



WELCIA HOLDINGS CO., LTD.

Investors' Guide FY 2020

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



**FY2020 put us within striking distance of 1 trillion yen in net sales
For even higher growth, we'll make our stores the most trusted
in the community**



Takamitsu Ikeno
Chairman and
Representative Director

Tadahisa Matsumoto
President and
Representative Director

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

FY2020 was a year of paradigm shift. Following the spread of Covid-19, Japan declared a state of emergency in April 2020 and another in January 2021, and business activities were restricted. The pandemic prompted sweeping changes in people's values and lifestyles. The upshot was a rising demand for one-stop shopping. In other words, people increasingly wanted to do all their shopping (including shopping for groceries, interior goods, and anti-infection goods) in one place. Our stores met this need, underscoring how our approach to store management is key to the heightened value our organization offers—a platform for everyday needs and a model of specialist-cum-general stores. We are happy to report that this approach yielded another year of earnings growth.

To continue to grow, we must, in addition to generating revenue, ensure that our stores are indispensable to local residents. Identifying problems in the local community and then

providing products or services to solve these problems is our duty as an organization as well as a business opportunity.

To give an example, we have started working with manufacturers and retailers on schemes to reduce plastic waste and recycle plastic bottles.

Japan's drugstore industry has undergone several cycles of consolidation, but it continues to grow and is now worth over 8 trillion yen. We have built a corporate group housing more than 15 companies that share our basic ideals. We have also built the Welcia Model and are integrating it across the group while flexibly accommodating changes and respecting some differences in values. This heritage, together with our highly talented people, constitutes a vital asset and that gives us the strength to navigate these uncertain times.

In FY2020, we finally came within striking distance of 1 trillion yen in net sales. Going forward, we will work toward our goals for the FY2020–2022 period. At the same time, we will make clear our commitment to engage in social and environmental issues and take the bold steps necessary for higher future growth.

*Source: 2020 JACDS survey



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Corporate History



- March 2021** ● Welcia Yakkyoku Co., Ltd., merged with Neo Pharma Co., Ltd., and Summit Co., Ltd.
- 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 pharmaceutical sales clerks, 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.

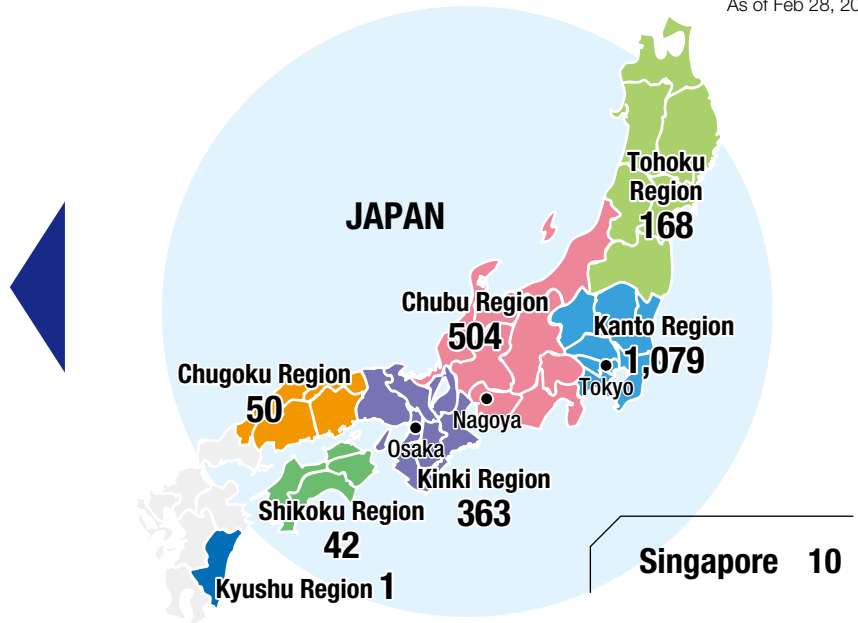
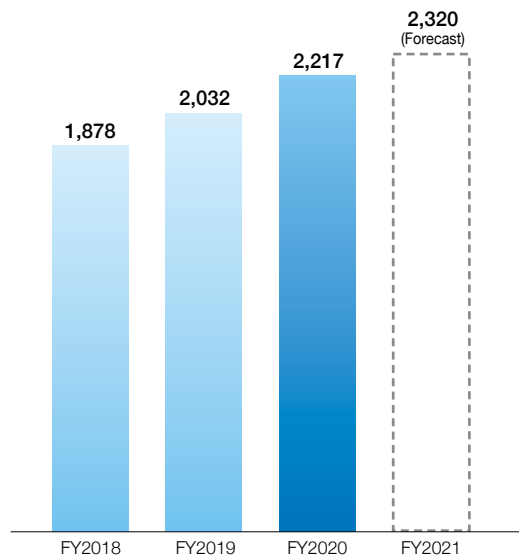


Financial Highlights

Total Number of Stores

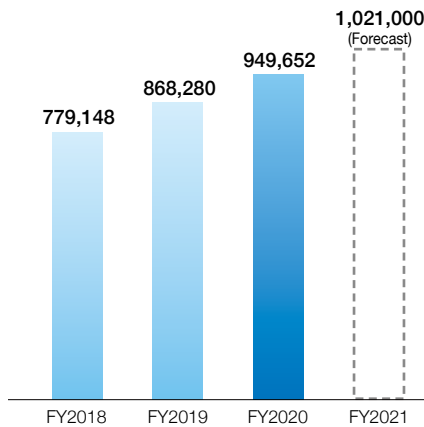
(Stores)

As of Feb 28, 2021



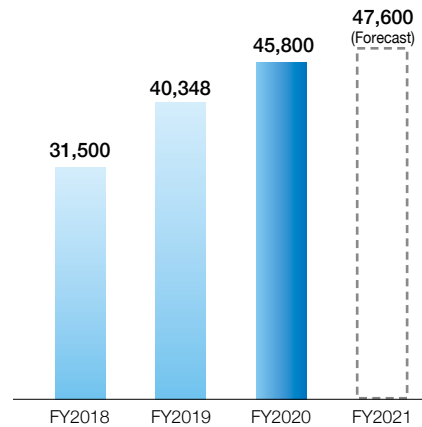
Net Sales

(Million Yen)



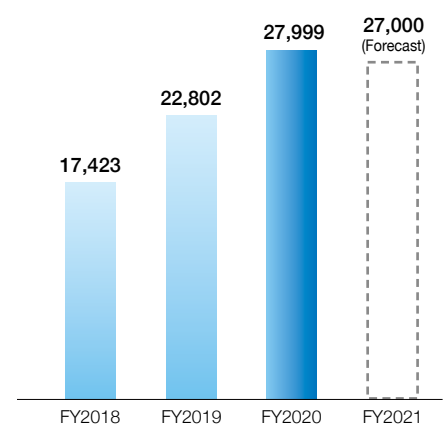
Ordinary Income

(Million Yen)



Net Income Attributable to Owners of Parent

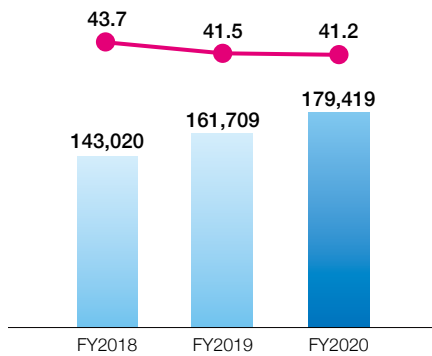
(Million Yen)



Stockholders' Equity / Equity Ratio

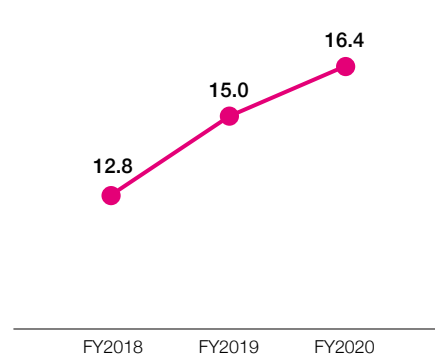
(Million Yen / %)

■ Stockholders' equity
● Equity Ratio



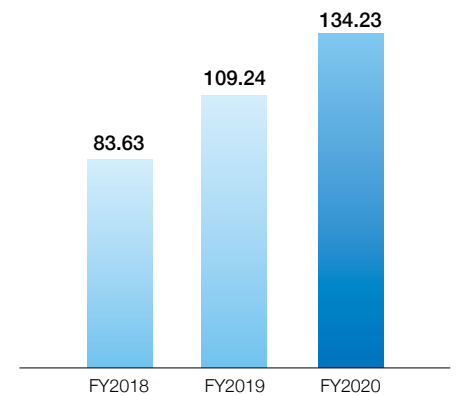
Return on Equity

(%)



Net Income per Share

(Yen)



* On September 1, 2020, we performed a 2-for-1 split of the shares of common stock. The net income per share for 2020/2 was calculated on the basis that the stock split was performed at the start of that period.

