



Investors' Guide FY 2020 H1

First Half of the Fiscal Year Ended February 28, 2021 (March 1 to August 31, 2020)

Welcia Holdings' fiscal year begins on March 1 and ends on last day of February of the following calendar year.

Drug Store with Dispensing Pharmacy



Counseling



To promote
higher quality of life
and healthy lifestyles
for our customers

Long-term Care



Late-night Hours



A vision of community-grounded specialist-cum-general stores to deliver value in any era



Takamitsu Ikeno
Chairman and
Representative Director



Tadahisa Matsumoto
President and
Representative Director

First, may we thank our shareholders for their continued support and confidence.

During the first half, the Japanese economy receded due to the effects of COVID-19. Businesses adjusted to a new normal and people continued to stay at home, leading to a major shift in the socioeconomic landscape in terms of lifestyles, shopping habits, payment methods, and communication methods. As part of this shift, personal consumption plunged and business activity contracted.

Despite this backdrop, we performed well. Existing stores saw sales for anti-infection goods and food products. Meanwhile, we made progress in optimizing SG&A expenses (having identified this as an issue). Consequently, we recorded record net sales and profits, far exceeding our previously announced forecasts. These results represent a promising start to our new three-year strategy (fiscal 2021 to fiscal 2023).

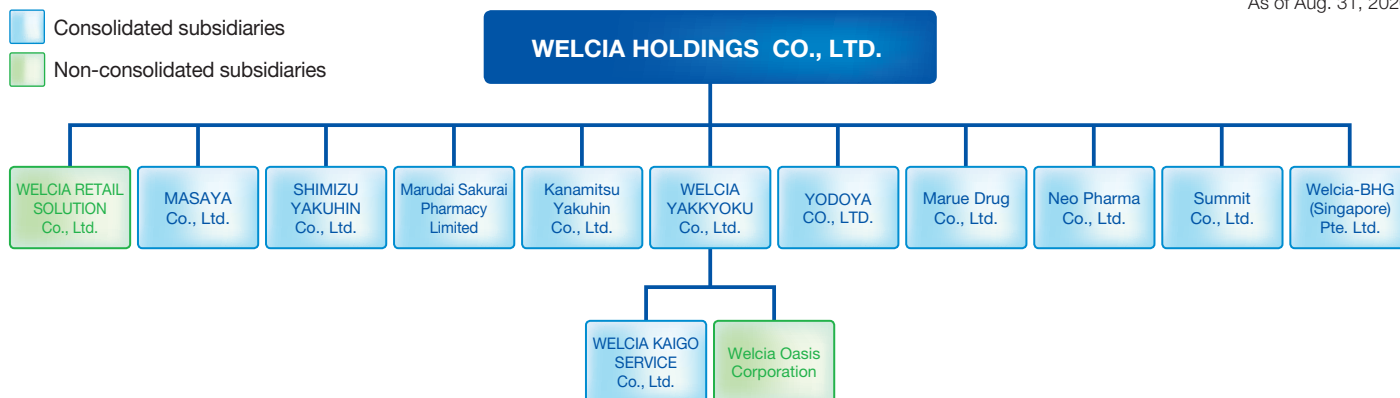
We have also acquired some new subsidiaries. On March 1, we acquired Kochi-based YODOYA CO., LTD. (24 stores), and on June 1, we acquired Marue Drug Co., Ltd., which operates drug stores mainly in Gunma (59 stores), after buying enough extra shares in the company. Then on July 1, we acquired Neo Pharma Co., Ltd. (10 stores) and Summit Co., Ltd. (3 stores), both of which operate dispensing pharmacies mainly in Ehime.

What is Welcia's purpose?

As our vision statement declares, our purpose is “to promote higher quality of life and healthy lifestyles for our customers.” COVID-19 has prompted us to renew this commitment. We will continue to roll out the Welcia Model and boost the specialist expertise of employees to achieve the vision of specialist-cum-general stores that form part of the local social fabric. We aim to be an organization that achieves growth while also creating value for communities, and we do so by leveling up our team's specialism, sociability, and originality to meet local needs.

Welcia Group

As of Aug. 31, 2020



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Corporate History



- July 2020** ● We acquired Neo Pharma Co., Ltd., and Summit Co., Ltd.
- June 2020** ● We acquired Marue Drug Co., Ltd., after increasing our stake in the company.
- March 2020** ● We acquired YODOYA CO., LTD.
- June 2019** ● We acquired Kanamitsu Yakuhin Co., Ltd.
- March 2019** ● WELCIA YAKKYOKU Co., Ltd. merged with Ippondo Co., Ltd.
- December 2018** ● We acquired MASAYA Co., Ltd.
- March 2018** ● We acquired Ippondo Co., Ltd.
- September 2017** ● We acquired Marudai Sakurai Pharmacy Limited
- June 2017** ● WELCIA YAKKYOKU Co., Ltd. merged with Nihonbashi Pharma Co., Ltd.
- March 2017** ● We established a joint venture, Welcia-BHG (Singapore) Pte. Ltd. (a consolidated subsidiary), with BHG Holdings Pte. Ltd.
- September 2016** ● WELCIA YAKKYOKU Co., Ltd. merged with CFS Corporation.
- February 2016** ● WELCIA YAKKYOKU Co., Ltd. acquired 100% ownership of Nihonbashi Pharma Co., Ltd. and Weltech LLC through a stock acquisition.
- December 2015** ● WELCIA YAKKYOKU Co., Ltd. merged with TAKIYA Co., Ltd.
- September 2015** ● We acquired 100% ownership of CFS Corporation through a stock exchange.
- March 2015** ● We acquired 100% ownership of TAKIYA Co., Ltd. and SHIMIZU YAKUHIN Co., Ltd. through a stock exchange.
- November 2014** ● We became a subsidiary of AEON Co., Ltd. through a takeover bid. Lianhua Merrylin Business (Shanghai) Co., Ltd. became our subsidiary as we additionally acquired its shares.
- September 2014** ● We acquired 100% ownership of Welcia Kanto Co., Ltd. through a share exchange. Welcia Kanto Co. Ltd. absorbed Takada Yakkyoku Co., Ltd., Welcia Kansai Co., Ltd. and Welcia Kyoto Co., Ltd. Welcia Kanto Co., Ltd. changed its name to WELCIA YAKKYOKU Co., Ltd.
- March 2013** ● Following a company split by Terashima Co., Ltd., its drug store business was absorbed by Welcia Kanto Co., Ltd.
- September 2012** ● Our name was changed to WELCIA HOLDINGS Co., Ltd. Drug Fujii Co., Ltd. was acquired by us through a share exchange and merged with Welcia Kanto Co., Ltd. Eleven Co., Ltd. changed its name to Welcia Kansai Co., Ltd.
- April 2012** ● Our stock was listed on the First Section of the Tokyo Stock Exchange.
- March 2010** ● We acquired ownership of Eleven Co., Ltd. through a share exchange.
- November 2008** ● Welcia Kanto Co., Ltd. acquired ownership of Terashima Co., Ltd., through a take-over bid.
- September 2008** ● Welcia Kanto Co., Ltd. and Takada Yakkyoku Co., Ltd. established Growell Holdings Co., Ltd. through a share transfer. Our common stock was listed on the Second Section of the Tokyo Stock Exchange.

