FY2018 (6/17-5/18) Interim Results Explanatory Meeting

January 12, 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.
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1H FY 2018 Consolidated Results

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1. Profit and Loss Statement (Consolidated)

	1H FY2017 (consolidated)		1H FY2018 (consolidated)			
	(million yen)	Share (%)	(million yen)	Share (%)	YoY change (%)	% of projection (%)
Net sales	121,549	100.0	130,967	100.0	107.7	98.4
Gross profit	33,421	27.5	35,384	27.0	105.9	97.3
SG&A expenses	26,327	21.7	29,280	22.4	111.2	101.0
Operating profit	7,093	5.8	6,103	4.7	86.0	83.0
Recurring profit	7,249	6.0	6,279	4.8	86.6	83.7
Net profit	4,923	4.1	4,276	3.3	86.9	83.2

2. Balance Sheet (Consolidated)

	May 31, 2017 (consolidated)	November 30, 2017 (consolidated)	Change
Total assets	**110,480**	**113,427**	**+2,946**
Current assets	67,798	68,346	+548
Fixed assets	42,682	45,080	+2,398
Total liabilities	**48,578**	**48,228**	**-349**
Current liabilities	44,157	43,541	-616
Fixed liabilities	4,420	4,687	+266
Total net assets	**61,901**	**65,198**	**+3,296**
Total liabilities and net assets	**110,480**	**113,427**	**+2,946**

(million yen)

Main causes of changes

■Total assets
・Increase of 1,549 million yen in merchandise
・Increase of 1,644 million yen in fixed assets due to new store openings, etc.
(・Land acquisition+1,058 million yen
・Acquisition of Buildings +586 million yen)

■Total liabilities
・Income tax payable decreased by -246 million yen
・Increase of +111 million yen in asset retirement obligations

■ Total net assets
・Posted net income of 4,276 million yen
・1,011 million yen dividend payment

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3. Statement of Cash Flows (Consolidated)

	November 30, 2016 (consolidated)	November 30, 2017 (consolidated)	Change
Cash flow from operating activities	5,216	3,739	-1,476
Cash flow from investing activities	-2,654	57	+2,712
Cash flow from financing activities	-948	-1,096	-147
Change in cash and cash equivalents	1,613	2,701	+1,087
Opening balance of cash and cash equipments	26,354	26,521	+166
Closing balance of cash and cash equipments	27,967	29,236	+1,268

(million yen)

Main factors in change

■Cash flow from operating activities
- ･Net income before tax: 6,280 million yen
- ･Depreciation expenses: 1,514 million yen
- ･Corporate taxes paid:-3,162 million yen
- ･Increase in inventory：-1,487 million yen

■ Cash flow from investing activities
- ･ Acquisition of fixed tangible assets due to store openings and renovation -2,914 million yen
- ･ Construction in progress: -1,223 million yen
- ･Certificates of deposit: +4,000 million yen

■ Cash flow from financing activities
- ･Dividend: -1, 011 million yen

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4. New Store Openings

■OTC: 19 store openings ,
Prescription drug stores: 16 store openings
(In-store pharmacies: 11 store openings; dedicated prescription drug stores: 5 store openings)

Store closure - OTC: Contract expiration 1 store
Dedicated prescription drug stores:Improve management efficiency 1 store

		Kanagawa	Tokyo	Shizuoka	Chiba	Other	Total
Total number of stores as of the end of 1H FY2018	O T C	300	88	72	30	37	527
	in-store pharmacies	84	22	14	7	9	136
	Rate of pharmacy establishment in OTC stores	*28.0%*	*25.0%*	*19.4%*	*23.3%*	*24.3%*	*25.8%*
	dedicated prescription drug stores	25	7	0	2	2	36

Number of total stores at the end of the year 563 stores

5. Renovation of Existing Stores

■ Renovated 17 stores

- **12 stores renovated with the focus on food**
  ⇒ Reduced renovation cost by optimizing the base numbers in light of test results
- **2 stores renovated with the focus on non-food merchandise**
  ⇒ Reviewed departmental compositions by stores adjacent to an SM and spotlighted health & beauty items at those stores
- **2 stores renovated to beat competition**
- **1 store renovated to add pharmacy**

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6. Performance Highlights

Net Sales

■ **107.8% vs. previous year, 98.4% vs. plan**

Implemented **measures to increase customers** in light of the future competitive environment

