



***FYE 5/2018 (6/17-5/18) Results Explanatory Meeting
July 13, 2018***

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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FYE 5/2018 Results

1. FYE 5/2018 Consolidated Profit and Loss Statement

	FYE 5/2017 (consolidated)		FYE 5/2018 (consolidated)			
	(million yen)	Share (%)	(million yen)	Share (%)	YoY change (%)	% of adjustment in projection (%)
Net sales	247,341	100.0	268,161	100.0	108.4	99.8
Gross profit	68,149	27.6	73,681	27.5	108.1	99.3
SG&A expenses	53,707	21.7	59,819	22.3	111.4	100.2
Operating profit	14,441	5.8	13,861	5.2	96.0	95.6
Recurring profit	14,768	6.0	14,236	5.3	96.4	96.2
Net profit	10,119	4.1	9,540	3.6	94.3	98.1

2. FYE 5/2018 BS (Consolidated)

	End of FYE 5/2017 (Consolidated)	End of FYE 5/2018 (Consolidated)	Change
Total assets	110,480	121,412	+10,932
Current assets	67,798	73,013	+5,214
Fixed assets	42,682	48,399	+5,717
Total liabilities	48,578	52,035	+3,456
Current liabilities	44,157	47,019	+2,861
Fixed liabilities	4,420	5,015	+594
Total net assets	61,901	69,377	+7,475
Total liabilities and net assets	110,480	121,412	+10,932

(million yen)

Main causes of changes

■ Total assets

- Increase of 2,961 million yen in merchandise
- Increase of 1,112 million yen in cash equivalent, etc.
- Increase of 4,266 million yen in fixed assets due to new store openings, etc.

■ Total liabilities

- Increase of 2,188 million yen in accounts payable
- Increase of 249 million yen in asset retirement obligations

■ Total net assets

- Posted net income of 9,540 million yen
- 2,086 million yen dividend payment

3. New Store Openings

- **OTC: 51 store openings /Prescription drug stores: 29 store openings** (in-store pharmacies: 24 stores and dedicated prescription drug stores: 5 stores)

		Kanagawa	Tokyo	Shizuoka	Chiba	Other	Total
Number of store openings in FYE May 2018	OTC	24	12	7	6	2	51
	In-store pharmacies	13	5	3	3	0	24
	Dedicated prescription drug stores	4	1	0	0	0	5
Total number of stores as of the end of FYE May 2018	OTC	314	95	76	36	38	559
	In-store pharmacies	90	26	16	8	9	149
	<i>Rate of pharmacy establishment in OTC stores</i>	<i>28.7%</i>	<i>27.4%</i>	<i>21.1%</i>	<i>22.2%</i>	<i>23.7%</i>	<i>26.7%</i>
	Dedicated prescription drug stores	25	7	0	2	2	36
	Total number of stores	339	102	76	38	40	595

- New openings of Cremo-style store: **4 stores**

Store closures during FYE May 2018 - OTC: Contract expiration 1 store
Dedicated prescription drug stores: Improvement management efficiency 1 store

4. Renovation of Existing Stores

■ **OTC: 25 stores**

- Focus on food: **13 stores** (H1: 12 stores and H2: 1 store)
- Focus on non-food: **8 stores** (H1: 2 stores and H2: 6 stores)
Format Change to Cremo: **1 store**
- In-store pharmacies, etc.: 4 stores

■ **Prescription drug stores: 5 stores**

- Extension and renovation of pharmacies and customer waiting space in response to an increase in prescription drugs.