Our Mission

To promote higher quality of life and healthy lifestyles for our customers

Our Business Model

As the preferred pharmacy for many of our customers, we have extended our reach through our OTC products as well as our dispensing and elder care services.

We will continue to evolve our business model centered on the operation of drug store with dispensing pharmacy, counseling services, late-night services, and long-term care services, and expand this model throughout our Group companies. From filling prescriptions from medical institutions to detailed counseling backed by the expert knowledge of pharmacists, registered sellers, and beauty care advisors, we will provide pharmaceuticals, cosmetics, food, and sundries that meet the needs of each

community. We will also expand and enhance services, including ATM access and storage services, to provide greater convenience to our customers, and support the health, beauty, and enriched lifestyles of local residents.

Our long-term care business also operates at-home care services and residential care facilities. We will generate synergy with drug stores to provide a higher level of dedicated services.

Drug Store with Dispensing Pharmacy

As we enter a rapidly aging society, drug stores with dispensing pharmacy are logical developments from the standpoint of social responsibility.



Counseling

We are responding to the needs of regional society, by building an environment that promotes youth and beauty, and supports safe and healthy lives.



Long-term Care (home-based medical care)

Our pharmacists provide drug advice and guidance to home-based care patients. Additionally we operate care facilities and comprehensive community support centers, including elderly homes with fee-based long-term care services and serviced condominiums for the elderly.



Late-night Hours

As unexpected illnesses arise, we are there for our customers morning, noon, and night. Certain stores will operate 24 hours a day.

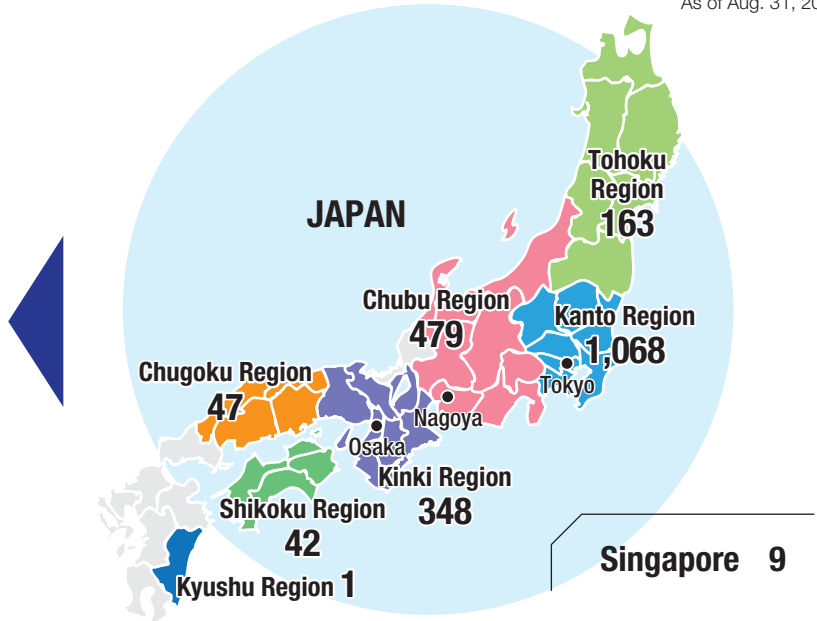
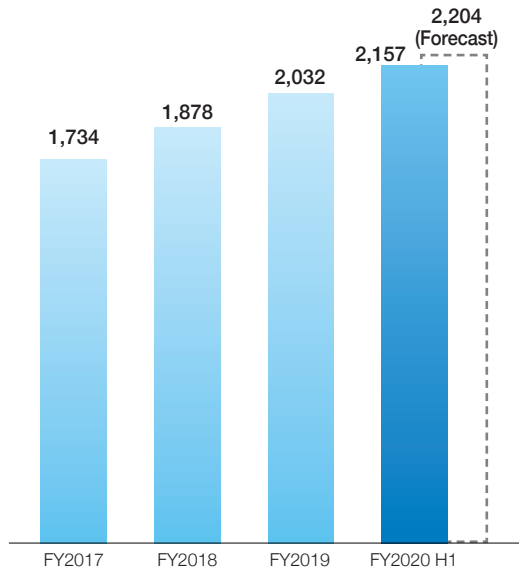


Financial Highlights

Total Number of Stores

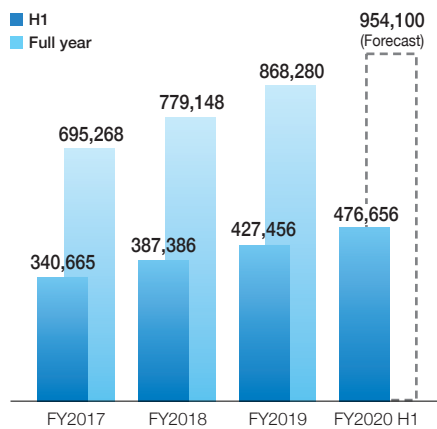
(Stores)

As of Aug. 31, 2020



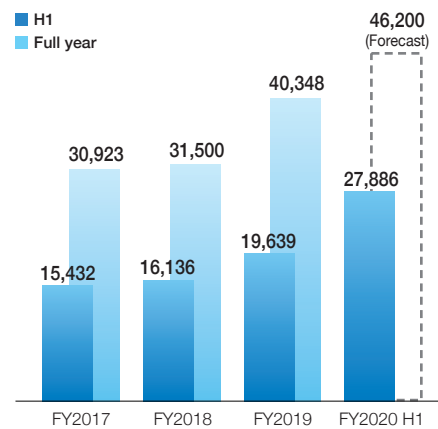
Net Sales

(Million Yen)



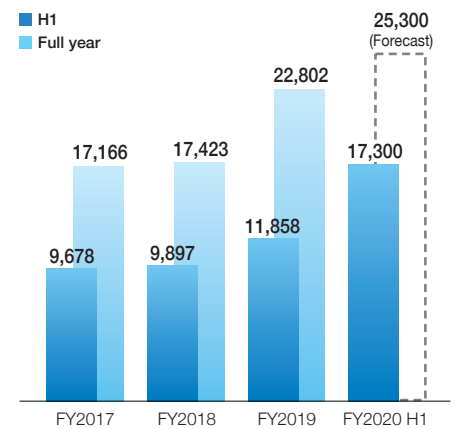
Ordinary Income

(Million Yen)