Top Interview (Q&A)

Q 1 Tell us about your operating activities and earnings in the fiscal year under review (FYE February 2021).

A 1 We stayed open for business while reducing infections
Strong takings in stores led to earnings growth

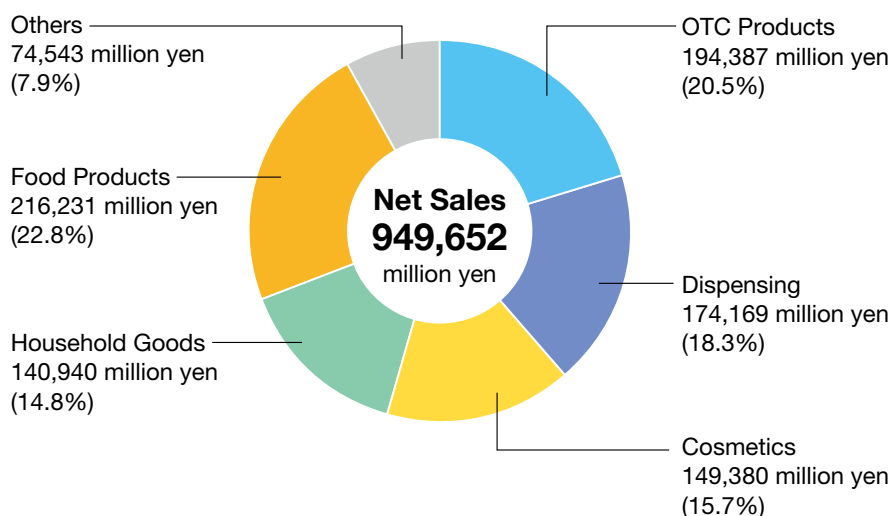
During FY2020, the pandemic led to huge changes in consumer trends. Crucially, people stayed in more and had fewer medical visits. We stayed open for business and continued providing the products and services people need, while reducing business hours and taking action to avoid the Three Cs (closed spaces, crowded places, and close-contact settings). For example, we refrained from distributing promotional literature.

Our stores saw strong sales of non-pharmaceutical goods thanks to brisk demand for anti-infection goods

(such as facemasks and hand sanitizers) and food products. Pharmaceutical sales were hit by drug pricing reform, people's desire to avoid medical visits for fear of infection risk, and by an extension of drug expiry dates. Overall, however, existing drugstores achieved a 4.1% increase in sales.

Our financial results showed earnings growth: Net sales rose to 949.652 billion yen (up 109.4% YOY), ordinary income rose to 45.800 billion yen (up 113.7% YOY), and net income attributable to owners of parent rose to 27,999 billion yen (up 122.8% YOY).

Sales and Composition Ratio by Item



Q 2 Tell us about your store openings?

A 2 We opened more stores and welcomed four more companies into the group, extending our store network to Shikoku. We now have 2,207 stores across 38 prefectures in Japan.

Although the pandemic impacted store openings during the first half of fiscal 2020, by the end of the period, we had opened 120 stores and closed 22 in Japan. We also welcomed four new companies into the group: On March 1, 2020, we acquired Yodoya Co., Ltd., a drugstore operator based in Kochi Prefecture (24 stores); on June 1, we acquired Marue Drug Co., Ltd., which operates drugstores in Gunma Prefecture and elsewhere (59 stores); and on July 1, we acquired Neo Pharma Co., Ltd., and Summit Co., Ltd., both of which operate dispensing pharmacies in

Ehime Prefecture and elsewhere (Neo Pharma: 10 stores; Summit: 3 stores). With these openings and acquisitions, we now have, as of the end of the period, a formidable network of over 2,207 stores across 38 prefectures of Japan. Of the newly opened stores, 19 are in Tohoku, 39 are in Kanto, 38 are in Chubu, 17 are in Kinki, three are in Chugoku, and four are in Shikoku. In addition to these, four stores opened in Singapore, despite the challenges of the pandemic. These overseas openings put the grand total of group stores at 2,217.

Parentheses indicate cosmetics specialty stores

The number of domestic stores
2,207

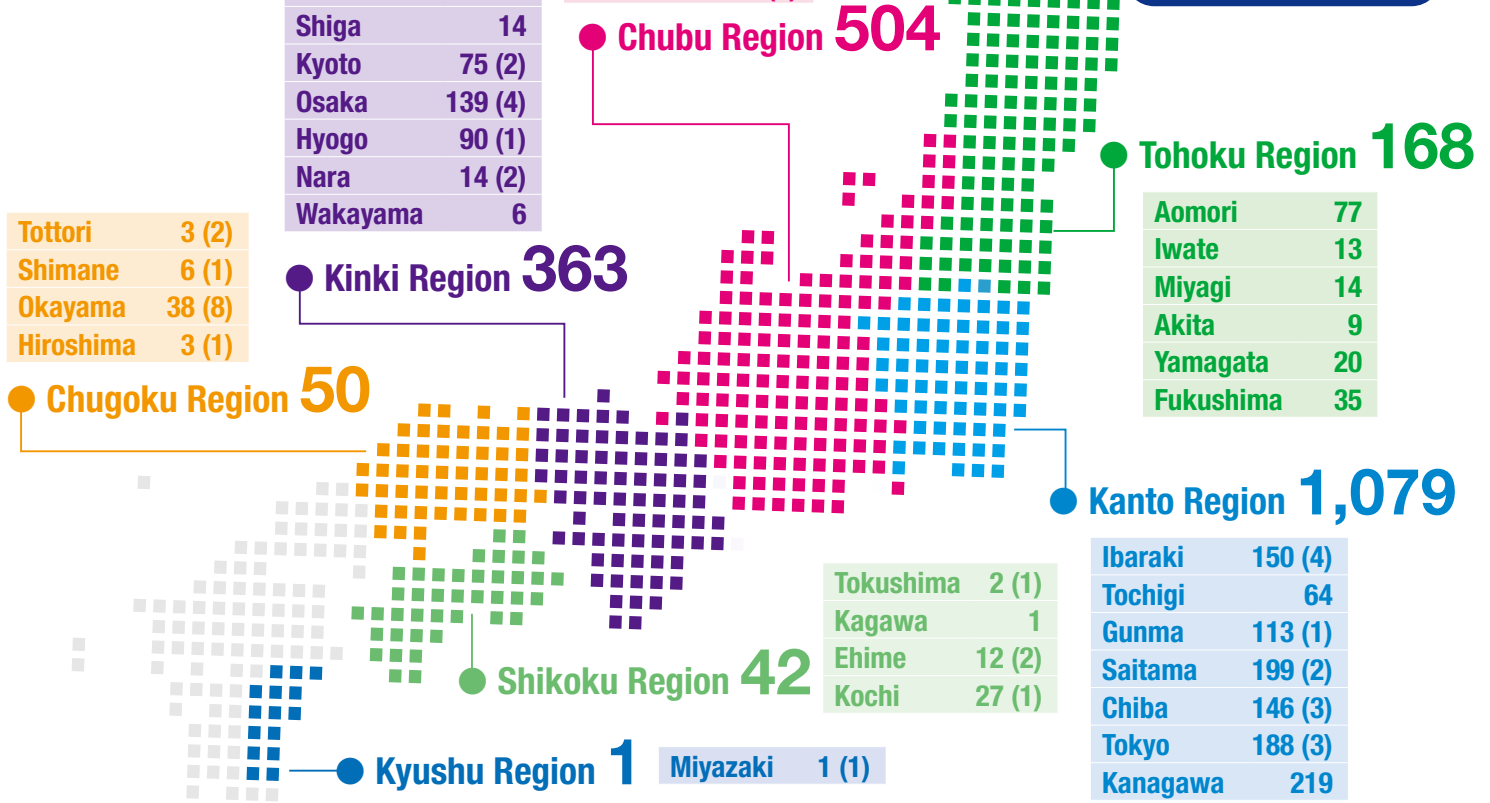
As of February 28, 2021

| | |
|-----------|---------|
| Niigata | 68 |
| Toyama | 42 |
| Ishikawa | 21 |
| Fukui | 6 |
| Yamanashi | 32 |
| Nagano | 38 |
| Gifu | 7 |
| Shizuoka | 227 (1) |
| Aichi | 63 (1) |

