



***FYE 5/2017 (6/16-5/17) Results Explanatory Meeting
July 14, 2017***

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 5/2017 (6/16-5/17) Results Explanatory Meeting

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FYE 5/2017
Consolidated Results
(06/2016 – 05/2017)

1. FYE 5/2017 Consolidated Profit and Loss Statement

	FYE 5/2016 (consolidated)		FYE 5/2017 (consolidated)			
	(million yen)	Share (%)	(million yen)	Share (%)	YoY change (%)	% of adjustment in projection (%)
Net sales	231,892	100.0	247,341	100.0	106.7	99.9
Gross profit	63,423	27.4	68,149	27.6	107.5	100.6
SG&A expenses	49,469	21.3	53,707	21.7	108.6	101.3
Operating profit	13,954	6.0	14,441	5.8	103.5	98.2
Recurring profit	14,314	6.2	14,768	6.0	103.2	98.5
Net profit	9,274	4.0	10,119	4.1	109.1	104.3

2. FYE 5/2017 BS (Consolidated)

(Millions of yen)

	End of FYE 5/2016 (Consolidated)	End of FYE 5/2017 (Consolidated)	Change
Total assets	99,334	110,480	+11,145
Current assets	60,879	67,798	+6,918
Fixed assets	38,455	42,682	+4,226
Total liabilities	45,749	48,578	+2,828
Current liabilities	41,760	44,157	+2,396
Fixed liabilities	3,989	4,420	+431
Total net assets	53,585	61,901	+8,316
Total liabilities and net assets	99,334	110,480	+11,145

Main factors in change

Total assets

- Increase of 4,682 million yen in cash, bank deposits and accounts receivable
- Increase of 1,598 million yen in merchandise
- Increase of 4,226 million yen in fixed assets due to new store openings, etc.

Total liabilities

- Increase of 2,420 million yen in accounts payable
- Increase of 324 million yen in asset retirement obligations

Total net assets

- 1,896 million yen dividend payment
- Posted net income of 10,119 million yen.

3. FYE 5/2017 CF (Consolidated)

(Millions of yen)

Main components

	FYE 5/2016 (Consolidated)	FYE 5/2017 (Consolidated)	Change
Cash flow from operating activities	11,843	12,878	+1,034
Cash flow from investing activities	-4,282	-10,814	-6,532
Cash flow from financing activities	-1,475	-1,896	-421
Change in cash and cash equivalents	6,085	166	-5,918
Cash and cash equivalents at beginning of year	20,268	26,354	+6,085
Cash and cash equivalents at end of year	26,354	26,521	+166

- Net income before tax: 14,513 million yen
- Depreciation expenses: 2,955 million yen
- Corporate taxes paid: -5,909 million yen

- Acquisition of fixed tangible assets due to store openings and renovation: -4,722 million yen
- Certificates of deposit*: -4,000 million yen
- Joint loans for construction: -1,276 million yen
- Construction in progress: -1,289 million yen