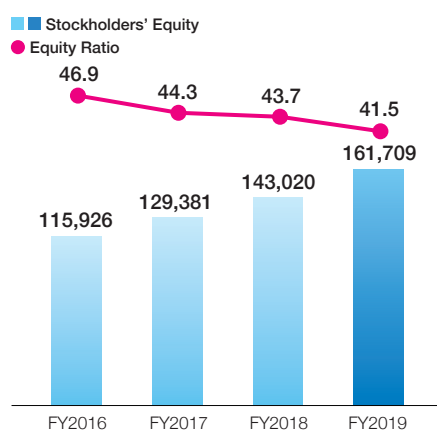
Net Income Attributable to Owners of Parent

(Million Yen)



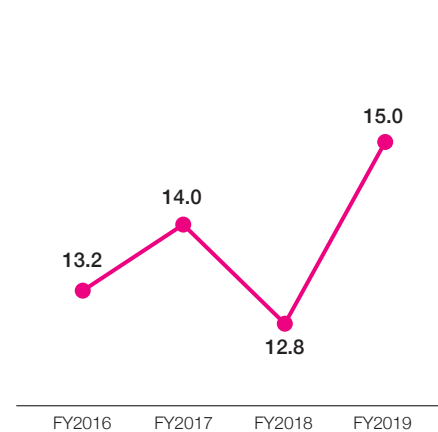
Stockholders' Equity / Equity Ratio

(Million Yen / %)



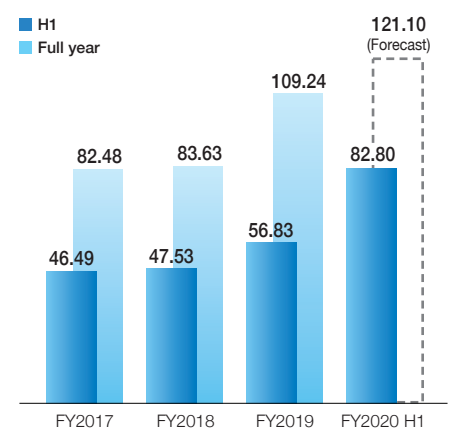
Return on Equity

(%)



Net Income per Share

(Yen)



Top Interview (Q&A)

Q 1 Tell us about the operating activities and earnings in the first half. Also, what is the outlook for the second half?

A 1 Net sales and profits increased with strong performance among existing drug stores. Full-year forecasts have been amended.

We felt the effects of COVID-19 in the first half, but worked to sustain business operations and continue providing products and services to local communities.

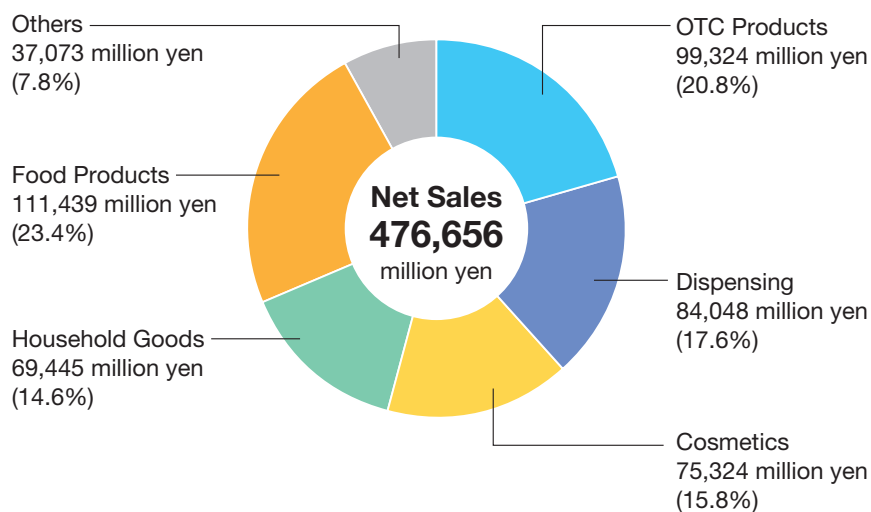
Surging demand for anti-infection goods buoyed merchandise sales. Meanwhile, our efforts to apply the Welcia Model, such as opening more drug stores with dispensing pharmacies, resulted in excellent takings among existing stores, offsetting the revenue-hit from the drug pricing reform. We also made progress in improving our man-hour management (which we had identified as an issue) and worked to optimize SG&A expenses.

These efforts culminated in record net sales and profits. Net

sales rose to 476.656 billion yen (up 111.5% YOY), ordinary income rose to 27.886 billion yen (up 142.0% YOY), and net income attributable to owners of parent rose to 17.3 billion yen (up 145.9% YOY). These results far exceeded the respective forecasts we previously announced.

We have amended our full-year forecasts. Part of the reason is that, contrary to initial expectations, we acquired three new companies as subsidiaries in consideration of our performance in the first half. Another reason is that we have expanded the budget for the second half to allow for stronger anti-infection measures in stores and more anticipatory investment in relation to sales.

Sales and Composition Ratio by Item



Q 2 Tell us about store openings.

A 2 Although COVID-19 forced us to alter our schedule for store openings, we continued our aggressive store-opening program and acquired four companies.

In the first half, the pandemic temporarily affected progress in opening new stores, but we ultimately opened 56 stores and closed nine in Japan. Additionally, we gained a number of other stores after welcoming three companies into the group. On March 1, we acquired Kochi-based Yodoya Co., Ltd. (24 stores); on June 1, we acquired Marue Drug Co., Ltd., which operates drug stores mainly in Gunma (59 stores); and on July 1, we acquired

Neo Pharma Co., Ltd. (10 stores) and Summit Co., Ltd. (3 stores), both of which operate dispensing pharmacies mainly in Ehime. As of the end of the first half, the group has 2,148 stores in Japan, across 37 prefectures. Of the newly opened stores, 13 are in Tohoku, 20 are in Kanto, 13 are in Chubu, seven are in Kinki, and three are in Shikoku. In addition to these, two stores opened in Singapore, bringing the global total to 2,157.