| | |
|----------|---------|
| Mie | 25 |
| Shiga | 14 |
| Kyoto | 75 (2) |
| Osaka | 139 (4) |
| Hyogo | 90 (1) |
| Nara | 14 (2) |
| Wakayama | 6 |

| | |
|-----------|--------|
| Tottori | 3 (2) |
| Shimane | 6 (1) |
| Okayama | 38 (8) |
| Hiroshima | 3 (1) |

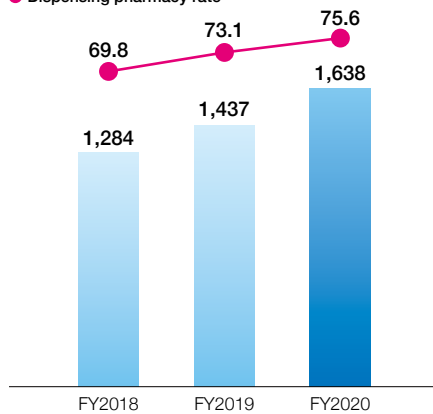
Overseas **10**
Singapore **10**



Change of the Number of Stores with Dispensing Pharmacy

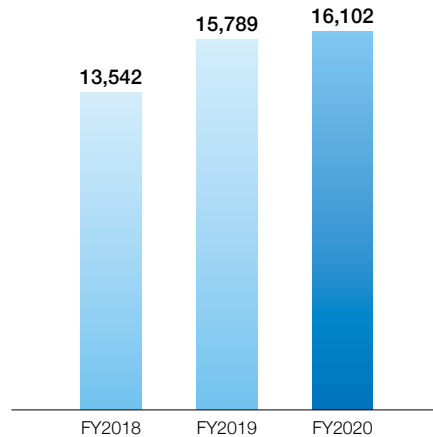
(Stores)

■ No. of dispensing pharmacies
● Dispensing pharmacy rate



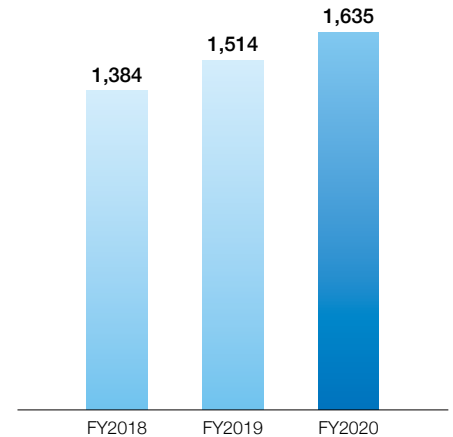
Number of prescriptions

(In the thousands)



Change of the Number of Stores with Late-night Services

(Stores)



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

* The dispensing pharmacy rate is calculated by deducting the number of stores that specialize in cosmetics from the total number of stores.

Q3 How is your Welcia Model going?

A3 Our specialist-cum-general stores serve as local infrastructure by offering pharmaceuticals, medication counseling services, late-night operation, and elder care

The Welcia Model describes our vision of specialist-cum-general stores that offer specialized expertise and customer convenience and thereby support wellbeing and livelihoods in the community.

Alongside an extensive merchandise lineup, customers can receive medication counseling and other services from a team of healthcare professionals, including pharmacists, registered pharmaceutical sales clerks, beauty care advisors, registered dietitians, and dispensing clerks.

In Japan, we now have 1,638 drugstores with dispensing pharmacies, which comes to 75.6% of our total stores in Japan. Although the pandemic discouraged medical visits, the dispensing pharmacy rate was 102.0% of the previous year's figure.

To better serve the needs of local communities, we continued to increase the number of drugstores that stay open late at night. A total of 1,635 stores now operate late at night, and 244

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.



Q4 How are you contributing to the Sustainable Development Goals?



A4 We're working with local stakeholders to address social and environmental challenges Examples include a deposit-and-recycle scheme for plastic bottles and cutting plastic bag usage

Sustainability forms a central part of our business activities, and we work with stakeholders to address social and environmental challenges.

To give a recent example, Welcia Holdings teamed up with Coca-Cola Bottlers Japan to pilot a deposit-and-recycle scheme for plastic bottles. The trial, which ran for six months from September 23, 2020, forms part of Bottle to Bottle, a model in which plastic bottles are deposited in storefront collection points and then recycled into new plastic bottles.

During the trial, the team monitored 9 storefronts in Oyama City, Tochigi Prefecture. When customers came to deposit the used bottles, they rinsed the bottles to ensure the material was good for recycling. The team plans to conduct further trials in the Kanto area.

Our stores started charging for single-use plastic bags in April 2020. Japan introduced a mandatory plastic bag charge in July that year. Customers have responded positively and many now

bring a reusable shopping bag. When a customer pays at the checkout counter, they now decline a plastic bag in over 80% of cases.



Bottle to Bottle storefront collection point

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, Fundraising for Children Affected by COVID-19, and Solaputi Kids' Camp. 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 Fukushima Prefecture and other areas in Tohoku 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.

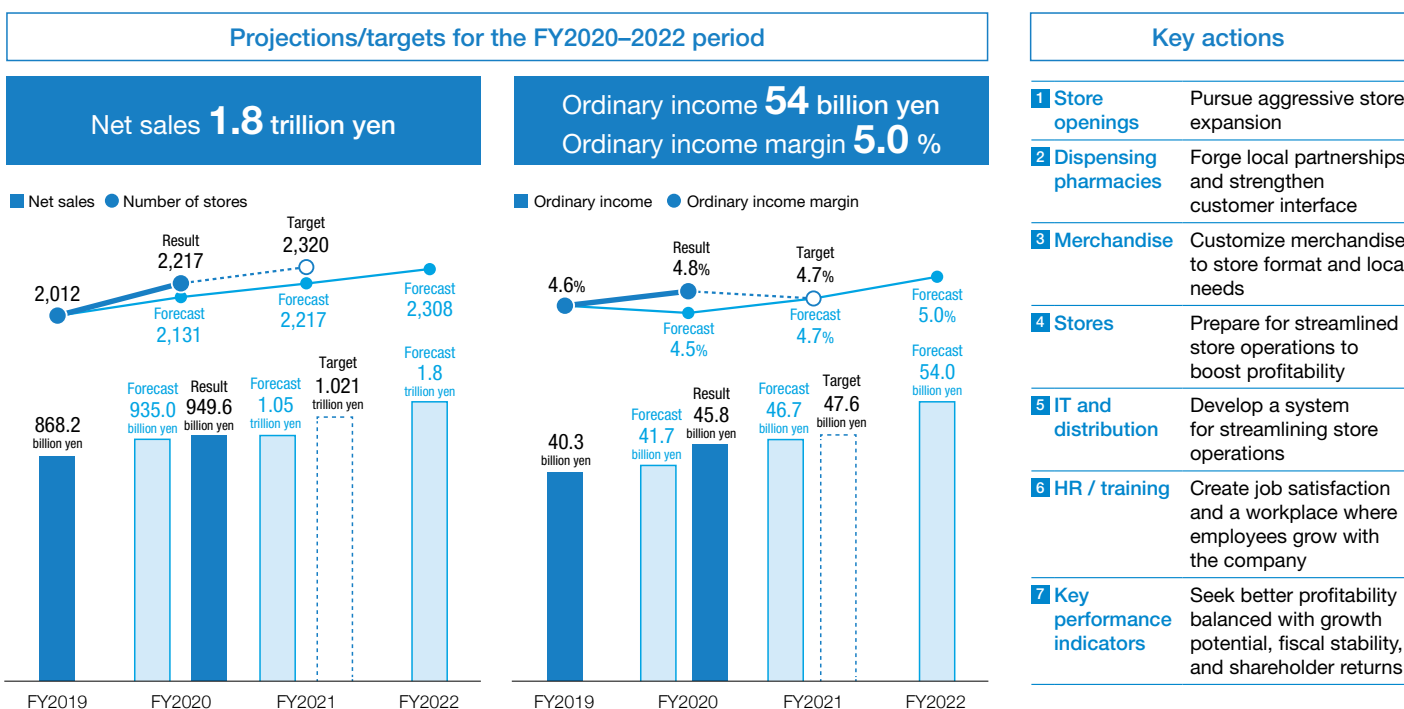
Q5 How are you getting on with your three-year (FY2020-2022) plan?