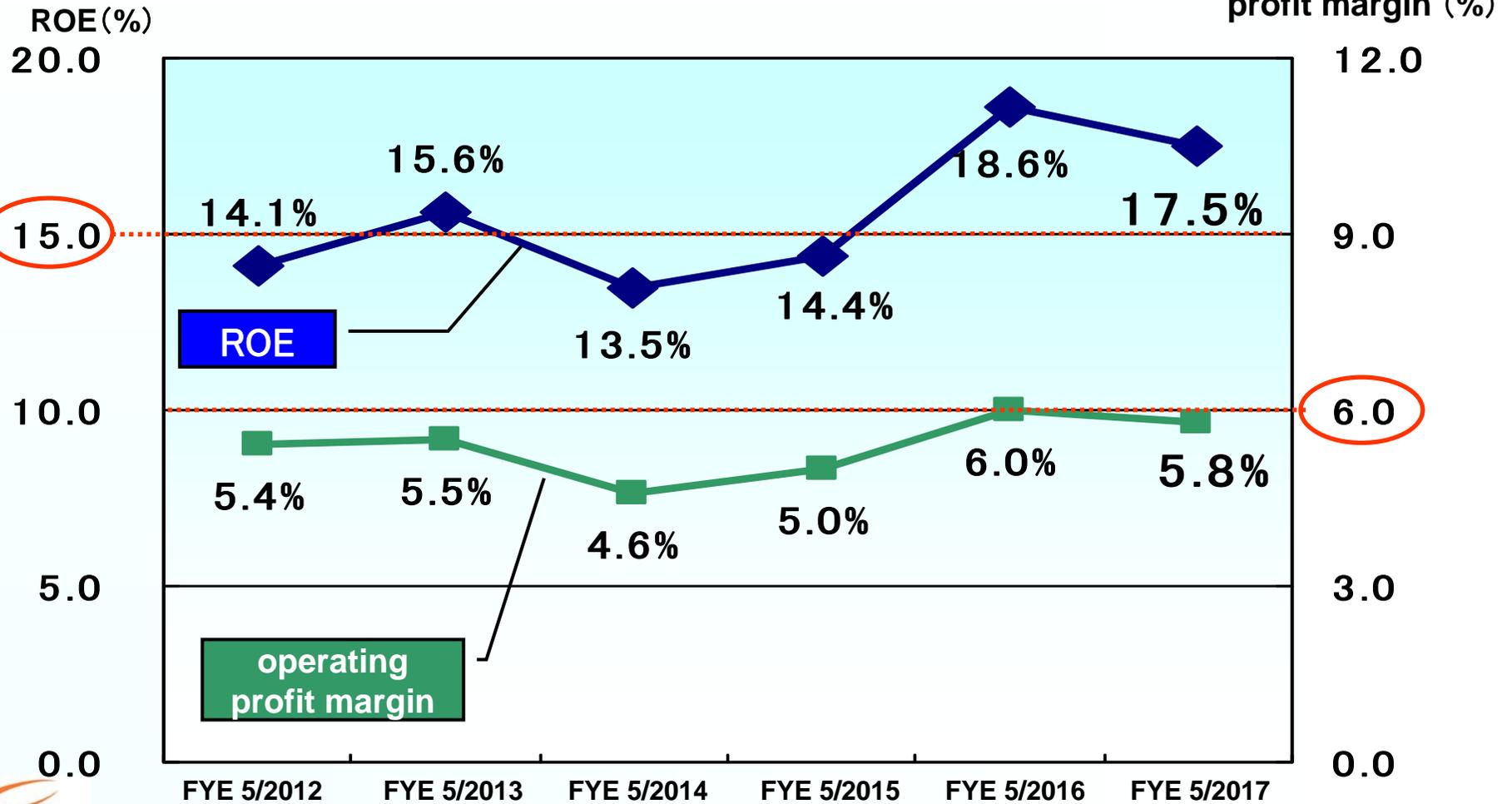
- Dividend: -1,896 million yen

* Certificates of deposit are actually cash equivalents. Investment expenditure and change in cash equivalents for FYE 5/2017, inclusive of certificates of deposit, amounted to 6,814 million yen and 4,166 million yen, respectively.