Parentheses indicate cosmetics specialty stores

The number of domestic stores

2,148

As of August 31, 2020

Niigata	65
Toyama	42
Ishikawa	20
Yamanashi	32
Nagano	36
Gifu	7
Shizuoka	222 (1)
Aichi	55

Mie	25
Shiga	14
Kyoto	74 (2)
Osaka	131 (4)
Hyogo	88 (1)
Nara	12 (2)
Wakayama	4

Okayama	37 (8)
Hiroshima	2 (1)
Tottori	2 (2)
Shimane	6 (1)

Overseas 9

Singapore 9

Chubu Region 479

Tohoku Region 163

Aomori	75
Iwate	12
Akita	9
Miyagi	14
Yamagata	20
Fukushima	33

Kinki Region 348

Chugoku Region 47

Kanto Region 1,068

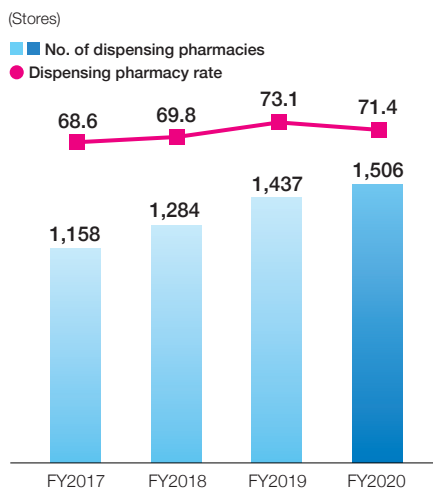
Tokushima	2 (1)
Kagawa	1
Ehime	12 (2)
Kochi	27 (1)

Ibaraki	150 (4)
Tochigi	62
Gunma	113 (1)
Saitama	199 (2)
Chiba	143 (3)
Tokyo	186 (3)
Kanagawa	215

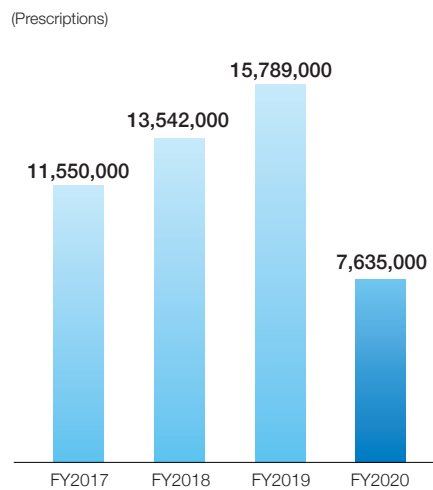
Shikoku Region 42

Kyushu Region 1 Miyazaki 1 (1)

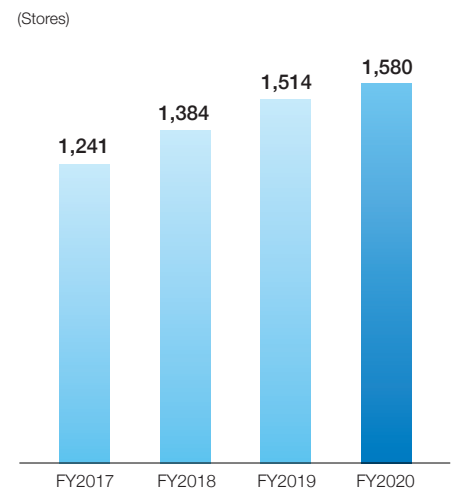
Change of the Number of Stores with Dispensing Pharmacy



Number of prescriptions



Change of the Number of Stores with Late-night Services



* The number of prescriptions and the number of stores with dispensing pharmacy do not include figures from outside Japan.

* The dispensing pharmacy rate excludes stores that specialize in cosmetics (namely, 35 stores operated by Masaya under the Masaya or Color Studio brand, and five stores operated by Welcia Yakkyoku under the Narcis brand).

Q 3 How is your Welcia Model going?

A 3 We are pursuing our vision of specialist-cum-general stores that support local communities by providing dispensing pharmacies, pharmacy counseling, late-night services, and elder care.

The Welcia Model outlines our business approach of providing specialist-cum-general stores that support the health and lives of local people through specialist expertise and customer convenience. We are integrating this model into the businesses of our group companies, which share our ethos.

As part of the Welcia Model, we aim for team of professionals who support local people's health as pharmacists, registered sales clerks, beauty care advisers, registered nutritionists and dispensing clerks, with expert knowledge in our merchandise and services.

We have steadily increased the number of drug stores with dispensing pharmacies, bringing the number of such stores in Japan up to 1,506, which accounts for 71.4% of the total. The dispensing pharmacy rate dipped to 99.5% of last year's figure because the spread of COVID-19 discouraged visits to healthcare facilities. However, pharmaceutical net sales increased to 111.9% of last year's figure as a result of opening more stores with dispensing pharmacies.

To better serve the needs of local communities, we have also increased the number of drug stores that offer late-night services. A total of 1,580 stores now operate late at night, and 232 of them operate 24 hours a day. We are strategically expanding 24-hour operation to enhance convenience for our customers. Our benchmark is to have one 24-hour store in each region.

* The number of prescriptions and dispensing pharmacies excludes those overseas.

* The dispensing pharmacy rate excludes stores that specialize in cosmetics (namely, 35 stores operated by Masaya under the Masaya or Color Studio brand, and five stores operated by Welcia Yakkyoku under the Narcis brand).



Q 4 Could you tell shareholders about the dividends they will receive?

A 4 We will pay an interim dividend of 27 yen per share. We implemented a 2-for-1 stock split.

Our policy on shareholder returns is to aim for stable dividends while ensuring ample internal reserves for reinvestment. In determining the level of shareholder returns, we comprehensively consider a range of factors, including our financial circumstances, revenue level, and payout ratio. Guided by this policy, we have decided to pay an interim dividend of 27 yen per share, which is 4 yen higher than the previous year's interim dividend.

On September 1, we implemented a 2-for-1 stock split. The purpose of the stock split was to make our shares more affordable so that we could increase liquidity in our stock and attract more investors.

The year-end dividend is forecasted at 13.5 yen. If the stock split had not occurred, this dividend would be 27 yen, for a full-year dividend of 54 yen.

Dividend per share

	Interim	Year-end
FY2019	¥23	¥27
FY2020	¥27 (before stock split)	
FY2020 (forecast)		¥13.5 (after stock split)

* For FY2020, the interim dividend is as before the stock split, while the (forecasted) year-end dividend is as after the stock split.

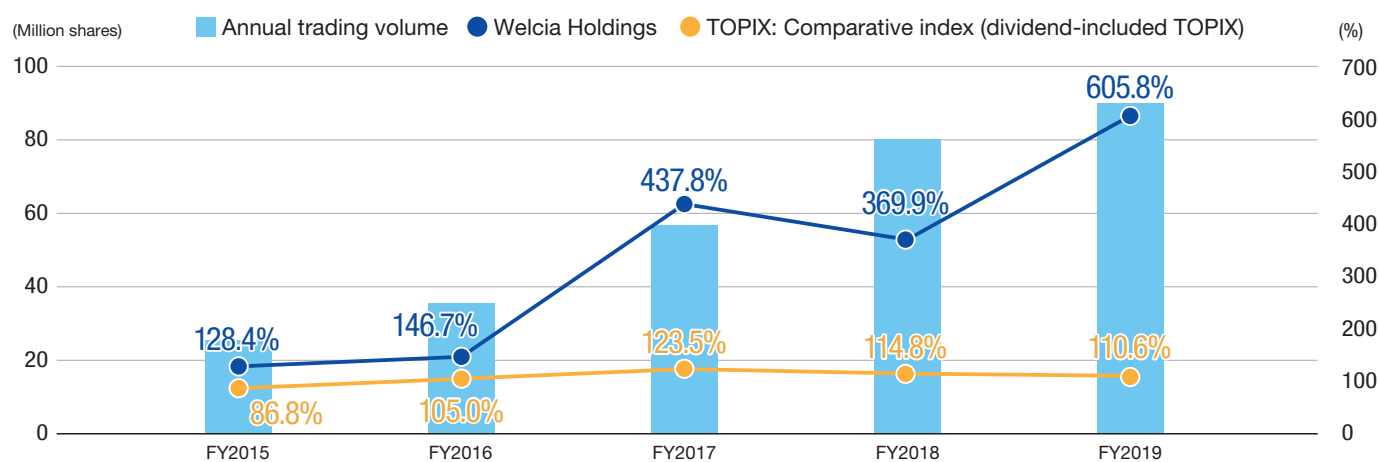
* The dividend has been broken down into the interim and year-end dividend because the stock split made it impossible to present a singular full-year figure.