A5 We have met our goals for FY2020. In FY2021, we aim to hit 1 trillion in net sales, further integrate the Welcia Model, and realize our vision of specialist-cum-general stores

FY2020 marked the first year of a three-year business plan (FY2020 to FY2022). Despite the challenging conditions with the spread of infections, we made headway in our key strategic tasks: aggressive expansion of store network, M&As, integrating our store model, providing merchandise that reflects local needs, and more efficient store operation. Consequently, we achieved our goals for net sales, ordinary income, store openings, and other indicators. Net sales amounted to 949.6 billion yen and ordinary income amounted to 45.8 billion yen (ratio of ordinary income to net sales: 4.8%). As for number of stores, we ended the year with a total of 2,217 stores. This figure includes 104 stores that we gained after

welcoming three companies into the group—something that we had not originally envisaged in the three-year plan. Thus, we have got off to a good start in the three-year term period.

We are now in the second of the three years and we are on course to exceed our initial expectations for the year. Conditions remain tough. With no end to the pandemic in sight, we must navigate a constantly changing environment. Moreover, the drugstore industry is going through a big dip. To meet our three-year goals amid these challenges, we will continue integrating the Welcia Model and realize our vision of specialist-cum-general stores, in both its qualitative and quantitative aspects.



Current Status of the Welcia Group

Messages from Welcia Group Company Presidents

Welcia Yakkyoku Co., Ltd.

Throughout FY2020, the pandemic affected daily life in unprecedented ways, and the crisis still shows no sign of abating. Our business was affected too—we had to reduce hours of business, for instance. However, our drugstores continued to serve the community, supporting people's daily life and wellbeing.

We spent the period improving our stores in terms of expertise and sales performance. In March 2020, we shifted to a more granular approach to management by opening two more branch offices (one for East Japan and one for Central Japan, bringing the number of branches to four) and by appointing area managers for sales, pharmaceuticals, and cosmetics. We also worked to improve store operation and train up talent, while actively recruiting new talent with a view to opening more drugstores with dispensing pharmacies.

Our focus in FY2021 is to go further in rolling out specialist-cum-general stores. To that end, we will open a branch office for the Greater Tokyo Area and overhaul our process for training healthcare professionals so that we can improve our pitch to customers.



Tadahisa Matsumoto
President and
Representative Director

Marudai Sakurai Pharmacy Limited

Throughout 2020, we experienced supply shortages. Early in the year, we ran short of facemasks, and then we had shortages of groceries, paper goods, hand sanitizers, and liquid hand soaps. It was also a year of changes in consumer behavior, with more people staying at home. Hopefully, normalcy returns sooner rather than later.

In FY2022, we celebrate our 50th anniversary. In the region where we operate (three prefectures in Tohoku), we face tough competition as well as a shrinking and aging population. Against this backdrop, we want to embrace a more customer-centered, customer-friendly approach and ensure that our stores are indispensable to communities. This means we must improve employee satisfaction and build a new workforce. As part of this effort, we will open four new drugstores, integrate dispensing pharmacies into six stores, and carry out refurbishments.

The Hirosaki Cherry Blossom Festival and Aomori Nebuta Festival will be somewhat different this year. Likewise, for events that we usually hold as part of corporate philosophy, including a wellness seminar and a drugstore show in Aomori, we will have to see what happens.



Kiyoshi Sakurai
President and
Representative Director

Shimizu Yakuhin Co., Ltd.

Founded in 1938, Shimizu Yakuhin has the longest heritage of all drugstore operators in the area. We now have 62 stores in Kyoto Prefecture.

Since joining the Welcia group in 2015, we have enjoyed sustained growth underpinned by Welcia's business model. In FY2021, a year that saw unprecedented changes in lifestyles amid the pandemic, our team worked to ensure that our stores serve as part of the community's infrastructure for healthcare and daily needs. Consequently, our stores were well patronized, resulting in net sales of over ¥21 billion and record profit.

To succeed in a constantly changing world, our team will work together to swiftly generate consumer demand and further enhance expertise in our drugstores.

In FY2021, we are opening seven new stores and rolling out pharmaceutical services, while renovating existing stores to make them more profitable. I hope to report more positive results.



Masayuki Hayashi
President and
Representative Director

Marue Drug Co., Ltd.

Greetings on behalf of Kusunomaru. We joined the Welcia group in June 2020, and this year we celebrate our 70th anniversary. Based in Gunma Prefecture, we operate 54 drugstores under the name Marue Drug. Thirteen of these stores have a dispensing pharmacy. We also have four dedicated pharmacies. We are a locally rooted business that strives to support the wellbeing and daily needs of the community.

In FY2020, we opened two new stores and three dispensing pharmacies. Despite the effects of the pandemic, we achieved growth in net sales.

We are now working to integrate the Welcia Model, with a focus on opening more dispensing pharmacies and enhancing cosmetics. In this way, we hope to contribute even more to the community. As well as new openings, we will actively renovate and enhance existing stores. Our 70th anniversary marks the first step toward our new life as an organization.



Taro Eguro
President and
Representative Director

YODOYA CO., LTD.

We are a locally rooted drugstore operator with 25 drugstores in Kochi Prefecture, one of which has a dispensing pharmacy.

In the second half of FY2021, we renovated three of our stores as part of our effort to integrate the Welcia Model. Of these stores, one has a dispensing pharmacy and another became the first 24-hour drugstore in the Shikoku region. These improvements have delighted our customers, and they mark the first step in our journey to build drugstores that serve as community infrastructure.

We are now working to renovate five stores and to install a dispensing pharmacy in six stores. These projects should continue into the second half of the year. In Kochi Prefecture, it is rare to find a drugstore with a dispensing pharmacy. This situation helps us differentiate our drugstores from the competition. Other measures we are taking to meet our goals include boosting profitability, training up talent, and enhancing our medication counseling service.

We will continue to uphold our values, which emphasize human connection and hospitality, and work as one to ensure that our stores are indispensable to local customers.



Fuminori Sato
Representative Director
and President

Kanamitsu Yakuhin Co., Ltd.

Kanamitsu Yakuhin joined Welcia Group in June 2019. Since then, we have worked to integrate the Welcia Model. FY2020 will be remembered for the effects of the pandemic, but for our business, results were positive. Our dispensing pharmacies struggled because of fewer medical visits, but we saw year-on-year growth in net sales.

During the first half of FY2020, we opened one new drugstore and renovated one existing store. In the second half, we continued enhancing existing stores by relocated one store and renovated two stores. We now have two more drugstores with a dispensing pharmacy, bringing the total to seven. In this way, we are working to enhance customer convenience.

The pandemic crisis looks set to continue, so ensuring the safety of customers and staff will remain a top priority. Meanwhile, to enable further growth, we will work to train up our workforce and enhance the service level so that our stores serve the needs of, and are trusted by, the community. Our whole team will work as one to contribute further to the success of the Welcia group in Okayama Prefecture.



Koji Fujioka
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.

During the state of emergency in FY2020, large retail facilities had to close or limit opening hours, and our own stores had to follow suit. Under the emergency conditions, we found alternative ways to provide products and services to customers. For example, we ran a temporary e-commerce site and allowed mail order with cash-on-delivery.