4. Changes in ROE

Intend ROE More Than 15%

Changes in ROE - operating profit margin

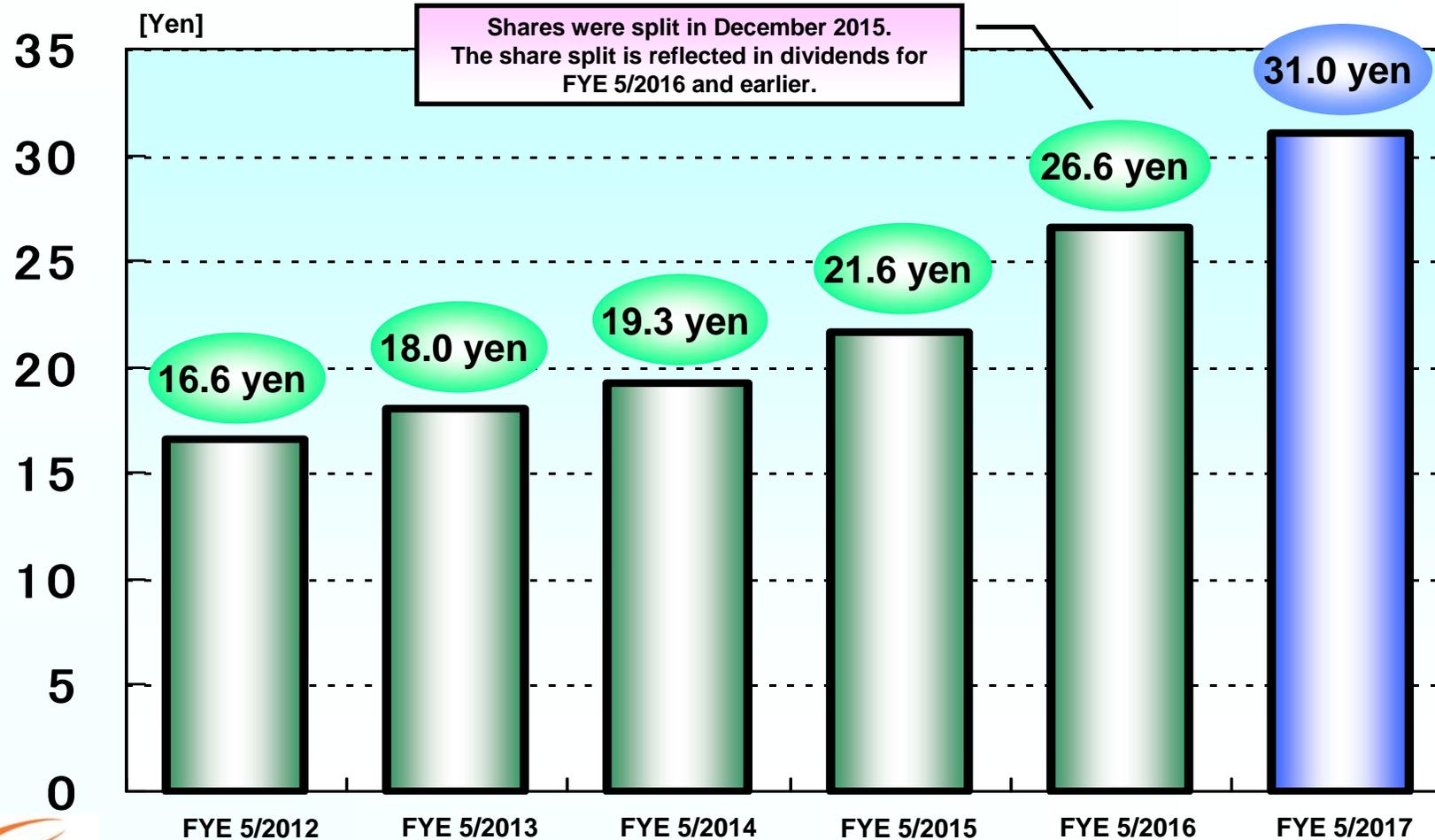


5. Changes in dividends

Stable, continuous dividend growth

FYE 5/2017 Actual
Dividend payout ratio: 19.4%
Dividend on equity ratio: 3.4%

Changes in dividends per share



Results of a main business company

1. FYE 5/2017 Profit and Loss Statement (Create SD)

	FYE 5/2016		FYE 5/2017			
	(million yen)	Share (%)	(million yen)	Share (%)	YoY change (%)	% of adjustment in projection (%)
Net sales	230,145	100.0	245,466	100.0	106.7	99.9
Gross profit	63,458	27.6	68,107	27.7	107.3	100.6
SG&A expenses	50,136	21.8	54,431	22.2	108.6	101.3
Operating profit	13,321	5.8	13,676	5.6	102.7	98.1
Recurring profit	13,672	5.9	13,992	5.7	102.3	98.3
Net profit	8,966	3.9	9,750	4.0	108.8	105.8

2. Store openings

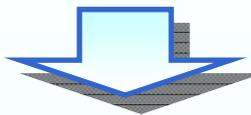
OTC: Record high of 43 store openings
Prescription drug stores: 18 store openings

(In-store pharmacies: 16 store openings; dedicated prescription drug stores: 2 store openings)

Total number of stores at year-end
541

Store openings by region

		Kanagawa	Tokyo	Shizuoka	Chiba	Total
FYE 5/2017 - Accumulated number of store openings	OTC	31	3	4	5	43
	In-store pharmacies	11	2	1	2	16
	Dedicated prescription drug stores	2	0	0	0	2