5. Performance Highlights

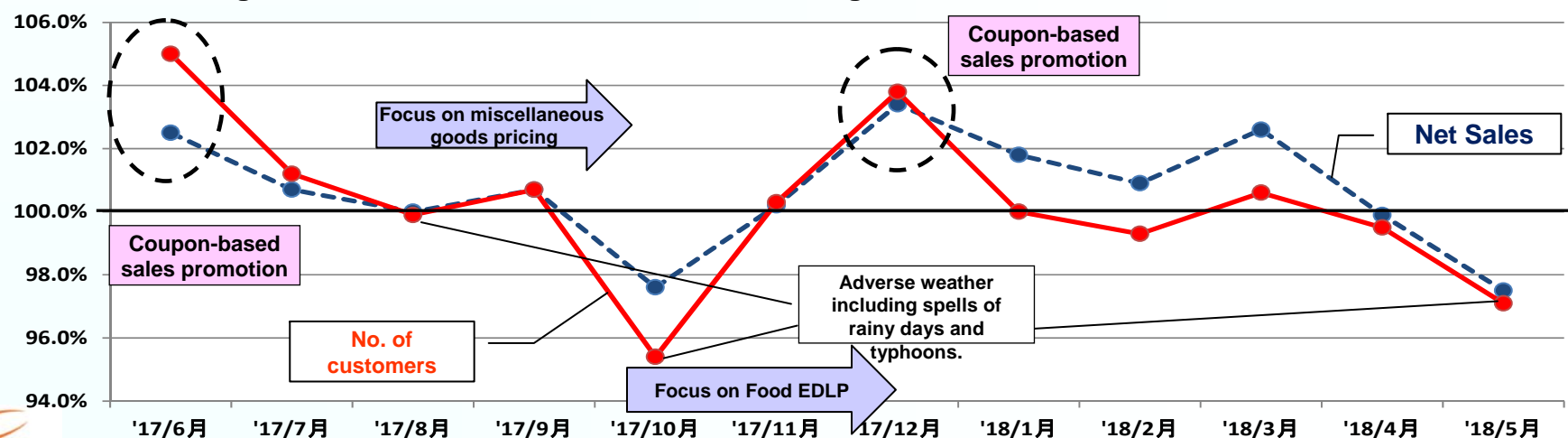
Net Sales

■ 108.5% vs. previous year, 99.7% vs. revised plan

Implemented measures to increase customers

- Launched new sales promotion using coupons. Added more food and everyday household items to EDLP.
⇒ Number of customers at existing stores was **100.2%** of the previous year's figures against the background that competition between Create stores, not with competitors, started.
- ⇒ Sales of existing stores were **100.7%** of the previous year's figures due to an increase in the number of customers and growth in the Prescription Department.
- Weather factors
⇒ The growth rate slowed down due to weather conditions including a spell of rainy days in August, typhoons in October, and low temperatures in May.

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



5. Performance Highlights

Net Sales

■ Sales by Segment

	FYE 5/2017		FYE 5/2018		
	Net sales (million yen)	Share (%)	Net sales (million yen)	Share (%)	YoY change (%)
Medical and health products	58,130	23.7	65,044	24.4	111.9
(O T C)	39,693	16.2	43,388	16.3	109.3
(Prescription)	18,437	7.5	21,655	8.1	117.5
Cosmetics	35,643	14.5	37,449	14.1	105.1
Food products	95,528	38.9	104,819	39.4	109.7
Daily products	41,739	17.0	43,932	16.5	105.3
Other	14,423	5.9	14,987	5.6	103.9
Total	245,466	100.0	266,233	100.0	108.5

* "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** **27.7%** $\pm 0.0\%$ vs. previous year, **-0.1%** vs. revised plan

<Factors behind the decline in H1>

-0.5% vs. previous year

- Focus on EDLP
- Implementation of new sales promotion measures
- Increase in new store openings (43 stores in previous term → 51 stores in current term)
- Increase in loss due to expansion of food

<Improvement factors for H2>

+0.3% vs. previous year

- Adjustment in balance between EDLP and items under sales promotion
- Review of sales promotion measures
- Growth in Dispensing Department
- Good performance of anti hay fever-related items

SG&A Ratio

■ **SG&A ratio** **22.8%**, **+0.6%** vs. pervious year, **+0.1%** vs. revised plan

Personnel expenses: +0.5% (a rise in wage unit:+0.3%,an increase in working hours:+0.2%)

- Revisions to allowances
- A rise in initial hourly wage
- An increase in number of employees due to the accelerating pace of opening stores
- A rise in working hours due to the expansion of food