Amid the restrictions on our usual in-store activities (such as cosmetic touch-up services), we continued providing medication counseling and other services that customers desire, while taking steps to prevent infection.

Our focus in FY2021 is to further enhance customer satisfaction. To that end, we are making effective use of digital technology, enhancing staff training (for better customer service skills and product knowledge), and opening new, and renovating existing, stores.



Masahiro Uemura
Representative Director
and President

Welcia Kaigo Service Co., Ltd.

Welcia Kaigo Service offers a range of elder services. As well as providing home visits and bathing support, we also run payable care homes and day care centers.

During FY2020, we were significantly affected by the pandemic, but we continued providing services while prioritizing the health of our users and staff and taking steps to prevent infection. Our bottom line was hurt by the need to ban visits and tours of our facilities and other restrictions on business, but we also learned a lot about business continuity, and we started putting these lessons into practice. In FY2022, we aim to enhance and expand our home-visit services.

This year, the government released its 8th plan for long-term care insurance (Insured Long-Term Care Service Plan), indicating its strategy to ensure the wellbeing of elderly from 2040, when the elderly population is forecasted to peak. Demand for elder care will keep increasing, and action is required to care for people with cognitive dementia and to protect the elderly from infection and the effects of natural disasters and other emergencies. In step with this broad trend, we want to achieve further growth. To that end, we will leverage the strengths of the Welcia group and collaborate closely with Welcia Yakkyoku.



Tetsuya Matsunuma
Representative Director
and President

Welcia Oasis Co., Ltd.

In March this year, we celebrated our 10th anniversary as a “special subsidiary” (a designation granted to a disability-friendly employer) of Welcia Yakkyoku.

Over those years we have grown our membership of people with disabilities. In FY2020, we hired a further 30 members, bringing the number to over 530. The members continue to make up over 3% of the group’s workforce, exceeding the mandatory rate (which is 2.2% for FY2021).

Rather than resting on our laurels, we want to see our members grow and thrive over the next 10 years. We are introducing two new kinds of opportunities for our members: farming jobs and store cleaning jobs (particularly cleaning the storefront area, the face of the store).

It is better to have a hundred people take one step than it is to have one person take a hundred steps.

Although there is still no end in sight to the pandemic, our staff will continue to approach their work with vigor.



Hisayuki Nagata
Representative Director
and President

New Uniforms for Drugstore Staff

In April 2021, we revamped uniforms for staff employed in drugstores throughout the Welcia group.

The new uniforms feature a crisp, professional look, and differentiate between pharmacists, registered pharmaceutical sales clerks, beauty care advisors, and so on, allowing customers to distinguish the person's professional expertise. We adopted a unisex design, and one that employees would find practical and easy to maintain.

By introducing a common uniform in drugstores throughout the group, we increase employees' sense of identity and cohesion as members of Welcia, which in turn helps us achieve our vision of specialist-cum-general stores that serve as community platforms.



Left to right:
Pharmacists (white), registered pharmaceutical sales clerks (blue), general staff (light blue), beauty care advisors (black)

Introducing new store brands: Karada Welcia, Kurashi Welcia

In summer 2021, two new Welcia store brands will be released. The new products are intended to play an important role in Welcia's differentiation strategy, and they were designed with an eye on functionality and quality.

The first brand, Karada Welcia, focuses on body wellness. It includes orally ingested products and skincare products. The other brand, Kurashi Welcia, consists of interior goods that emphasize comfortable and convenient home life. For each product, the development team was instructed to link the product with local social and environmental issues and with changing lifestyle needs.

Stay tuned as we roll out more store brands, which represent the face of Welcia.



The SDG agenda has been incorporated into our store brands.



Design of package subject to change

Management Indices (Consolidated)

| | FY2019 (March 1, 2019 – February 29, 2020) | FY2020 (March 1, 2020 – February 28, 2021) |
|--|--|--|
| Net Sales (million yen) | 868,280 | 949,652 |
| Ordinary income (million yen) | 40,348 | 45,800 |
| Net income attributable to owners of parent (million yen) | 22,802 | 27,999 |
| Comprehensive income (million yen) | 22,582 | 28,025 |
| Net assets (million yen) | 162,418 | 180,351 |
| Total assets (million yen) | 390,006 | 435,685 |
| Net assets per share (yen) | 773.95 | 862.82 |
| Net income per share (yen) | 109.24 | 134.23 |
| Diluted net income per share (yen) | 109.13 | 134.10 |
| Capital ratio (%) | 41.5 | 41.2 |
| Return on equity (%) | 15.0 | 16.4 |
| Price earnings ratio (times) | 29.8 | 25.4 |
| Net cash provided by (used in) operating activities (million yen) | 70,156 | 46,396 |
| Net cash provided by (used in) investment activities (million yen) | (27,459) | (16,147) |
| Net cash provided by (used in) financing activities (million yen) | (22,241) | (16,970) |
| Cash and cash equivalents at the end of the period (million yen) | 37,599 | 50,937 |
| Number of employees (persons) | 9,882 | 11,708 |
| (Average number of temporary employees) | 20,670 | 22,372 |

(Notes)

1. Net sales do not include consumption tax, etc.
2. The Company executed a 2-for-1 common stock split on September 1, 2020. Accordingly, net assets per share, net earnings per share, and diluted earnings per share for FYE 2019 are calculated on the basis that said stock split was implemented at the beginning of that period.
3. The Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) has been applied as of the beginning of the period under review. The principal performance indices for FYE 2019 have been adjusted retroactively in accordance with the amended standard.

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, including industry consolidation among the big players and increasing competition (including with players from other industries). Meanwhile, the pandemic has massively changed trends among customers and patients. Examples of these changes include a heightened demand for sanitary goods, a rise in stay-at-home lifestyles, and fewer medical visits.

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 personal drug stores that contribute to the local communities. To that end, we roll out the four components of the Welcia Model (drugstores with a dispensing pharmacy, medical counseling services, late-night services, and long-term care services). 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 pharmaceutical sales clerks, registered dietitians, dispensing clerks, healthcare providers, and beauty care advisors, culminating in develop a team of professionals who can offer high-quality expert advice.

In order to boost profitability, we will undergo a digital transformation to streamline store operations and strengthen our digital marketing.

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 FY2021:

| | |
|--|-----------------|
| Net sales: | ¥1.021 trillion |
| Ordinary income: | ¥47.6 billion |
| Net income attributable to owners of parent: | ¥27 billion |
| Store openings: | 127 |
| Store closures: | 25 |
| Number of drug stores with a dispensing pharmacy (in Japan): | 1,784 |

Business Risks

Of the business and accounting matters stated in this Investors' Guide, those listed below are deemed by the management to constitute significant risks to the corporate group's financial position, operating performance, and cash flow.

The risk to performance from Covid-driven changes in business landscape

The spread of Covid-19 has led to new trends among customers and patients. Examples of these changes include a heightened demand for sanitary goods, a rise in stay-at-home lifestyles, and fewer medical visits. The corporate group's sales performance, on a year-on-year basis, was affected by a shift in sales mix, fewer prescriptions, and higher prices for prescription drugs. Additionally, the corporate group has been obliged to restrict some business activities. For example, its stores have reduced business hours and, to avoid the Three Cs (closed spaces, crowded places, and close-contact settings), they have voluntarily refrained from distributing promotional literature. Business continuity would be threatened if there is an outbreak of infections in the corporate group's stores or in the communities where the corporate group operates. Such an eventuality may impact the Company's performance. This risk will probably remain for several years, even if vaccinations are rolled out and prove effective.

The corporate group works to provide anti-infection goods and services that support customers' lives. It also reassures customers by taking anti-infection measures such as keeping stores extra ventilated and safeguarding employee health.

The risk to business continuity from a natural disaster

The corporate group operates across an extensive area of Japan, from Aomori Prefecture to Miyazaki Prefecture. If an earthquake, typhoon, flood, or other natural disaster occurs in these regions, it may damage the corporate group's assets or harm the lives of its employees, forcing suspension of business in all or part of the corporate group.

The corporate group engages in business continuity planning, envisaging a range of disaster scenarios. The

recovery process outlined in the business continuity plan (BCP) should minimize the threat to business continuity. To ensure the effectiveness of the BCP, disaster drills are organized regularly throughout the corporate group.