Store closure - OTC: Scrap & Build **3 stores** Contract expiration **1 store** Business type change **1 store**
 Dedicated prescription drug stores: Closed due to Monzen Hospital closure **2 stores** In-store
 pharmacies: Relocated and expanded **1 store**

		Kanagawa	Tokyo	Shizuoka	Chiba	Others	Total
FYE 5/2017 - Number of stores at year- end	OTC	290	83	70	30	36	509
	In-store pharmacies	77	21	13	5	9	125
	<i>Ratio of in-store pharmacies</i>	26.6%	25.3%	18.6%	16.7%	25.0%	24.6%
	Dedicated prescription drug stores	21	6	0	2	3	32

3. Addition of merchandise lineups and functions in line with customer needs

Active enhancement of **convenience** and **expertise** in line with regional customer needs

Expansion of merchandise lineups
Convenience



Addition of health support functions
Expertise

OTC: Expansion of merchandise lineups/Renovation 19 stores

- Renovation in pursuit of convenience mainly through the strengthening of food merchandise lineups
- Renovation mainly pursuing overwhelmingly strengthened beauty merchandise lineups

Renovation of prescription drug stores: 10 stores

- Addition of prescription functions in cooperation with nearby medical institutions: **3 stores**
- Renovation pursuing enhanced profitability and operational efficiency of existing pharmacies: **7 stores**

4. Net sales

YOY: **106.7%**; Compared with plan: **99.9%**

Net sales of existing stores were on par with the plan and **101.1%** year-on-year.

OTC: Solid and **100.7%** year-on-year thanks to renovation and expanded merchandise lineups despite the occurrence of in-house competition

Prescription: **106.5%** year-on-year; the growth rate decreased due to revised medical fees, decreased prescription of therapeutic agents for hepatitis C, and less-dispersed pollen

All stores

Net sales of all stores were slightly below planned figures because new stores were opened in an unbalanced manner (70% in the second half of the year, including 50% in 4Q).

5. Segmental sales

Traction expertise of the pharmacy business and the convenience of grocery

	FYE 5/2016		FYE 5/2017		
	Sales (million yen)	Share (%)	Sales (million yen)	Share (%)	YoY change (%)
Medical and health products	54,195	23.5	58,130	23.7	107.3
(O T C)	37,487	16.2	39,693	16.2	105.9
(Prescription)	16,708	7.3	18,437	7.5	110.3
Cosmetics	33,669	14.6	35,643	14.5	105.9
Food products	88,727	38.6	95,528	38.9	107.7
Daily products	39,810	17.3	41,739	17.0	104.8
Other	13,742	6.0	14,423	5.9	105.0
Total	230,145	100.0	245,466	100.0	106.7

6. Prescription Department

Sales: 110.3% YOY, 96.2% compared with plan

	FYE 5/2017 Actual		
	<Millions of yen>	Composi- tion ratio (%)	YOY (%)
Net sales	18,437	100.0	110.3
Gross profit	7,450	40.4	113.9

New store openings: 18 stores
Store openings aiming to build regional medical cooperation (e.g., store openings linked with the division of labor or aiming to attract medical institutions)

Compliance with the revision of medical fees

- Promoted the use of **generic medical and health products**
⇒The rate of generic medical and health product use is **70.9%**
(+5.4pt YOY) on a quantity basis.
- Acquisition of **premiums for standard prescription system**
⇒56 stores before revision
Decreased to 2 stores after revision, but recovered to **23 stores** as of the year-end.
⇒**Achieved the prior year premium level in January.**

7. Gross profit ratio

Gross profit ratio: 27.7% YOY: +0.1pt
Compared with plan: +0.2pt

- Sales of seasonal merchandise yielding a high gross profit ratio were poor but underpinned by the sales of high-value added merchandise and the launch of new PB.
- Cost reduction and higher rebates through delivery price negotiations
- There was an increased composition ratio of the Prescription Department yielding a high profit rate.
- The Prescription Department's gross profit ratio improved thanks to recovery after the revision of fees.

