



WELCIA HOLDINGS CO., LTD.

# Investors' Guide

Fiscal Year Ended February 28, 2022

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

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



## Continuing to roll out the Welcia Model and vision to achieve our medium-term goals



**Takamitsu Ikeno**  
Chairman and  
Representative Director

**Tadahisa Matsumoto**  
President and  
Representative Director

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

More than two years have passed since the coronavirus outbreak. The year under review (ended February 2022) marked our second pandemic-affected year. It proved a challenging year, with a larger-than-expected comedown from the Covid-related demand surge we experienced in year one of the pandemic. Another challenge was a new wave of infections caused by the Omicron variant.

As the Covid situation developed, consumer trends shifted. Amid these changes, we continued providing communities with one-stop stores that offers specialist support and to generate future growth. As part of these efforts, we provided more drugstores with a dispensing pharmacy, encouraged more shoppers to register as Welcia members, and provided PCR testing for free. On December 1, 2021, we acquired Pupule Himawari, a Hiroshima-based drugstore chain with stores in the Chugoku and Shikoku regions.

Results for the period under review were as follows. Revenue grew from the previous year's level, with consolidated net sales breaking the 1 trillion yen mark for the first time. For net income attributable to owners of parent, we had forecasted a decrease from the previous year and the result was largely in line with this forecast.

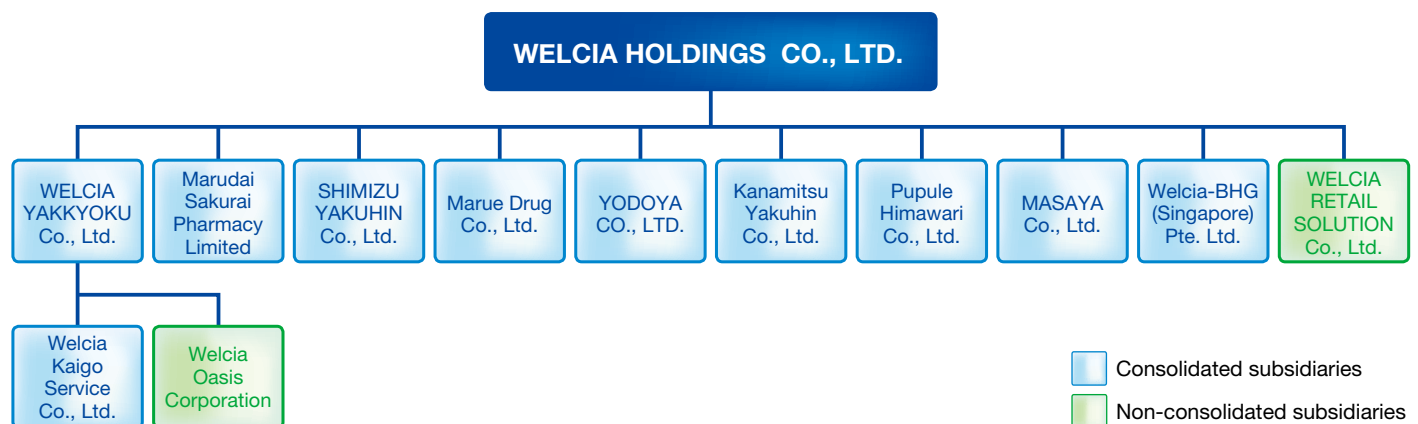
The current fiscal year (ending February 2023) marks year 3 of the pandemic. The outlook appears challenging, with continued Covid restrictions and fears of inflation stoked by soaring fuel costs and raw materials prices.

The current year also marks the final year of our medium-term plan. For this final year, we are continuing to roll out our four-fold model of one-stop stores with specialist support: drugstores with a dispensing pharmacy, counseling services, late-night operation, and long-term care services. We are also working toward our vision of the drugstore as a platform for everyday needs. In proportion to our growing size and regional coverage, we will shift to a more nuanced approach to marketing and sales through a digital transformation, tighter organizational management, and tighter talent management. At the same time, we will pursue sustainability initiatives in line with the corporate values set out in our Sustainability Principles and with a view to building a sustainable society.

We thank you once again for your continued confidence in us, and we look forward to sharing our future success with you.

## Welcia Group

As of Feb. 28, 2022



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## Corporate History



- April 2022** ● We moved to the Tokyo Stock Exchange's new top-tier Prime section
- December 2021** ● We acquired Pupule Himawari Co., Ltd.
- 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.