・Launched new coupon-based sales promotion

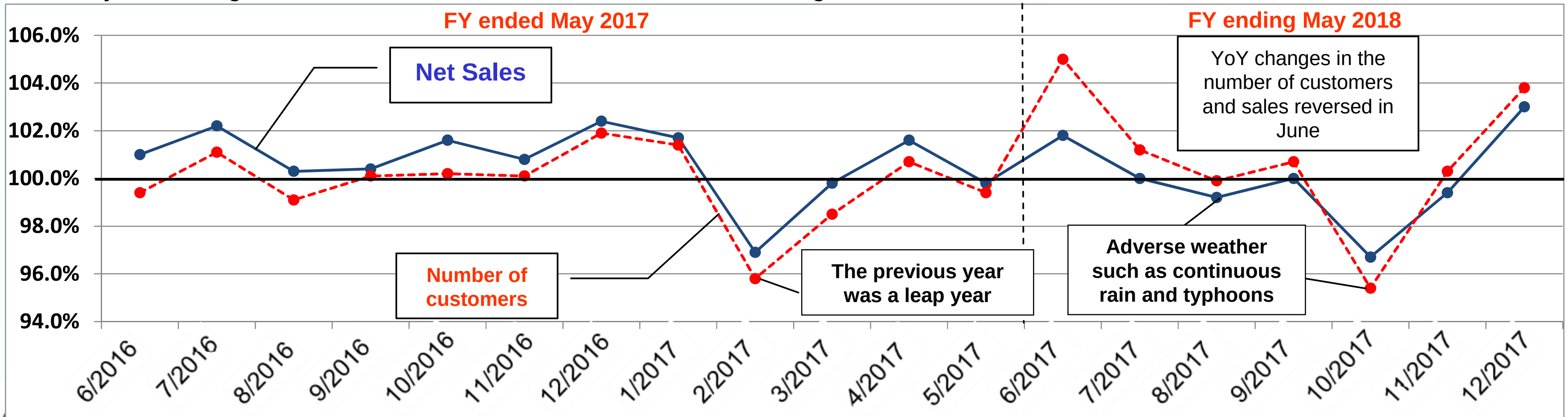
・Implemented EDLP for additional frequently purchased food and everyday household items

⇒ The number of customers at existing stores was **100.4%** of the previous year's figure as a result of implementing the measures to increase customers and revitalizing stores via renovation.

Sales at existing stores were 100.3% of the previous year's figure, maintaining positive growth thanks to the increased number of customers and growth of the pharmacy section

・Growth slowed due to the **record number of consecutive rainy days in August**, **typhoons hitting on weekends in October**, and other inclement weather conditions.

Year-on-year Changes in Sales and Number of Customers at Existing Stores



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6. Performance Highlights

Gross Profit Ratio

■ **Gross profit ratio 27.2%, -0.5% vs. previous year, -0.3% vs. plan**

Factors behind the decline

- Lower gross margin ratio due to the increase in new stores
- Impact of lower gross margin ratio for new stores as a result of enhanced pricing strategies
- **Sluggish sales of seasonal items** due to adverse weather
- **EDLP for additional** frequently purchased food and everyday household items
- Increased waste due to expansion of perishables section

SG&A Ratio

■ **SG&A ratio 22.8%, +0.7% vs. previous year, +0.6% vs. plan**

- Personnel expenses: +0.5% vs. previous year

  Increase in personnel due to record increase in number of stores
  (usually an increase of 20–30 stores ⇒ 43 stores this year)

  Ramped up efforts to hire pharmacists in step with the growing number of new stores to be launched

  Mounting miscellaneous wages due to changes in working arrangements and higher initial hourly wage

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6. Performance Highlights(Prescription Department)

New Store Openings

■ **Opened 16 stores**

・**Opened new stores to build a coordinated local health care system,** such as pharmacies that are in line with the government policy separating dispensing and prescribing functions, pharmacies designed to attract medical institutions, etc.

Net Sales

■ **Sales: 117.6% vs. previous year, 99.8% vs. plan**

・Expanded operations due to new store launches in coordination with medical institutions

・Sales of existing stores were steady, standing at **111.7%** of the previous year's figure, with the number of prescriptions up at **106.8%** of the previous year's figure.

Gross Profit Ratio

■ **Gross profit ratio 41.2%, +1.1% vs. previous year, +0.9% vs. plan**

・Standard dispensing premiums

Received at 56 stores before revision ⇒ 2 stores after revision

⇒ 23 stores at the end of the previous year ⇒ Number climbed back to **46 at the end of Q2**

(+12 stores vs. plan)

・Premiums for generic drug dispensing systems

Received at 118 stores before revision ⇒ 76 stores after revision

⇒ 126 stores at the end of the previous year ⇒ **145 stores at the end of Q2**

(+12 stores vs. plan)

7. Profit and Loss Statement (Create SD)

	1H FY2017		1H FY2018			
	(million yen)	Share (%)	(million yen)	Share (%)	YoY change (%)	% of projection (%)
Net sales	120,616	100.0	129,988	100.0	107.8	98.4
Gross profit	33,399	27.7	35,340	27.2	105.8	97.3
SG&A expenses	26,662	22.1	29,658	22.8	111.2	100.9
Operating profit	6,736	5.6	5,681	4.4	84.3	81.9
Recurring profit	6,886	5.7	5,853	4.5	85.0	82.7
Net profit	4,678	3.9	3,981	3.1	85.1	82.0