5. Performance Highlights (Dispensing Department)

	FYE May 2017	FYE May 2018	Change
Sales of prescriptions in all stores (million yen)	18,437	21,655	117.5
Number of prescriptions (1,000 cases)	2,067	2,410	116.6
Prescription drug unit price (Yen)	8,757	8,837	100.9
Sales of existing stores (million yen)	17,466	20,176	110.6
Number of prescriptions (1,000 cases)	1,965	2,213	108.2
Prescription drug unit price (Yen)	8,750	8,974	102.5
Sales of home-care services (million yen)	1,034	1,146	110.8
Number of stores (stores)	67	119	177.6
Number of prescriptions (1,000 cases)	68	74	109.5
Gross profit ratio of prescriptions in all stores (%)	40.4	41.6	+1.2

- Measures
 - Opened new stores to build a coordinated local health care system in the proximity of existing pharmacies.
 - Active expansion into the home medical care market
 - Standard dispensing system **55 stores**
 - Generics dispensing systems Usage ratio: 75% or more at **104 stores** and 65% or more at **60 stores**

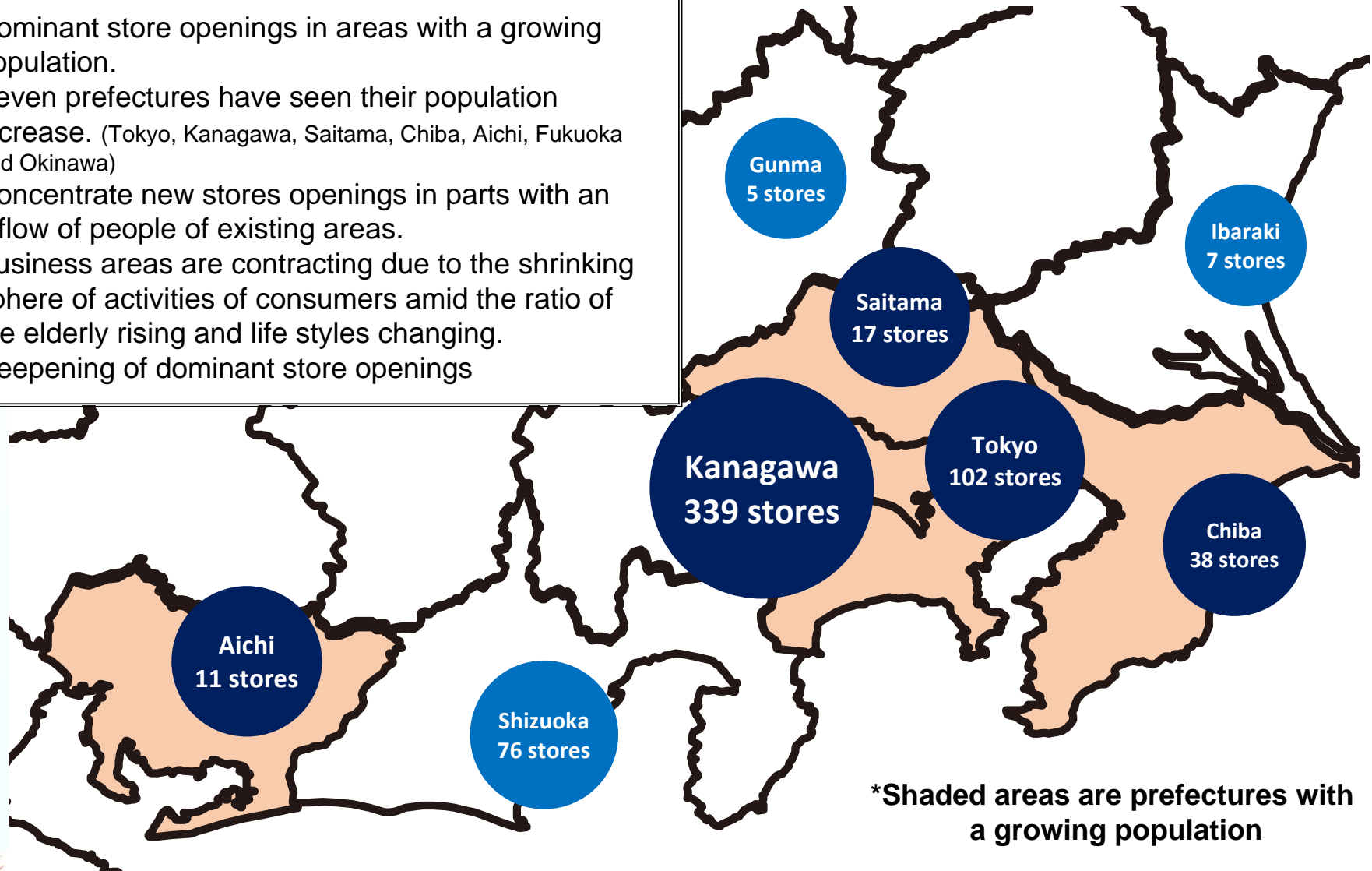
6. FYE 5/2018 Profit and Loss Statement (Create SD)