The risk to business performance from legislative and regulatory changes

Under the Pharmaceutical and Medical Devices Act (Act on Securing Quality, Efficacy and Safety of Products, Including Pharmaceuticals and Medical Devices), the corporate group must undertake certain paperwork (permission, registration, designation, licensing, notification) with local authorities before selling pharmaceutical products. Similarly, under the Food Sanitation Act, the corporate group must undertake certain paperwork (including permission, licensing, registration) with government authorities before selling alcoholic beverages, cigarettes, and food. Any change to such regulatory infrastructure could impact the corporate group's performance.

The corporate group develops cross-organizational compliance programs to ensure strategic and effective responses to legislative and regulatory changes.

Finding pharmacists and registered pharmaceutical sales clerks

Drugstore businesses and other retailers of medical products are required, under the Pharmaceutical and Medical Devices Act, to employ pharmacists and registered pharmaceutical sales clerks in each of their stores and to ensure that only pharmacists dispense pharmaceutical products. The drugstore industry faces a challenge in finding enough pharmacists and registered pharmaceutical sales clerks. Failure to find enough of such workers might impact the corporate group's business operations and future store opening plans.

The corporate group has two organizationally separate recruitment divisions: one for hiring general staff who will serve as registered pharmaceutical sales clerks and the other for hiring pharmacists from among graduates of pharmacy schools. The corporate group also has retention programs to reduce the turnover rate. Additionally, it reforms its talent management system as necessary to keep in step with the government's workstyle reform agenda.

Overview of Business Performance

Risks associated with changes to standard drug prices and dispensing fees

The corporate group is integrating the Welcia Model of dispensing pharmacies in an effort to achieve its vision of specialist-cum-general stores that serve as community platforms. Pharmaceutical sales revenue has two components: revenue from the sale of pharmaceutical drugs and revenue from dispensing fees. Both components are provided for in the Health Insurance Act, and they are determined on a point basis using the official standard drug prices and dispensing fees. Standard drug prices are regularly updated—this is accepted as a given and factored into the corporate group's business strategy. Nonetheless, there remains a possibility that drug pricing reform could impact the corporate group's performance forecasts or actual performance.

The corporate group is streamlining the impersonal aspects of pharmaceutical operations by deploying human resources more appropriately and automating processes. It is also improving its pharmacists' interpersonal skills for customer-facing roles.

The risk of having to recognize goodwill impairment following an M&A transaction

Before committing to an M&A transaction, the corporate group performs due diligence to verify all relevant information about the seller, including the seller's financial viability and profitability, and then determines the acquisition price and amount of goodwill. However, there remains a possibility that the seller's performance will, after the transaction, deteriorate unexpectedly and end up deviating markedly from what was assumed when determining the goodwill. In such a case, the corporate group would need to recognize impairment, which may impact the corporate group's performance. Additionally, the Company might need to recognize impairment in the equity it holds in the acquired company (stated as "shares in affiliates"). For reference, in the year under review, the balance of goodwill was ¥16,899 million.

To help ensure that each company performs as initially expected, the Company uses M&A transactions to increase group members' business opportunities and streamline their operations, while honoring the member's independence, to an extent congruous with the Company's stake therein.

The risk of having to recognize impairment of underperforming stores

The Company has retained its medium-term performance targets despite the fact that, in the period under review, its corporate group voluntarily restricted operations amid a state of emergency declared in response to a surge in infections. One of the medium-term targets is for the corporate group to be opening an annual average of 120 new stores by FYE 2023, the final year of the term. There is a possibility that stores could experience a downturn in performance as a result of unexpected market changes, which may occur because of voluntary business restrictions or other factors. In such a case, the Company might need to recognize impairment of fixed assets. Such impairment would, in turn, entail the recording of extraordinary losses, and this eventuality might impact the corporate group's performance.

The corporate group works to minimize gaps between actual performance and predetermined targets by analyzing any such deviations and recalibrating criteria for store openings accordingly.

Risk of dispensing error

As mentioned earlier, the corporate group is integrating the Welcia Model of dispensing pharmacies in an effort to achieve its vision of specialist-cum-general stores that serve as community platforms. As of the period under review, the corporate group has 1,638 drugstores with dispensing pharmacies and 6,323 pharmacists. The corporate group has never experienced a fatal dispensing error. However, if such an unfortunate event does occur, it may impact the corporate group's performance.

For its dispensing operations, the corporate group adopts a proactive, "near miss" approach to safety management. This approach requires the reporting of even minor incidents, on the principle that even seemingly trifling incidents have the potential to incur severe damage. Whenever a reportable incident occurs, the causes of the incident are analyzed and corrective and preventive action taken. The department or official concerned then informs staff of the matter and implements extra precautions.

Risks concerning personal data

The corporate group uses the following kinds of personal data: 1) personal data of patients using pharmacy services, 2) personal data of customers using cosmetic advisory services, and 3) personal data of customers managed on the e-commerce website. The corporate group regards appropriate handling of personal data as part of its corporate social responsibility. However, there remains a possibility that the personal data somehow gets leaked or divulged to third parties. Depending on the scale of the data breach and other situational factors, such an incident may severely undermine the corporate group's operations.

To prevent data breaches, the Company has established protocols, and it provides staff with a manual and training. It also takes cybersecurity measures and uses largescale unannounced drills to improve employees' phishing awareness.

The risk of reputation damage in the event of illegal acts committed by employees

The corporate group's products are governed by various laws and regulations. There is a possibility that employees violate these rules unknowingly or inadvertently due to a lack of proficiency. Depending on the circumstances, the company concerned may be held liable as employer. Such an eventuality may damage the corporate group's reputation and impact its performance.

To prevent violations, the corporate group issues staff with an operational manual to educate them about laws and regulations. Other measures include using educational video content and providing a whistleblowing hotline.

The risk that pharmaceutical deregulation will intensify interindustry competition

In 2014, the Pharmaceutical Affairs Act was revised to permit the online retailing of over-the-counter (OTC) drugs. Since then, there has been steady growth in the OTC market, which includes cosmetics. Such deregulation, by enabling general retailers to sell OTC drugs, may intensify interindustry competition. Such a development may impact the corporate group's performance.

As part of its strategy, the corporate group has diversified stores so that they offer, in addition to

OTC drugs, a range of advisory services provided by a team of experts, including pharmacists, registered pharmaceutical sales clerks, registered dietitians, dispensing clerks, and beauty care advisors.

The risk that store expansion program is delayed properties because of insufficient suitable properties

When picking locations for new stores, the corporate group places importance on ensuring that each new store will be profitable. Potential locations may have too much competition or may otherwise fail to meet the criteria. In such cases, store opening plans may be delayed or they may become unviable. Such an eventuality may impact the corporate group's performance forecasts.

To reduce the risk of delays in opening new stores, the corporate group is building a competitive retail model in which store merchandise is tailored to local needs and market trends. It is also opening dispensing pharmacies and reaching out to medical institutions.

Risks associated with long-term care services

The corporate group engages in the long-term care business via Welcia Kaigo Service Co., Ltd. Welcia Kaigo Service mainly deals in services covered by national insurance, meaning that its business activities are governed by the National Health Insurance Act and other regulations. Regulatory reform in this area might therefore impact the corporate group's performance. The corporate group's performance could also be impacted if Welcia Kaigo Service faces legal action in connection with its care services and suffers a loss of credibility.

The Company regards long-term care services as an integral part of the Welcia Model. It works with Welcia Kaigo Service to provide dispensing services in a home-care setting. Additionally, staff in charge of administering the corporate group help augment any shortfalls in resources.