8. Selling and administrative expense ratio

Selling and administrative expense ratio: **22.2%** YOY:
+0.4pt Compared with plan: **+0.3pt**

Personnel expenses ⇒ YOY: +0.5pt

- Addition of health support functions, and streamlining of pharmacist assignment aiming for personnel cultivation
 - Pay raises through review of various allowances
 - Miscellaneous pay raises by changing work style and adopting higher hourly wages
- ⇒ Helped those who extended work hours play active roles by encouraging them to acquire qualifications or appointing them as store managers.
- Improved the workforce stability rate by streamlining the recruitment processes and making efforts to delay retirement, with store openings in mind.

Utility expenses ⇒ YOY: -0.1pt

Power saving effects through the use of in-store LED lighting; reduction of basic charges by changing electricity suppliers; decrease in unit fuel expenses thanks to cheaper crude oil prices

9. Activities to enhance productivity

Improvement of store operations

- System establishment for perishables, and reduction of losses and workload at stores that have expanded the selling spaces for perishables
- Reduction of inspection workload at stores by going voucher-less

Establishment of logistics system

Improvement of shelf-stacking efficiency by changing the delivery method

Activities at prescription pharmacies

- Improvement of inventory efficiency through the integration of generic medical and health products
- Inventory control through the inter-store transfer of immobile inventory

Growth Strategies

1. Store openings

OTC: 50 stores ⇒ Upward revision of mid-term plan (45 stores)

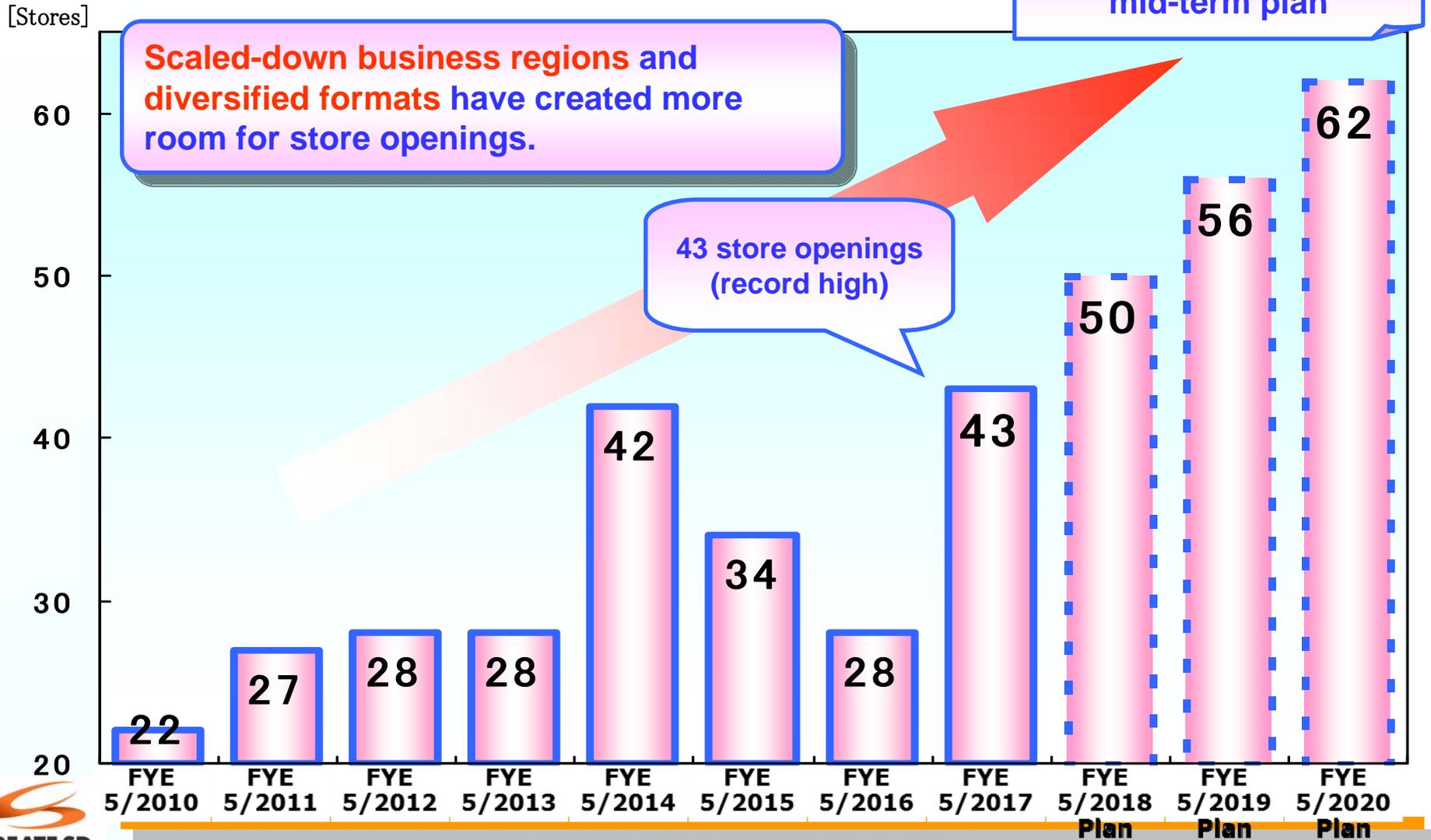
- Strengthened dominance through store openings mainly in Kanto and Tokai areas (especially in Kanagawa).
- Expanded the extent of store openings using a variety of store formats.
 - ⇒ Opened highly convenient stores meeting regional needs, **new types of stores through SM collaboration**, and stores **inside SCs and station buildings**.
 - ⇒ **Large stores** built on large construction sites, including land acquisition