	FYE 5/2017		FYE 5/2018			
	(million yen)	Share (%)	(million yen)	Share (%)	YoY change (%)	% of adjustment in projection (%)
Net sales	245,466	100.0	266,233	100.0	108.5	99.7
Gross profit	68,107	27.7	73,663	27.7	108.2	99.4
SG&A expenses	54,431	22.2	60,619	22.8	111.4	100.2
Operating profit	13,676	5.6	13,044	4.9	95.4	95.9
Recurring profit	13,992	5.7	13,408	5.0	95.8	96.1
Net profit	9,750	4.0	9,159	3.4	93.9	100.2

FYE 5/2019 Forecasts

1. Store Opening Strategy

- Dominant store openings in areas with a growing population.
- Seven prefectures have seen their population increase. (Tokyo, Kanagawa, Saitama, Chiba, Aichi, Fukuoka and Okinawa)
 - ⇒ Concentrate new stores openings in parts with an inflow of people of existing areas.
- Business areas are contracting due to the shrinking sphere of activities of consumers amid the ratio of the elderly rising and life styles changing.
 - ⇒ Deepening of dominant store openings



2. Store Openings and Renovation

Store Openings

■ Trends in store openings

(Plan)

	FYE May 2015	FYE May 2016	FYE May 2017	FYE May 2018	FYE May 2019
New openings	34	28	43	51	52
Closures	7	3	5	1	3
No. of stores at end of FY	446	471	509	559	608

- Open various types of stores in existing areas with a growing population
- Open stores of Cremo: 5 stores