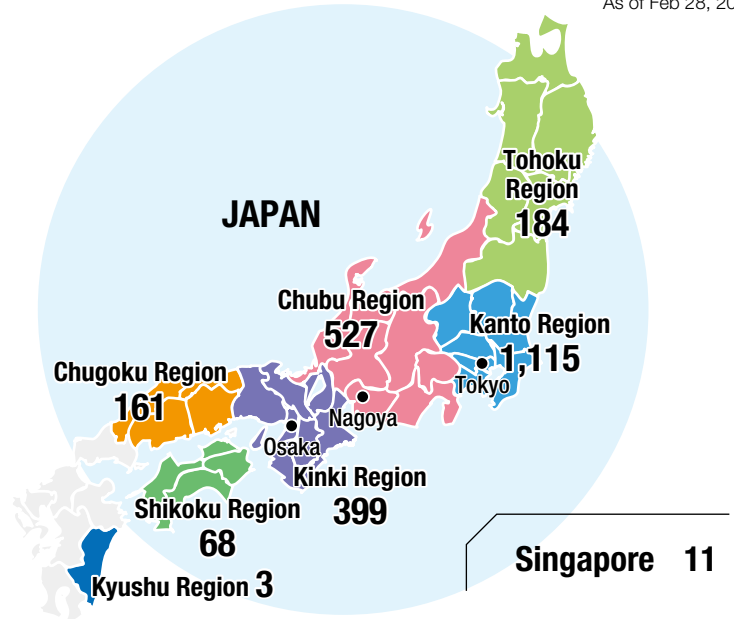
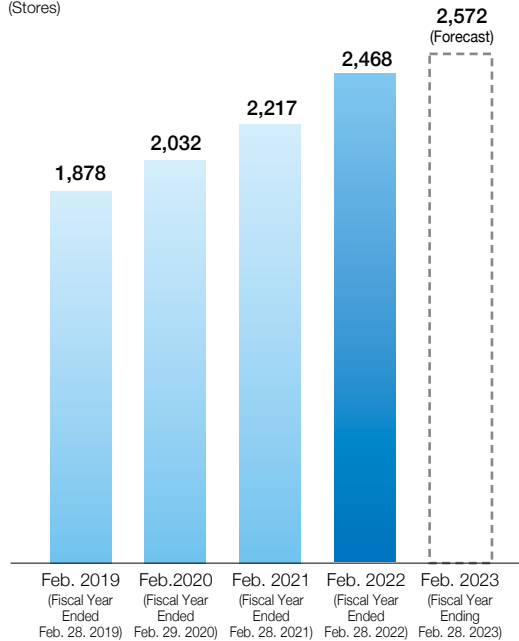


# Financial Highlights

## Total Number of Stores

(Stores)

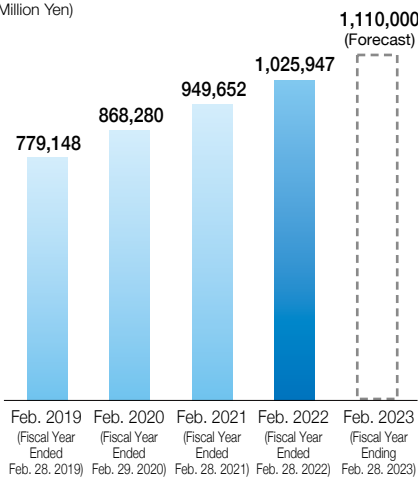
As of Feb 28, 2022



The figures for FY2022 adhere to the ASBJ Accounting Standard for Revenue Recognition.

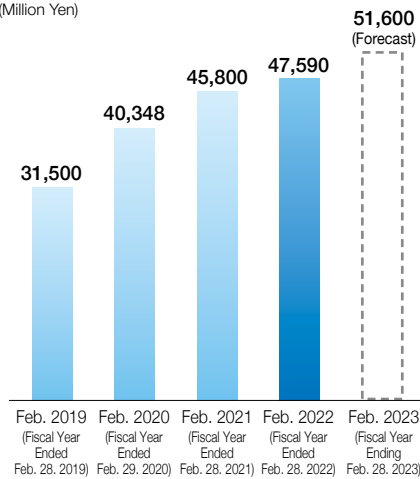
## Net Sales

(Million Yen)



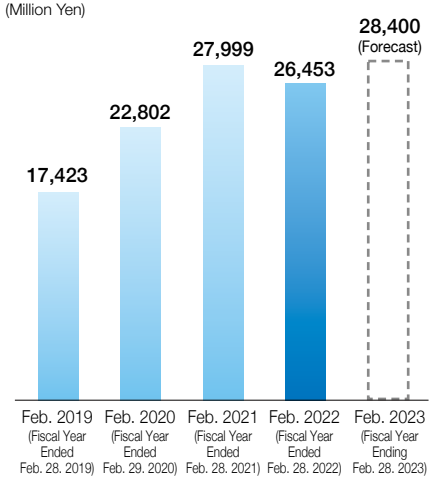
## Ordinary Income

(Million Yen)