Prescription drug stores: 25 stores ⇒ **In-store pharmacies: 20 stores /**
Dedicated prescription drug stores: 5 stores

- Mainly opened drugstore pharmacies having **health support functions**.
- Stores that can meet multiple needs using OTC's ability to attract customers
- **Attracted medical institutions aiming for the creation of regional medical cooperation systems.**
- **Dedicated prescription drug stores promoted the creation of medical malls consisting of multiple departments.**

1. Store openings

Changes in the number of OTC store openings

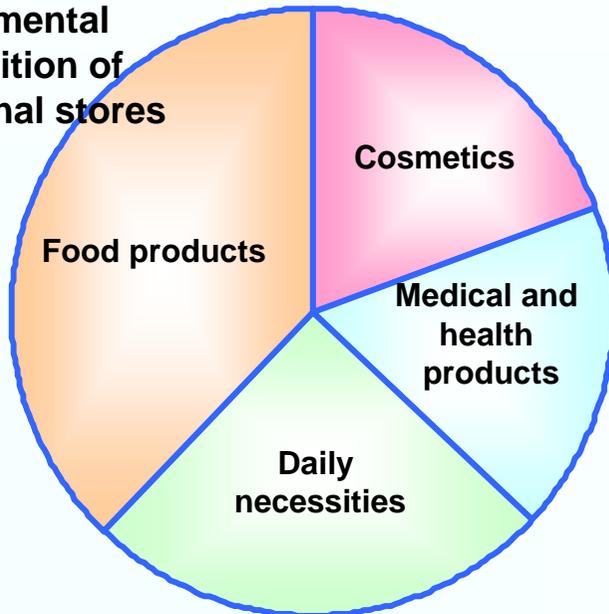


2. Opening of new types of stores

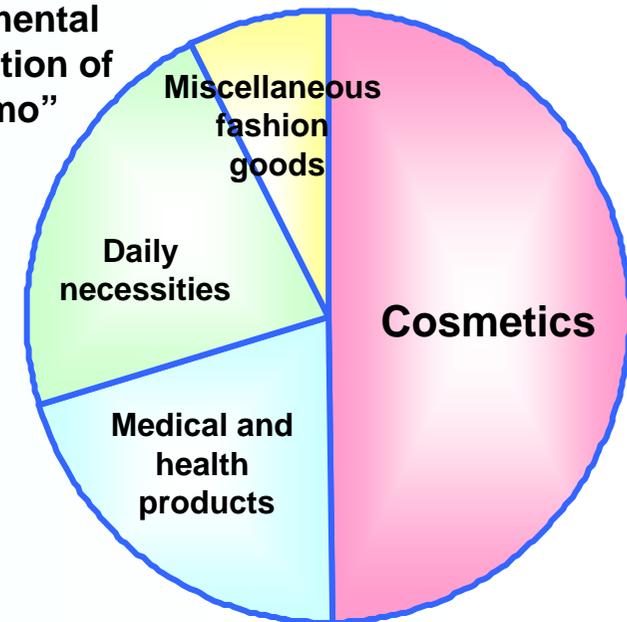
Crema

Create + more \Rightarrow New format based on the concept of making “Create” more enjoyable, which consists of “healthcare products” (core drug store products) and “miscellaneous fashion goods” that can make shopping enjoyable, as well as overwhelming lineups of “beauty care” products