TSR is as high as 605.8% for last five years. Stock performance is superb for long-term shareholders.

Our share price has risen year by year. Reflecting this trend, the Total Shareholder Return (TSR) for a holding period of five years is as high as 605.8%. This figure far exceeds the TOPIX Dividend Index, a key reference value. In other words, our stock continues to achieve superb performance for long-term shareholders. We will continue to promote and refine the Welcia Model across

the group in pursuit of our vision of go-to drug stores—stores that form part of the local social fabric and are trusted and cherished by the community. We wish to thank shareholders for their confidence in our group's vision and we look forward to continuing our journey together.

Total Shareholder Returns and Annual Stock Prices for the Past Five Years



	FY2015	FY2016	FY2017	FY2018	FY2019
Annual trading volume	25.23m shares	35.29m shares	56.68m shares	80.28m shares	95.22m shares
Year-end cap rate	¥292.4bn	¥328.6bn	¥496.8bn	¥414.0bn	¥681.3bn
TSR	128.4%	146.7%	437.8%	369.9%	605.8%
Comparative index (dividend-included TOPIX)	86.8%	105.0%	123.5%	114.8%	110.6%

* TSR percentages are relative to FY2014, which is scaled at 100%.

Topics

Welcia Holdings' Market Cap Tops Trillion-Yen Mark— The First Drugstore Business to do so

We are pleased to announce that on July 27, 2020, our market capitalization topped the ¥1 trillion mark. While only a snapshot of current performance, this is great news for stakeholders.

We will continue building our value by actively engaging with society, local communities, customers, employees, and all other stakeholders—including the natural environment.

Current Status of the Welcia Group

Messages from Welcia Group Company Presidents

Welcia Yakkyoku Co. Ltd.

We felt the effects of COVID-19 in the first half, but we managed to sustain business operations while ensuring the safety of customers and employees, with the support and understanding of local communities.

This year, we established branch offices for East and Central Japan in an effort to strengthen regional management through a system of regional branches. By appointing area managers for sales, pharmaceutical dispensements, and cosmetics, we provide back-up support for store management, leading to better operating capacity.

We have continued last year's efforts to optimize recruitment and man-hour productivity. Alongside this, all our stores have started using an automatic ordering system and other systems designed to enhance store management.

Given fears of a further wave of infections, the outlook for the second half remains uncertain. Nonetheless, we will press on with our vision of community-grounded stores.



Tadahisa Matsumoto
President and
Representative Director

Marudai Sakurai Pharmacy Limited

This year was meant to be the year of the Tokyo 2020 Olympics, and thus a promising year for the Japanese economy. As it turned out, COVID-19 ravaged the country. Stores sold out of masks and other anti-infection items, and after the state of emergency was declared, demand for foods and daily goods soared. The crisis brought home to us how our drug stores serve as lifelines for local communities, and it gave us a renewed sense of our social responsibility.

I am happy to say that we met our targets for the first half. For the second half, we want to proceed with the five objectives for this year, which are 1) improve earnings, 2) enhance in-store merchandise, 3) create job satisfaction, 4) level-up expertise, and 5) raise the quality of our pharmacists. To hit our goals for this year, we will focus on helping customers prevent the spread of infection and lead ever healthier lives.



Kiyoshi Sakurai
President and Representative
Director

Shimizu Yakuhin Co. Ltd.

This fiscal year began in the midst of the COVID-19 crisis. Throughout the crisis, we have prioritized the safety of customers and employees and adapted to the shift in lifestyles. The market in Kyoto was rocked by the sudden drop in foreign tourists, but our stores enjoyed the patronage of local communities.

During the first half, we opened two new stores, completely revamped two existing stores, and partially renovated three other existing stores. Thanks in part to these actions, our results for the first half exceeded our initial expectations.

For the second half, we want to open more stores and further enliven existing ones. We also want to meet needs precisely in the post-COVID new normal. Working with our employees, we will go further in supporting the lives of local customers.



Masayuki Hayashi
President and Representative
Director

Kanamitsu Yakuhin Co., Ltd.

Kanamitsu Yakuhin joined Welcia Group in June 2019. Based in the south of Okayama Prefecture, we operate 16 stores (6 of which have a dispensing pharmacy) and 12 dispensing pharmacies.

During the first half, COVID-19 brought unprecedented changes to daily the lives of customers and patients. We did our best to meet their needs such as by ensuring ample stocks of masks and sanitizer. Consequently, we met our target for net sales.

Our team will work as one to provide safe and attractive store environments, improve customer service, and go further toward the vision of community-grounded drug stores that resolve customers' concerns. We look forward to sharing our progress with you.



Koji Fujioka
Representative Director and
President

Yodoya Co., Ltd.

Yodoya joined Welcia Group in March 2020. As of the end of August, we operate 25 stores in Kochi Prefecture.

During the first half, Japan was rocked by COVID-19, but we opened two new stores and managed to hit the targets. For the second half, we want to integrate the Welcia Model. In other words, we will further enliven existing stores by renovating them and adding dispensing pharmacies.

We remain as committed as ever to ensuring customer safety and confidence through a spirit of hospitality that values the bonds between people. We will make our company and our stores essential to local people's lives with a view to being an all-inclusive healthcare provider that helps provide for people's physical and emotional healthcare needs.



Fuminori Sato
Representative Director and
President

Masaya Co., Ltd.

We have 35 cosmetics stores nationwide and five Masaya stores in Okayama Prefecture, where our company was founded. Additionally, we have 30 Color Studio outlets in Aeon malls and other large retail facilities across Japan.

In April and May, COVID-19 forced us to close a number of stores, especially those that are tenants in retail facilities. At one point, we had closed as many as 29 stores, and we ultimately lost 52 business days. During that period, our employees continued to work as one to provide customer-oriented products and services. For example, we ran a temporary e-commerce site and allowed mail order with cash-on-delivery. We also opened our first store in Tokushima Prefecture.