Renovation

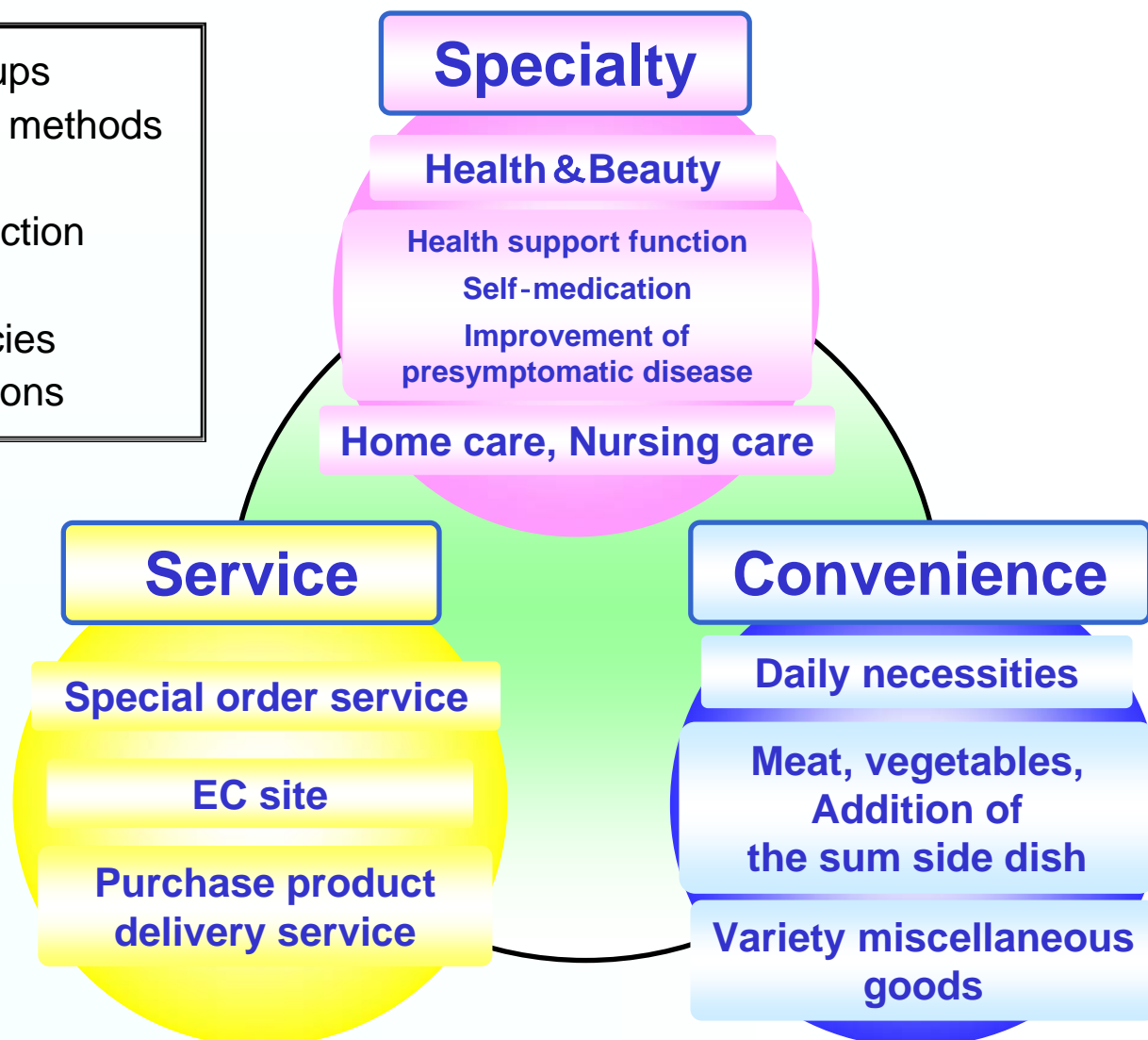
■ Concept of Renovation

- Extension of the health & beauty product line
 - ⇒Improvement of gross profit rate by enhancing expertise
 - ⇒Introduction of the essence of Cremo
- Sales floor optimization in stores with expanded food merchandise
 - ⇒Reduction of losses and utility costs
 - ⇒Reduction of working hours by improving operations.

3. Improvement of Gross Profit

■ Return to reinforcement of expertise as drug stores

- Review merchandise lineups
- Review sales promotional methods
- Optimize food floor
- Strengthen health care section
- Introduce Cremo essence
- Promote in-store pharmacies
- Enhance health consultations



4. Cost Reduction

Productivity Improvement

■ Logistics improvement and systemization

- Enhance the accuracy computer-assisted ordering
- Refine classifications of delivered goods
- Introduce the system for checking expiration dates

⇒ Implement the above according to store characteristics to reduce working hours

■ Personnel plan

- Review the standards for personnel allocation by store type to control working hours
- Reform for a diversified work style

Low-cost Measures

■ Fixtures and Fittings

- Reduce procurement costs through a competitive bidding including new suppliers

■ Utilities expenses

- Decrease the unit price for usage by changing suppliers

5. Prescription Department

Establishment of Coordinated Health-care System

■ Trends in Store Openings

(Plan)

	FYE May 2015	FYE May 2016	FYE May 2017	FYE May 2018	'FYE May 2019
Number of store openings	26	6	18	29	25
Number of stores at the end of FY	139	142	157	185	210

- The opening of mainly in-store pharmacies in coordination with medical institutions