Consolidated Balance Sheets

| | Million Yen | |
|--------------------------------------|-------------------------------|-------------------------------|
| | FY2019 (February 29, 2020) | FY2020 (February 28, 2021) |
| Assets | | |
| Current assets | | |
| Cash and deposits | ¥ 38,838 | ¥ 51,918 |
| Accounts receivable-trade | 43,307 | 44,821 |
| Merchandise | 89,318 | 103,283 |
| Other | 18,751 | 15,867 |
| Allowance for doubtful accounts | (12) | (1) |
| Total current assets | 190,203 | 215,890 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 142,592 | 160,562 |
| Accumulated depreciation | (65,650) | (76,468) |
| Buildings and structures, net | 76,942 | 84,094 |
| Land | 13,268 | 14,743 |
| Lease assets | 62,616 | 70,817 |
| Accumulated depreciation | (23,163) | (28,736) |
| Lease assets, net | 39,452 | 42,081 |
| Other | 19,280 | 22,201 |
| Accumulated depreciation | (13,034) | (14,891) |
| Other, net | 6,246 | 7,309 |
| Total property, plant and equipment | 135,910 | 148,229 |
| Intangible assets | | |
| Goodwill | 15,179 | 16,899 |
| Other | 2,434 | 2,509 |
| Total intangible assets | 17,613 | 19,409 |
| Investments and other assets | | |
| Investment securities | 1,169 | 1,031 |
| Long-term loans receivable | 56 | 47 |
| Guarantee deposits | 33,452 | 37,017 |
| Deferred tax assets | 10,480 | 12,161 |
| Other | 1,143 | 1,921 |
| Allowance for doubtful accounts | (23) | (23) |
| Total investments and other assets | 46,279 | 52,155 |
| Total noncurrent assets | 199,802 | 219,794 |
| Total assets | ¥ 390,006 | ¥ 435,685 |

| | Million Yen | |
|---|-------------------------------|-------------------------------|
| | FY2019 (February 29, 2020) | FY2020 (February 28, 2021) |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-trade | ¥ 137,845 | ¥ 150,388 |
| Short-term loans payable | 4,654 | 6,394 |
| Lease obligations | 6,377 | 7,528 |
| Accounts payable-other | 8,752 | 13,287 |
| Income taxes payable | 9,059 | 7,757 |
| Provision for bonuses | 4,160 | 4,653 |
| Provision for bonuses to directors (and other officers) | — | 142 |
| Provision for point card certificates | 24 | 26 |
| Other | 12,358 | 12,868 |
| Total current liabilities | 183,234 | 203,049 |
| Noncurrent liabilities | | |
| Long-term loans payable | 5,549 | 9,222 |
| Lease obligations | 22,660 | 24,406 |
| Asset retirement obligations | 8,719 | 9,955 |
| Retirement benefits-related liabilities | 4,062 | 5,281 |
| Deferred tax liabilities | 75 | 109 |
| Allowance for executive stock benefit | 589 | 717 |
| Other | 2,696 | 2,590 |
| Total noncurrent liabilities | 44,353 | 52,284 |
| Total liabilities | 227,587 | 255,333 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 7,736 | 7,736 |
| Capital surplus | 51,669 | 51,672 |
| Retained earnings | 103,525 | 125,866 |
| Treasury stock | (1,222) | (5,855) |
| Total shareholders' equity | 161,709 | 179,419 |
| Accumulated other comprehensive income | | |
| Other valuation difference on available-for-sale securities | 262 | 357 |
| Foreign currency translation adjustment | (38) | 3 |
| Accumulated adjustment related to retirement benefits | (245) | (289) |
| Total accumulated other comprehensive income | (21) | 70 |
| Subscription rights to shares | 236 | 230 |
| Minority interests | 493 | 630 |
| Total net assets | 162,418 | 180,351 |
| Total liabilities and net assets | ¥ 390,006 | ¥ 435,685 |

Consolidated Statements of Income

| | Million Yen | |
|---|--|--|
| | FY2019 (March 1, 2019 – February 29, 2020) | FY2020 (March 1, 2020 – February 28, 2021) |
| Net sales | ¥ 868,280 | ¥ 949,652 |
| Cost of sale | 600,825 | 653,607 |
| Gross profit | 267,454 | 296,044 |
| Selling, general and administrative expenses | | |
| Advertising expenses | 18,414 | 18,740 |
| Salaries | 89,700 | 99,485 |
| Bonuses | 3,373 | 4,068 |
| Provision for bonuses | 4,137 | 4,647 |
| Provision for share-based remuneration for directors (and other officers) | 246 | 148 |
| Retirement benefit expenses | 1,499 | 1,694 |
| Rent expenses on real estate | 36,523 | 39,599 |
| Depreciation | 13,880 | 14,887 |
| Commission fees | 16,413 | 19,510 |
| Rent expenses | 631 | 696 |
| Amortization of goodwill | 1,514 | 1,797 |
| Other | 43,317 | 47,791 |
| Total selling, general and administrative expenses | 229,652 | 253,070 |
| Operating income | 37,801 | 42,974 |
| Non-operating income | | |
| Interest income | 17 | 5 |
| Dividends income | 7 | 8 |
| Gain on equity investments | — | 16 |
| Real estate rent | 899 | 961 |
| Gain on the donation of noncurrent assets | 335 | 240 |
| Commission fees | 614 | 576 |
| Co-sponsor fees | 498 | 287 |
| Other | 800 | 1,351 |
| Total non-operating income | 3,174 | 3,445 |
| Non-operating expenses | | |
| Interest expenses | 393 | 428 |
| Share of loss of entities accounted for using equity method | 25 | — |
| Rent cost of real estate | 159 | 159 |
| Other | 49 | 30 |
| Total non-operating expenses | 627 | 619 |
| Ordinary income | 40,348 | 45,800 |
| Extraordinary income | | |
| Gain on step acquisitions | — | 169 |
| Gain on sale of investment securities | 3 | 104 |
| Insurance fund income | 157 | — |
| Compensation for expropriation | 64 | — |
| Damage compensation income | — | 426 |
| Other | 33 | 79 |
| Total extraordinary income | 258 | 779 |
| Extraordinary loss | | |
| Loss on sale of noncurrent assets | 130 | 27 |
| Loss on retirement of noncurrent assets | 554 | 122 |
| Impairment loss | 3,536 | 3,826 |
| Covid-related losses | — | 1,179 |
| Other | 448 | 112 |
| Total extraordinary losses | 4,670 | 5,268 |
| Net income before income taxes and minority interests | 35,936 | 41,311 |
| Income taxes-current | 15,196 | 15,054 |
| Income taxes-deferred | (1,921) | (1,670) |
| Total income taxes | 13,275 | 13,383 |
| Net Income | 22,661 | 27,928 |
| Loss attributable to non-controlling interests | (141) | (71) |
| Net income attributable to owners of parent | ¥ 22,802 | ¥ 27,999 |

Consolidated Statements of Comprehensive Income

| | Million Yen | |
|---|--|--|
| | FY2019 (March 1, 2019 – February 29, 2020) | FY2020 (March 1, 2020 – February 28, 2021) |
| Net income | ¥ 22,661 | ¥ 27,928 |
| Other comprehensive income | | |
| Other valuation difference on available-for sale securities | (14) | 94 |
| Foreign currency translation adjustment | (61) | 45 |
| Remeasurements of defined benefit plans | (2) | (43) |
| Total other comprehensive income | (78) | 96 |
| Comprehensive income | 22,582 | 28,025 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of the parent company | 22,752 | 28,091 |
| Comprehensive income attributable to non-controlling interests | ¥ (169) | ¥ (66) |