As for the second half, amid the restrictions on some of our business activities (such as cosmetic touch-up services), we will do more to ensure that our in-store activities meet customer needs precisely.



Masahiro Uemura
Representative Director and
President

Welcia Kaigo Service Co., Ltd.

The first half was characterized by the challenge of adapting to and countering the spread of COVID-19. Most of our users are elderly people, and many of our services involve direct physical contact between staff and users. Due to the need to prevent infection, we took all the more care in delivering our services.

Performance was hit by the trend to stay at home amid the pandemic. We had to ban visits and tours of our facilities, leading to a decline in new tenancies at our payable care homes. In May, we opened a walk-in bathing facility, and we are now working to meet the COVID-driven need for at-home bathing.

For the second half, we will focus on measures to sustain our services in the new post-COVID normal. For example, we will radically reorganize services that are vulnerable to the effects of COVID-19 and rein in costs.



Tetsuya Matsunuma
Representative Director and
President

Welcia Oasis Co., Ltd.

In the first half, we adapted to the effects of COVID-19 by introducing staggered hours for our members and relocating some members to nearby stores. Consequently, none of our members got infected. I wish to thank each and every one of our members for their commitment and efforts in preventing infection. I also want to thank the staff of Welcia stores and the instructors for their efforts in supervising the members.

COVID-19 is not going away any time soon. Another cause for concern is the upcoming winter flu. Mindful of these challenges, we will keep up our guard up in the second half to ensure safety and peace of mind in our day-to-day businesses activities.

Although COVID-19 has prevented us from running our student training program as we did in pre-COVID times, we remain committed to recruiting a certain level of people with disabilities.



Hisayuki Nagata
Representative Director and
President

How are you contributing to the Sustainable Development Goals? The entire group is working on measures to solve social and environmental challenges.



Welcia Group is committed to a sustainable future. We work with stakeholders to address social and environmental challenges.

To contribute to a more eco-friendly world, we started charging a fee for plastic bags from April 2020, ahead of the introduction of a mandatory plastic bag charge. With the support and understanding of customers, our stores saw an 80% decline in plastic bag use.

We are also taking action to reduce plastic use in products to contribute toward SDG 7 (affordable and clean energy) and SDG 14 (life below water).

To support regional development, we teamed up with the local government of Shimada, a municipality in Shizuoka Prefecture, to open a store in a public facility located in a semi-mountainous area. The purpose of opening a store in such a rural and remote community was to offer local residents more convenient shopping opportunities and, through healthcare consultations, improve their quality of life. The store opening serves as a model for how we can tackle sustainability challenges by delivering our services in partnership with local government, and thus contribute toward SDG 11 (sustainable cities and communities). This is just one example of what we are doing to support regional development. Watch this space for more news about our initiatives.



A store opened in a public facility of a semi-mountainous region



"Uetan" — Welcia's original brand of eco-bags

We are sincerely grateful to all who donated to our charity donation drive.

In the period under review, our stores collected charitable donations for 24-Hour TV 43, the Japan Guide Dog Association, and a relief fund for children affected by COVID-19. We also donated a percentage of the proceeds from Koshihikari (a rice brand produced in Fukushima) and Aizu Homare (a sake brand) to Yomiuri Light and Humanity Association, in order to support recovery efforts in the areas of Fukushima Prefecture affected by the disaster on March 11, 2011.

The Welcia Group is involved in social contribution activities as an Aeon 1% Club Foundation Member.

The Aeon 1% Club Foundation was founded in 1989 and uses 1% of pre-tax income contributed by major Aeon Group companies towards various activities, including the sound development of the next generation, promotion of friendship with foreign countries, and the sustainable development of local communities.

Management Indices (Consolidated)

	FY2019 H1 (March 1 – August 31, 2019)	FY2020 H1 (March 1 – August 31, 2020)	FY2019 (March 1, 2019 – February 29, 2020)
Net Sales (million yen)	427,456	476,656	868,280
Ordinary income (million yen)	19,639	27,886	40,348
Net income attributable to owners of parent (million yen)	11,858	17,300	22,802
Comprehensive income (million yen)	11,752	17,378	22,582
Net assets (million yen)	153,791	176,847	162,418
Total assets (million yen)	372,241	390,962	390,006
Net income per share (yen)	56.83	82.80	109.24
Diluted net income per share (yen)	56.78	82.72	109.18
Capital ratio (%)	41.1	45.0	41.5
Net cash provided by (used in) operating activities (million yen)	49,613	5,042	70,156
Net cash provided by (used in) investment activities (million yen)	(10,550)	(4,129)	(27,459)
Net cash provided by (used in) financing activities (million yen)	(14,639)	(8,874)	(22,241)
Cash and cash equivalents at the end of the period (million yen)	41,566	29,676	37,599

(Notes)

1. The data provided here consists of quarterly consolidated financial statements. This data does not include trends in the filer's key performance indicators.
2. Net sales do not include consumption tax.
3. The Company executed a 2-for-1 common stock split on September 1, 2020. Accordingly, net assets per share, net income per share, and diluted net income per share for the first six months of FYE 2021 are calculated on the basis that said stock split was implemented at the beginning of that period.

Overview of Business Performance

1. Management Policy, Management Climate and Issues to be Addressed, etc.

Although the drugstore industry is expanding with chains eager to open new stores and the demand for healthcare being strong, the industry faces challenging conditions. These include industry consolidation among the big players, increasing competition (including with players from other industries), a labor shortage and accompanying rises in personnel expenses, higher transportation costs, and drug pricing reform.

Against this backdrop, we will continue to pursue growth based on the general strategy described below (all forward looking statements contained in this description are based on information available as of the end of the consolidated fiscal year under review).

General Strategy

Guided by our corporate philosophy to “promote higher quality of life and healthy lifestyles for our customers,” we aim to provide go-to drugstores that contribute to the local communities. In this way, we will grow as an organization that supplies the values society seeks.

Vision

We aim to develop specialist-cum-general stores that serve as lifestyle platforms.

Targets in Medium- to Long-Term Plan (target year: FY2022)

Net sales	¥1.08 trillion
Ordinary income	¥54 billion (ordinary margin: 5.0%)
Number of stores	2,308

Issues to be Addressed

We will aggressively pursue M&A opportunities (M&As being a key strategic focus) to expand our group and increase synergies. Group companies will integrate the Welcia Model to increase the value of our group.

We will continue our aggressive store-opening program, ensuring that each new store is tailored to local needs.

We will make our products and services more attractive by tailoring our merchandising strategy to fit more precisely the characteristics of the local community and store. We will also focus on adding value and

differentiating our products from those of our competitors.

We will work to attract exceptional talent to meet customer needs. We will improve training for pharmacists, registered sales clerks, registered nutritionists, dispensing clerks, and beauty care advisers, culminating in develop a team of professionals who can offer high-quality expert advice.