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FY 2018 Efforts in the second half

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1. New Store Openings

Store Opening Plan

■ OTC stores: To be opened at **31 locations** in H2,
50 for the year, reaching the target

■ Pharmacies: To be opened at **14 locations** in H2,
30 for the year, 5 more than the target

Opening various types of stores at various locations

■ Suburban
Launch stores jointly with other types of businesses and **large outlets** in addition to conventional suburban locations

■ Urban/station-front
Launch in-station stores and **small drugstores with a pharmacy mainly for dispensing**

■ SC/in-store
Launch new locations for Cremo, a new business specializing in beauty products, and stores with extensive lines of health, beauty, and home products

2. Renovation of Existing Stores

H2 Renovation Plan

■ Focus on renovations aimed at enhancing food products as well as those aimed at enhancing health & beauty (non-food) products

17 stores in H1
- **Focus on food: 12 stores**
- Focus on non-food: 2 stores
- Drugstores with pharmacy: 1 store
- To beat competition: 2 stores

⇒

11 stores in H2
- Focus on food: 2 stores
- **Focus on non-food: 7 stores**
- Drugstores with pharmacy: 1 store
- Cremo (new business): 1 store

■ **28 stores** to be opened for the year, **3 more stores than planned**

3. Investment in New Store Openings and Renovations

■ Investment in new store openings and renovations (including land acquisition)
Expected investment to total **12 billion yen** for the year
(**up 4.3 billion yen year on year 155% of the previous year's figure**)
⇒ Actively invest in opening large stores (including acquiring land) and renovating existing stores

4. Net Sales/Gross Profit

Net Sales

Continue to implement measures to increase customers with an eye to enhancing the top line

- **Continue EDLP** and review product lines
- **Conduct new sales promotion** and review tools (coupons, online flyers)
- Boost top-line growth by opening more stores (31 locations in H2)
- Revitalize existing stores via renovation

Gross Profit

Work to increase profits while keeping prices down

- Coordinate the number of discounted items with sales promotions
  ⇒**Review discounted items and sales promotions**, some of which were overlapping, to improve gross margin ratio
- Improving gross margin for perishables
  ⇒ Launch a project for perishables section with an eye to reducing waste and improving the gross margin via better purchasing
- Secure capital via better purchasing for each product category

5. Improving Productivity

Enhancing Logistics

■ Enhance distribution network in our areas of dominance with an eye to opening more locations
Open a new dry center ⇒ Investing over 5 billion yen

Improving Store Operation

■ **Refine classification of delivered goods** to enhance shelf stocking efficiency
⇒ Expand the scope of refined classification for dry products in phases and implement it at all locations by the end of March
⇒ Expand the scope of refined classification of chilled products to include all locations by the end of June

■ **Implement the system to check expiration dates** so as to improve working hours
⇒ To be implemented at all locations at the end of January

■ Enhance the accuracy of computer-assisted ordering and start experimenting with the **demand forecast system**

■ Reduce costs by improving operations at perishables section

Personnel Plan

■ Step up efforts to open locations with pharmacy services to optimize placement of pharmacists (30 locations this fiscal year, 5 more than planned)
⇒ Enhance efficiency via optimal placement of pharmacists who have been hired in advance

■ Train personnel to be licensed partners to ensure efficient operation
⇒ Train enough people to avoid future personnel shortages and ensure efficient operation

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6. Building Local Health Care System and Health Support Function

Creating a Coordinated Local Health Care System

- Open new stores to **attract the kind of medical institutions** local residents need
- Open **new drugstores with a function to provide health support services**

Addition of Health Support Function

- Increase store locations that provide home-care services to meet local nursing care needs
  Number of stores with home-care services
  67 at the end of the previous fiscal year ⇒ 96 in H1 ⇒ Increase to **117 (up 50)** in H2

  Services to be provided by **63%** of all pharmacies by the end of the year

- Overhaul health consultations
  ⇒ Look into **more objective topics for consultations** (such as blood testing and respiratory functions) to **encourage local residents to see a doctor (seek medical care)** rather than just helping them **solve their health problems**

- **Train personnel to be family pharmacists** knowledgeable about both OTC and prescription drugs
  ⇒ Provide a 3-year (internal training) program where trainees acquire knowledge about symptomatology, exercise therapy, and health food so they can better support patients in managing their health

7. FYE 5/2018 Forecasts (Consolidated)

	FYE 5/2017 (consolidated results)		FYE 5/2018 (consolidated projection)		
	(million yen)	Share (%)	(million yen)	Share (%)	YoY Change (%)
Net sales	247,341	100.0	271,200	100.0	109.6
Gross profit	68,149	27.6	74,700	27.5	109.6
SG&A expenses	53,707	21.7	59,300	21.9	110.4
Operating profit	14,441	5.8	15,400	5.7	106.6
Recurring profit	14,768	6.0	15,700	5.8	106.3
Net profit	10,119	4.1	10,400	3.8	102.8

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