores

2. Revitalization of Existing Stores

■ Renovation: **35 stores**

- Improve lineups at old types of stores
 - ⇒ Change retail space allocations and lineups to those for new stores
 - Retail space allocations that are suitable for locations and in line with regional needs
- In-store prescription drug stores
- Renovation of prescription drug stores

■ Focus on selling health & beauty products

- Expand sales of health & beauty products by increasing the customer visit frequency through the enhancement of convenience
- Review the spaces for selling health & beauty products, and concentrate on selling these products

■ Offer better customer service (aim to become a company that can handle customers in the most appropriate manner in Japan)

- Improve operations requiring face-to-face customer treatment such as the handling of customers within stores and cashier operations

3. Sales Measures

■ Promote cashless transactions and handle consumption tax hikes

- Introduce “Osaifu Hippo,” a points card with e-money functions

⇒ Improve customer convenience and reduce money management burdens

- (1) Attract and keep good customers
- (2) Increase customer visit frequencies and monthly purchase amounts
- (3) Restrict settlement fees

- Use official app.

⇒ Promote 1-to-1 marketing

Change from sales promotions uniformly conducted for all visitors to active sales promotions in line with customer characteristics



4. Productivity Improvement

■ Measures to improve the productivity of OTC operations

- Continue to enhance accuracy of computer-assisted ordering
- **Expiration date management system**
 - ⇒ Improve expiration date management and reduce the burden of carrying out confirmations by introducing the system at all stores

■ Measures to improve productivity at prescription drug stores

- Introduce **computer-assisted ordering for prescription drug stores**
 - ⇒ Improve stock-out situations at pharmacies that handle prescriptions on a widespread basis and are required to have a variety of stocks
- Introduce **a medicinal e-pocketbook and prescription transmission app** at all pharmacies
 - ⇒ Reduce waiting times and uniformly manage medicinal information
- Improve work **by installing dispensing equipment**
- Reduce stock items and strengthen negotiation abilities by **integrating generic medicines**
- **Help medical assistants** play active roles
 - ⇒ Reduce pharmacists' physical work, and place more emphasis on operations requiring interpersonal skills

5. Initiatives by Prescription Drug stores

■ Strengthen health care support functions

- Train family pharmacists
 - ⇒ Increase family pharmacists who can add consultancy fees and applicable stores
- Increase stores that are added to the regional support system
 - ⇒ Collaboration with regional medical institutions/Increase family pharmacists
- Expand home-care service
 - ⇒ Expansion of home-care service stores
 - ⇒ Strengthen the follow-up system by appointing **pharmacists specializing in in-home care**

■ HR Development

- Expand the pharmacy training center
 - ⇒ Increase the number of pharmacy trainees and offer medical assistant seminars in a more satisfactory manner
- Establish a new **home care training center**

6. FYE 5/2020 Forecasts (Consolidated)

| | FYE 5/2019 (consolidated) | | FYE 5/2020 (consolidated) | | |
|------------------|------------------------------|--------------|------------------------------|--------------|----------------------|
| | (million yen) | Share (%) | (million yen) | Share (%) | YoY change (%) |
| Net sales | 286,299 | 100.0 | 307,600 | 100.0 | 107.4 |
| Gross profit | 78,953 | 27.6 | 85,050 | 27.6 | 107.7 |
| SG&A expenses | 64,711 | 22.6 | 70,080 | 22.8 | 108.3 |
| Operating profit | 14,241 | 5.0 | 14,970 | 4.9 | 105.1 |
| Recurring profit | 14,623 | 5.1 | 15,300 | 5.0 | 104.6 |
| Net profit | 9,719 | 3.4 | 10,270 | 3.3 | 105.7 |