To boost profitability, we will streamline business processes by standardizing store processes and leveraging digital technology.

As our group grows and becomes increasingly exposed to risks, we will strengthen internal controls and risk management to prevent or mitigate these risks (including risks of natural disasters).

Overseas, we will continue strengthening store development in Singapore.

We will strive to be a sustainable business by linking our strategies to Sustainable Development Goals.

We forecast the following results for FY2020:

Net sales:	¥935 billion
Ordinary income:	¥41.7 billion
Net income attributable to owners of parent:	¥23 billion
Store openings:	118
Store closures:	23
Number of drug stores with a dispensing pharmacy (in Japan):	1,575

Full-year performance forecasts revised on October 7, 2020

Net sales:	¥954.1 billion
Ordinary income:	¥46.2 billion
Net income attributable to owners of parent:	¥25.3 billion
Store openings:	119
Store closures:	23
Number of drug stores with a dispensing pharmacy (in Japan):	1,604*

* The number of stores with dispensing pharmacy (in Japan), out of the 1,604 stores, 3 new subsidiaries (Marue Drug Co., Ltd., Neo Pharma Co., Ltd., and Summit Co., Ltd.) that handle dispensing drugs (29 stores) are included.

Consolidated Balance Sheets

	Million Yen	
	FY2019 (February 29, 2020)	FY2020 H1 (August 31, 2020)
Assets		
Current assets		
Cash and deposits	¥ 38,838	¥ 30,594
Accounts receivable-trade	43,307	39,941
Merchandise	89,318	96,175
Other	18,751	13,650
Allowance for doubtful accounts	(12)	(1)
Total current assets	190,203	18,360
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	76,942	81,566
Land	13,268	14,468
Lease assets, net	39,452	39,880
Other, net	6,246	6,525
Total property, plant and equipment	135,910	142,441
Intangible assets		
Goodwill	15,179	17,986
Other	2,434	2,425
Total intangible assets	17,613	20,411
Investments and other assets		
Guarantee deposits	33,452	35,979
Other	12,850	11,792
Allowance for doubtful accounts	(23)	(23)
Total investments and other assets	46,279	47,748
Total noncurrent assets	199,802	210,601
Total assets	¥ 390,006	¥ 390,962

Consolidated Balance Sheets

	Million Yen	
	FY2019 (February 29, 2020)	FY2020 H1 (August 31, 2020)
Liabilities		
Current liabilities		
Accounts payable-trade	¥ 137,845	¥ 121,772
Short-term loans payable	4,654	5,913
Lease obligations	6,377	6,742
Provision for bonuses for directors (and other officers)	—	38
Accounts payable-other	8,752	8,085
Income taxes payable	9,059	9,140
Provision for bonuses	4,160	2,233
Provision for point card certificates	24	24
Other	12,358	12,835
Total current liabilities	183,234	166,785
Noncurrent liabilities		
Long-term loans payable	5,549	6,833
Lease obligations	22,660	22,606
Asset retirement obligations	8,719	9,587
Retirement benefits-related liabilities	4,062	4,791
Allowance for executive stock benefit	589	642
Other	2,771	2,866
Total noncurrent liabilities	44,353	47,329
Total liabilities	227,587	214,114
Net assets		
Shareholders' equity		
Capital stock	7,736	7,736
Capital surplus	51,669	51,672
Retained earnings	103,525	117,996
Treasury stock	(1,222)	(1,543)
Total shareholders' equity	161,709	175,862
Accumulated other comprehensive income		
Other valuation difference on available-for-sale securities	262	352
Foreign currency translation adjustment	(38)	(47)
Accumulated adjustment related to retirement benefits	(245)	(220)
Total accumulated other comprehensive income	(21)	84
Subscription rights to shares	236	230
Minority interests	493	669
Total net assets	162,418	176,847
Total liabilities and net assets	¥ 390,006	¥ 390,962

Consolidated Statements of Income

	Million Yen	
	FY2019 H1 (March 1 – August 31, 2019)	FY2020 H1 (March 1 – August 31, 2020)
Net sales	¥ 427,456	¥ 476,656
Cost of sale	297,182	328,959
Gross profit	130,273	147,696
Selling, general and administrative expenses	111,885	121,214
Operating income	18,388	26,481
Non-operating income		
Interest and dividend income	14	8
Real estate rent	439	494
Sponsorship money income	234	100
Other	842	1,112
Total non-operating income	1,530	1,717
Non-operating expenses		
Interest expenses	189	213
Share of loss of entities accounted for using equity method	—	4
Rent cost of real estate	79	79
Other	11	14
Total non-operating expenses	280	312
Ordinary income	19,639	27,886
Extraordinary income		
Gain on step acquisitions	—	169
Gain on sales of noncurrent assets	2	102
Gain on sale of businesses	64	—
Other	1	83
Total extraordinary income	68	354
Extraordinary loss		
Loss on sale of noncurrent assets	129	0
Loss on retirement of noncurrent assets	480	48
Impairment loss	149	314
COVID-related loss	—	460
Other	59	23
Total extraordinary losses	819	846
Net income before income taxes and minority interests	18,888	27,394
Income taxes-current	6,547	9,220
Income taxes-deferred	544	894
Total income taxes	7,092	10,115
Net Income	11,796	17,279
Loss attributable to non-controlling interests	(62)	(21)
Net income attributable to owners of parent	¥ 11,858	¥ 17,300

Consolidated Statements of Comprehensive Income

The previous consolidated fiscal year was an irregular term which consisted of only six months (from September 1 to February 29, 2016) due to a change in the accounting term.

	Million Yen	
	FY2019 H1 (March 1 – August 31, 2019)	FY2020 H1 (March 1 – August 31, 2020)
Net income	¥ 11,796	¥ 17,279
Other comprehensive income		
Other valuation difference on available-for sale securities	28	90
Foreign currency translation adjustment	(89)	(15)
Remeasurements of defined benefit plans	16	25
Total other comprehensive income	(43)	99
Comprehensive income	11,752	17,378
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent company	11,856	17,406
Comprehensive income attributable to non-controlling interests	¥ (104)	¥ (27)