Departmental composition of conventional stores



Departmental composition of “Crema”



2. Opening of new types of stores

Store concept of “Crema”

Come and enjoy ⇒ **Creation of an extraordinary atmosphere** that is enjoyable enough to make customers forget time, unlike conventional drugstores

See and enjoy ⇒ **Selling spaces that can give customers opportunities to find new discoveries** at all times through the offering of adequate merchandise lineups including trendy new merchandise and with the use of unique POP

Try and enjoy ⇒ **Selling spaces that can give customers opportunities to try products easily** with the use of adequate testers and plenty of amenities

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- **Set up selling spaces that can give customers chances to check actual merchandise, which is an advantage of actual stores, while EC sites are being used more extensively.**
 - **Accelerated the opening of stores in medium- and large-sized business regions, rather than focusing on dominance in small business regions.**

3. Policies for store openings/merchandise lineups

Expansion of merchandise lineups in line with regional needs and store locations

- Stores emphasizing perishables and other foods have made their merchandise lineups appropriate in line with competitive situations and locations.
- Merchandise lineups focusing only on beauty as a new line of business in SCs and locations for SM collaboration
- Integration of two essence items in large stores

Addition of merchandise lineups in line with changes in customer needs

Enhancement of convenience through expansion of merchandise lineups containing newly discovered merchandise that is in demand due to lifestyle changes, etc.

4. Personnel cultivation

Strengthened human resources in line with the accelerated opening of stores.

Hired **500 persons** this year, including 400 new graduates.

Helped partners play active roles.

- Promoted the acquisition of qualifications and improvement of skills, and **cultivated personnel to help them become registered sellers or store managers.**
- Adopted flexible employment policies to expand the places where employees can play more active roles.

Gave female employees support for workplace success.

- Actively promoted the appointment of employees as area managers, store managers, or headquarters staff.
- Adopted women's views and reflected them in selling spaces and merchandise lineups.

5. Activities to enhance productivity

Establishment of logistics system

Optimization of delivery operations through **the establishment of a new logistics center** in line with store openings.

- Established the “Shin Fuji Center” to carry out logistics activities covering perishable, dried and chilled foods in an integrated manner.
- Scheduled to establish a new logistics center having the same functions in a dominant area next year.

Improvement of work efficiency

- Reduced working hours by **implementing assisted orders at all divisions of all stores.**
 - Implemented assisted orders at new stores.
- Reduced working hours by implementing assisted orders when opening stores, rather than half a year later.
- Improved shelf stacking efficiency at stores by classifying delivered merchandise into more detailed categories.
 - Reduced merchandise checking hours by implementing an expiration date management system.
 - Improved operations through dispensing at pharmacies based on predictions of customer visits, and shelving allocation in line with the frequency of use.

6. Activities at prescription pharmacies

Meeting more prescription demand

- **Created a regional medical cooperation system** by attracting medical institutions and promoting the division of labor.
- **Reduced waiting time** by improving operations with the use of equipment.

Addition of health support functions

- Increased the number of stores providing service 24 hours a day \Rightarrow **55 stores** provide such service as of year-end (+28 stores)
- Increased **the number of stores meeting home-care patients' demand** \Rightarrow **118 stores** provide such service as of year-end (+50 stores)
- Increased the number of stores holding health consultations \Rightarrow **120 stores** held such consultations this year (+16 stores)

Aggregation of generic medical and health products

Reduced excess inventory and improved cost rates by aggregating generic medical and health products.

7. Nursing care business

Fee-based nursing home business

- Improved occupancy rates by strengthening marketing ability.
⇒ Aim to achieve a **80%** occupancy rate.
- Reduced costs by performing inventory counts and preparing manuals.

Day-care service business

Focused on improving profitability of existing facilities.

- Converted from 10-person capacity to 16-person capacity: **5 facilities**

Converted to 22-person capacity: **1 facility**

- Improve the capacity utilization of existing 16-person capacity facilities to **80%** by the end of year

- Newly started dementia prevention training.

8. 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