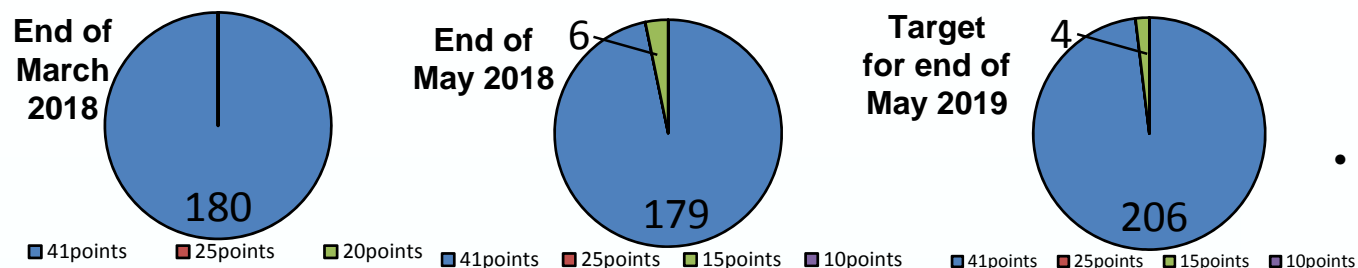
■ Establishment of Local Support System

- Expansion of demand for home-care services
- Overhaul of health consultations
 - ⇒ Show an appropriate treatment based on actual readings of blood tests, etc.
 - ⇒ Attempts to form industry-government-academia collaboration in cooperation with administration and universities
- Coordination with other types of business
 - ⇒ Coordination between clinics, OTC, pharmacies, and day-care service provider Salon Day, and between doctors, pharmacists, and nutritionists

5. Prescription Department

Response to Dispensing Fee Revision

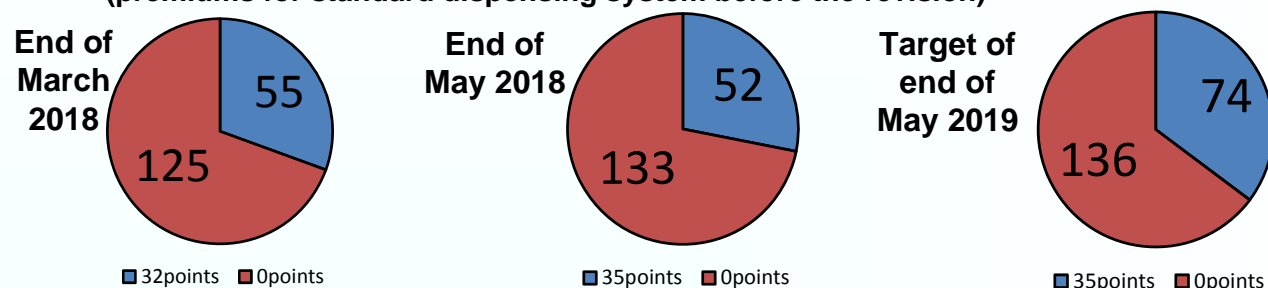
■ Basic dispensing fee



- The impact is small because the majority of prescriptions are received from multiple medical institutions.
- Try to solve this issue by promoting the receipt of prescriptions from multiple medical institutions.

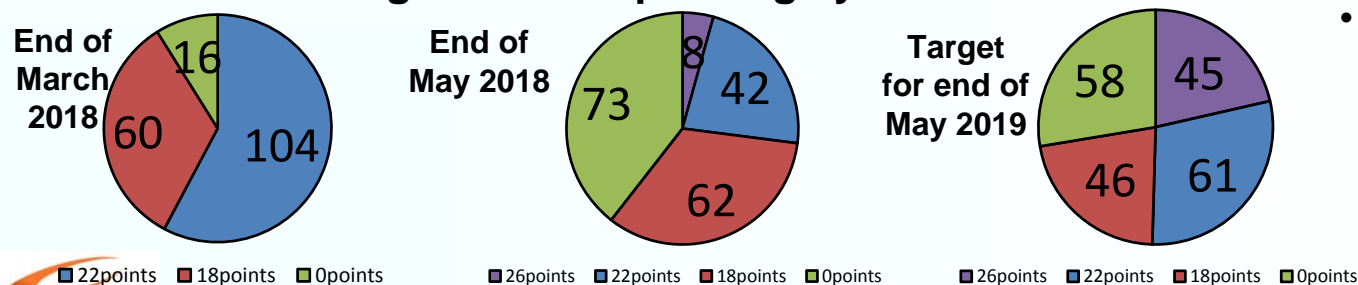
■ Premiums for local support system

(premiums for standard dispensing system before the revision)