Consolidated Statements of Cash Flows

	Million Yen	
	FY2019 H1 (March 1 – August 31, 2019)	FY2020 H1 (March 1 – August 31, 2020)
Net cash provided by (used in) operating activities		
Net income before income taxes and minority interests	¥ 18,888	¥ 27,394
Depreciation and amortization	6,938	7,277
Impairment loss	149	314
Amortization of goodwill	794	830
Loss (gain) on step acquisitions	—	(169)
Increase (decrease) in the allowance for doubtful accounts	7	(10)
Increase (decrease) in the provision for bonuses	(1,271)	(2,063)
Increase (decrease) in provision for bonuses for directors (and other officers)	—	38
Increase (decrease) in liabilities for retirement benefit	331	399
Increase (decrease) in the allowance for executive stock benefit	92	53
Increase (decrease) in the provision for point card certificates	5	(0)
Interest and dividends income	(14)	(8)
Interest expenses	189	213
Rent as a counterbalance to construction assistance funds receivable	505	516
Loss (gain) on sale of businesses	(64)	—
Gain on sales of noncurrent assets	(2)	(102)
Loss on sale of noncurrent assets	129	0
Loss on the retirement of noncurrent assets	480	25
Gain on the donation of noncurrent assets	(181)	(120)
Decrease (increase) in notes and accounts receivable-trade	(9,305)	4,522
Decrease (increase) in inventories	(2,502)	(3,300)
Increase (decrease) in notes and accounts payable-trade	35,725	(19,701)
Increase (decrease) in accrued consumption taxes	(59)	258
Increase (decrease) in accounts payable – other	3,342	(1,219)
Other	2,057	(1,305)
Subtotal	56,235	13,840
Interest and dividends income received	21	13
Interest expenses paid	(190)	(209)
Income taxes paid	(7,487)	(9,877)
Income taxes refund	1,034	1,275
Net cash provided by (used in) operating activities	49,613	5,042
Net cash provided by (used in) investing activities		
Payment into time deposits	(535)	(555)
Proceed from the withdrawal of time deposits	918	945
Purchase of property, plant and equipment	(7,367)	(6,153)
Proceeds from the sales of property, plant and equipment	265	430
Purchase of intangible assets	(449)	(306)
Purchase of shares of subsidiaries and associates	(90)	—
Proceeds from refund of deposit paid in subsidiaries and affiliates	—	7,000
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(399)	(2,445)
Payment for lease deposits	(3,045)	(2,896)
Collection of lease deposits	112	134
Other	41	(282)
Net cash provided by (used in) investing activities	¥ (10,550)	¥ (4,129)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	¥ (7,270)	¥ 140
Repayment of long-term loans payable	(2,204)	(2,127)
Payments for redemption of bonds	(115)	(290)
Cash dividends paid	(2,199)	(2,829)
Repayment of finance lease obligations	(3,147)	(3,443)
Purchase of treasury stock	(1)	(506)
Other	298	181
Net cash provided by (used in) financing activities	(14,639)	(8,874)
Effect of exchange rate change on cash and cash equivalents	(8)	(1)
Net increase (decrease) in cash and cash equivalents	24,414	(7,963)
Cash and cash equivalents at the beginning of the period	17,152	37,599
Increase in cash and cash equivalents resulting from merger	—	41
Cash and cash equivalents at the end of the period	¥ 41,566	¥ 29,676

Notes on the Consolidated Statement of Income

The following table shows the main components of SG&A expenses.

	Million Yen	
	FY2019 H1 (March 1 – August 31, 2019)	FY2020 H1 (March 1 – August 31, 2020)
Payroll	¥ 44,588	¥ 48,680
Provision for bonuses	1,974	2,200
Retirement benefits expenses	749	840
Provision for executive stock-based compensation	92	73

Losses due to COVID-19

In compliance with the state-of-emergency declaration and other national and local governments requests, we temporarily closed stores to help prevent the spread of COVID-19. Listed below is the breakdown of the losses resulting from these store closures.

	Million Yen
Payroll and employee benefits	¥234
Fixed store costs	¥117
Anti-infection expenses	¥108
Total	¥460

(As of August 31, 2020)

Company Overview

Company Name

WELCIA HOLDINGS Co., Ltd.

Established

September 2008

Paid-in-Capital

7,736 million yen

Business Description

Business management of subsidiaries and group companies that run chain drugstores with dispensing pharmacies

Head Office Location

2-2-15, Sotokanda, Chiyoda-ku, Tokyo
101-0021

Tel

03-5207-5878

Fax

03-5209-1406

Website

<http://www.welcia.co.jp/>

Number of Group Employees

11,444 (excluding part-time employees)

Executives

Chairman and Representative Director

Takamitsu Ikeno

Vice Chairman and Director

Hideharu Mizuno

President and Representative Director

Tadahisa Matsumoto

Executive vice president

Norimasa Sato

Juichi Nakamura

Directors

Takashi Abe

Kazuhiko Hata

Motoya Okada

Outside Directors

Yukari Narita

Tomoko Nakai

Corporate Auditor

Toshio Miyamoto

Outside Corporate Auditors

Hirohisa Kagami

Atsuko Sugiyama

Yasuo Ichikawa

Number of Shares

Number of Shares Authorized

247,473,600

Number of Shares Issued

104,789,944

(excluding 26,894 treasury shares)

Number of Shareholders

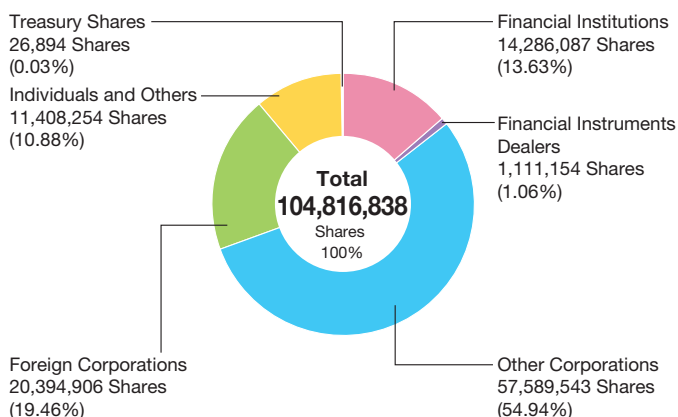
12,027

Major Shareholders

Name of Shareholder	Number of Shares (Thousands)	Shareholding Ratio (%)
AEON Co., Ltd.	52,970	50.55
The Master Trust Bank of Japan, Ltd. (trust account)	4,275	4.08
Custody Bank of Japan, Ltd. (trust account)	2,917	2.78
Tsuruha Co., Ltd.	1,676	1.60
Welcia Holdings Employee Stock Ownership	1,605	1.53
STATE STREET BANK WEST CLIENT-TREATY 505234	1,282	1.22
Custody Bank of Japan, Ltd. (trust account 5)	1,221	1.17
STATE STREET BANK AND TRUST COMPANY 505224	1,190	1.14
THE CHASE MANHATTAN BANK 385036	1,083	1.03
Custody Bank of Japan, Ltd. (trust account 7)	857	0.82

(Note) In calculating shareholding ratio, we omitted 26,894 shares of treasury shares. The treasury shares do not include the 71,100 shares held in the ESOP Trust or the 251,119 shares held in the BIP Trust.

Breakdown of Holdings by Shareholder Type





WELCIA HOLDINGS CO., LTD.

2-2-15, Sotokanda, Chiyoda-ku, Tokyo 101-0021

Tel. 03-5207-5878 (main)

<http://www.welcia.co.jp/>