Consolidated Statements of Cash Flows

| | Million Yen | |
|--|--|--|
| | FY2019 (March 1, 2019 – February 29, 2020) | FY2020 (March 1, 2020 – February 28, 2021) |
| Net cash provided by (used in) operating activities | | |
| Net income before income taxes and minority interests | ¥ 35,936 | ¥ 41,311 |
| Depreciation and amortization | 14,149 | 15,178 |
| Impairment loss | 3,536 | 3,826 |
| Amortization of goodwill | 1,514 | 1,797 |
| Loss (gain) on step acquisitions | — | (169) |
| Increase (decrease) in the allowance for doubtful accounts | 9 | (10) |
| Increase (decrease) in the provision for bonuses | 891 | 357 |
| Increase (decrease) in liabilities for retirement benefit | 637 | 784 |
| Increase (decrease) in the allowance for executive stock benefit | 246 | 128 |
| Increase (decrease) in the provision for point card certificates | (9) | 1 |
| Increase (decrease) in provision for share-based remuneration for directors (and other officers) | — | 142 |
| Interest and dividends income | (25) | (13) |
| Interest expenses | 393 | 428 |
| Rent as a counterbalance to construction assistance funds receivable | 1,035 | 1,048 |
| Loss on sale of noncurrent assets | 130 | 27 |
| Loss on the retirement of noncurrent assets | 554 | 122 |
| Gain on the donation of noncurrent assets | (335) | (240) |
| Decrease (increase) in notes and accounts receivable-trade | (15,688) | (354) |
| Decrease (increase) in inventories | (4,329) | (10,428) |
| Increase (decrease) in notes and accounts payable-trade | 39,223 | 8,907 |
| Increase (decrease) in accrued consumption taxes | 1,094 | 512 |
| Other | 4,594 | 181 |
| Subtotal | 83,561 | 63,540 |
| Interest and dividends income received | 257 | 17 |
| Interest expenses paid | (401) | (423) |
| Income taxes paid | (14,297) | (18,012) |
| Income taxes refund | 1,036 | 1,275 |
| Net cash provided by (used in) operating activities | 70,156 | 46,396 |
| Net cash provided by (used in) investing activities | | |
| Payment into time deposits | (955) | (818) |
| Proceed from the withdrawal of time deposits | 1,987 | 1,147 |
| Purchase of property, plant and equipment | (14,644) | (13,638) |
| Proceeds from the sales of property, plant and equipment | 329 | 617 |
| Purchase of intangible assets | (950) | (823) |
| Purchase of shares of subsidiaries and associates | (90) | — |
| Payments into subsidiaries and affiliates | (7,000) | — |
| 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 | (5,883) | (5,971) |
| Collection of lease deposits | 387 | 278 |
| Other | (240) | (1,494) |
| Net cash provided by (used in) investing activities | ¥ (27,459) | ¥ (16,147) |

Consolidated Statements of Cash Flows

| | Million Yen | |
|--|--|--|
| | FY2019 (March 1, 2019 – February 29, 2020) | FY2020 (March 1, 2020 – February 28, 2021) |
| Net cash provided by (used in) financing activities | | |
| Net increase (decrease) in short-term loans payable | ¥ (7,300) | ¥ 0 |
| Proceeds from long-term loans payable | — | 5,000 |
| Repayment of long-term loans payable | (4,148) | (4,116) |
| Payments for redemption of bonds | (280) | (380) |
| Cash dividends paid | (4,609) | (5,659) |
| Repayment of finance lease obligations | (6,400) | (7,177) |
| Purchase of treasury stock | (3) | (5,512) |
| Other | 500 | 875 |
| Net cash provided by (used in) financing activities | (22,241) | (16,970) |
| Effect of exchange rate change on cash and cash equivalents | (8) | 18 |
| Net increase (decrease) in cash and cash equivalents | 20,446 | 13,297 |
| Increase in cash and cash equivalents resulting from merger | — | 41 |
| Cash and cash equivalents at the beginning of the period | 17,152 | 37,599 |
| Cash and cash equivalents at the end of the period | ¥ 37,599 | ¥ 50,937 |

Notes to the Consolidated Financial Statements

(Explanatory notes regarding the going concern assumptions)

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 11

Names of the consolidated subsidiaries:

Welcia Yakkyoku Co., Ltd., Welcia Kaigo Service Co., Ltd., Shimizu Yakuhin Co., Ltd., Welcia-BHG (Singapore) Pte. Ltd., Marudai Sakurai Pharmacy Limited, Masaya Co., Ltd., Kanamitsu Yakuhin Co. Ltd., Yodoya Co., Ltd., Marue Drug Co., Ltd., Neo Pharma, Inc., Summit KK.

(Notes)

- (1) Yodoya Co., Ltd. is included in the scope of consolidation as of the consolidated period under review, because shares therein were purchased on March 1, 2020.
- (2) Marue Drug Co., Ltd. is included in the scope of consolidation as of the consolidated period under review, because the company became a subsidiary following the purchase of additional shares therein on June 1, 2020.
- (3) Neo Pharma, Inc., and Summit Co., Ltd. are included in the scope of consolidation as of the consolidated period under review, because shares therein were purchased on July 1, 2020.
- (4) Merrylin Business (Shanghai) Limited Company, which was included in the scope of consolidation in the previous consolidated fiscal year, was removed the scope of consolidation after completing liquidation procedures on September 4, 2020.

(2) Number of non-consolidated subsidiaries: 2

Names of the non-consolidated subsidiaries:

Welcia Oasis Co., Ltd., Welcia Retail Solution Co., Ltd.

(Reason for removal from scope of consolidation)

These non-consolidated subsidiaries were removed from the scope of consolidation because they have a negligible effect on the consolidated statements of income due to their small size (in terms of gross assets, net sales, net income, and retained earnings).

2. Application of the Equity Method

(1) Number of non-consolidated subsidiaries accounted for by the equity method: None

(2) Number of affiliates accounted for by the equity method: 1

Subsidiaries: AEON Rēvecosme Co., Ltd.

(3) Non-consolidated subsidiaries and affiliates not accounted for by the equity method:

Non-consolidated subsidiaries: Welcia Oasis Co., Ltd., Welcia Retail Solution Co., Ltd.

(Reason for not employing the equity method)

These non-consolidated subsidiaries are excluded from the scope of the equity method because their contribution to the consolidated net income and loss (the amount proportional to the relevant equity shares) and consolidated retained earnings (the amount proportional to the relevant equity shares) have a negligible effect on the consolidated financial statements and are immaterial in the aggregate.

3. Notes on the Fiscal Year-End of Consolidated Subsidiaries

In every consolidated subsidiary, the fiscal year-end matches that of the consolidated financial statements.

Company Information / Investor Information

(As of February 28, 2021)

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

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

Number of Group Employees

11,708 (excluding part-time employees)

Executives (As of May 25, 2021)

Chairman and Representative Director

Takamitsu Ikeno

President and Representative Director

Tadahisa Matsumoto

Executive vice president

Norimasa Sato

Juichi Nakamura

Director

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

494,947,200

Number of Shares Issued

209,579,342

(excluding 54,334 treasury shares)

Number of Shareholders

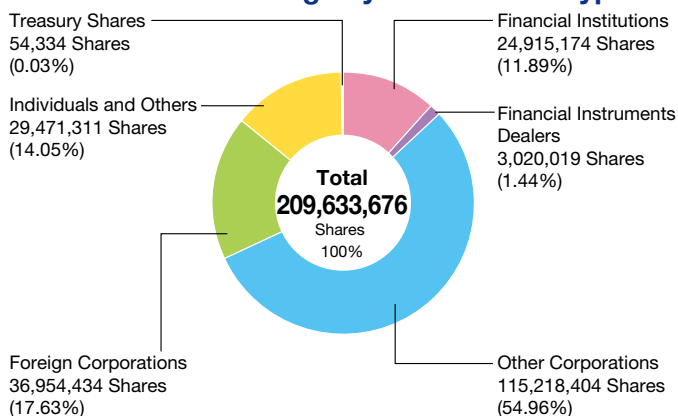
46,982

Major Shareholders

| Name of Shareholder | Number of Shares (Thousands) | Shareholding Ratio (%) |
|---|---------------------------------|---------------------------|
| AEON Co., Ltd. | 105,940 | 50.55 |
| The Master Trust Bank of Japan, Ltd. (trust account) | 7,427 | 3.54 |
| Custody Bank of Japan, Ltd. (trust account) | 4,220 | 2.01 |
| Tsuruha Co., Ltd. | 3,352 | 1.60 |
| Welcia Holdings Employee Stock Ownership | 3,207 | 1.53 |
| STATE STREET BANK WEST CLIENT-TREATY 505234 | 2,757 | 1.32 |
| THE CHASE MANHATTAN BANK 385036 | 1,967 | 0.94 |
| Custody Bank of Japan, Ltd. (trust account 5) | 1,652 | 0.79 |
| Ishida Co., Ltd. | 1,616 | 0.77 |
| NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS | 1,553 | 0.74 |

(Note) In calculating shareholding ratio, we omitted 54,334 shares of treasury shares. The treasury shares do not include the 1,050,200 shares held in the ESOP Trust or the 502,238 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)

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