- Try to expand stores eligible for premiums through demand increase for home-care service, reinforcement of health consultations and development of pharmacists.
- Make profits partly due to an increase in premiums.

■ Premiums for generics dispensing system



- Forecast to close the year with profits due to a plan for increasing the number of stores with a usage rate of 80% or more although there is a negative impact from the raised standards for usage rates.

6. Nursing-Care Business

Well Life (fee-based nursing home business)

■ Capture new residents

- Double down on working on local welfare facilities and hospitals, etc.
- Improve services including enhancing events

Salon Day (Day-care service business)

■ Opening of large-scale facilities

- Open one-day type day-care service facilities that provide meals, assist in taking bath in addition to functional training

■ Increase the capacity of facilities

- Convert facilities with the capacity to accommodate 10 people to ones with a capacity of 16 or 18 people

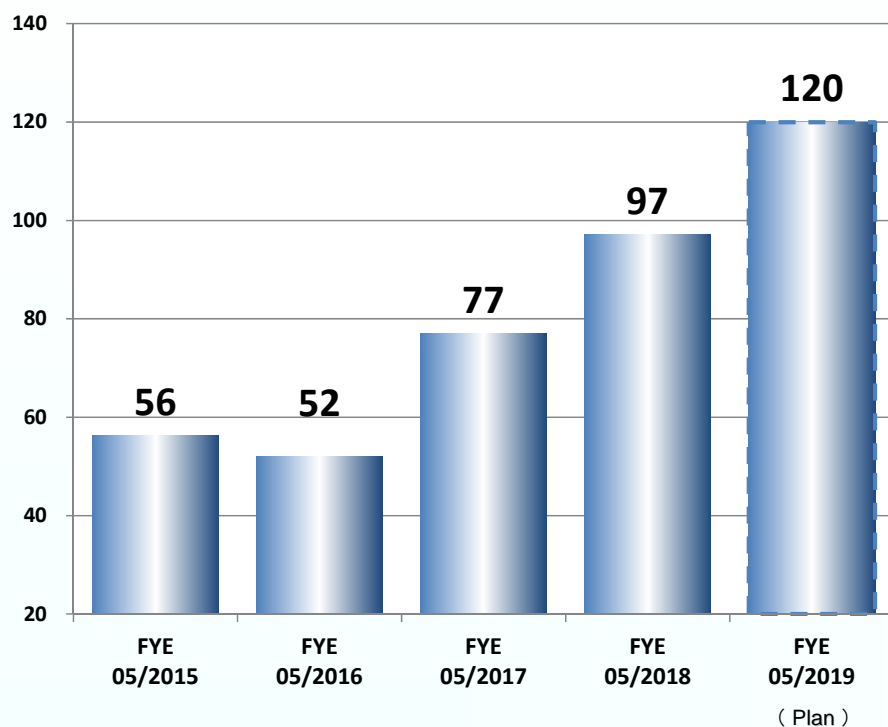
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	FYE 5/2018 (consolidated)		FYE 5/2019 (consolidated)		
	(million yen)	Share (%)	(million yen)	Share (%)	YoY change (%)
Net sales	268,161	100.0	290,900	100.0	108.5
Gross profit	73,681	27.5	80,480	27.7	109.2
SG&A expenses	59,819	22.3	65,900	22.7	110.2
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

7. FYE 5/2019 Forecasts (Consolidated)

■ Changes in investment value

investment value (hundred million yen)



■ Changes in dividends

Changes in dividends per share (yen)