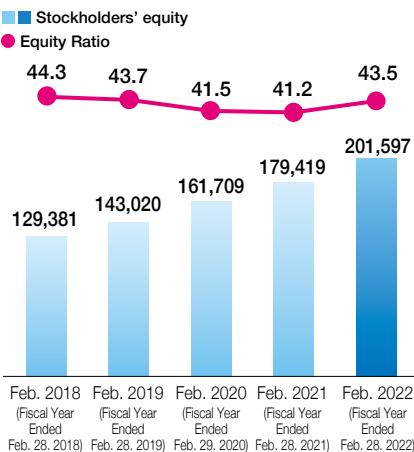
## Net Income Attributable to Owners of Parent

(Million Yen)



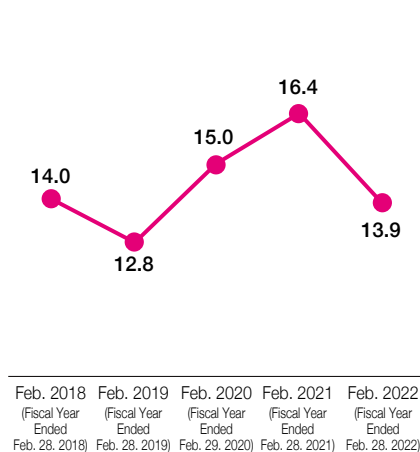
## Stockholders' Equity / Equity Ratio

(Million Yen / %)



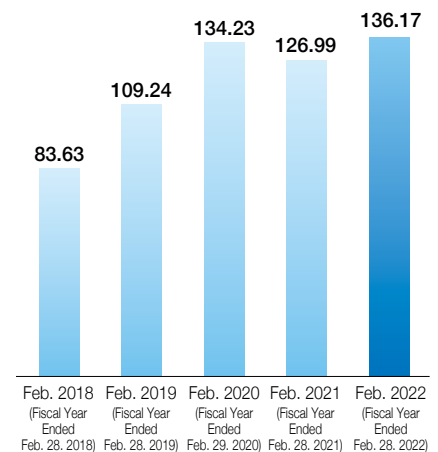
## Return on Equity

(%)



## Net Income per Share

(Yen)



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

## Top Interview (Q&A)

Q1

Tell us about the operating activities and earnings in the year under review.

A1

We achieved our net sales target thanks to growth in prescription sales. In a first for the drugstore industry, we smashed the 1 trillion yen barrier.

During the year under review, Japan experienced a fourth, fifth, and then a sixth wave of infections, the last being the greatest in scale. Against this backdrop, we maintained operations, taking all necessary precautions.

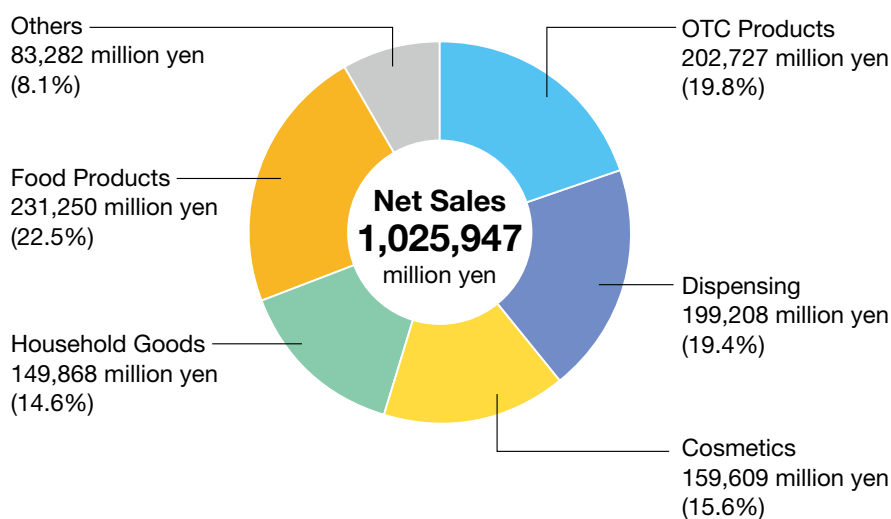
In stores, sales of non-pharmaceutical goods fell short of the target because of comedown from the surge in demand for foods and anti-infection goods that we experienced in the previous year. However, the comedown was more than offset by strong pharmaceutical sales (114.4% of the previous year). This result followed an increase in the number of our drugstores that have a dispensing pharmacy.

We also worked to reduce SG&A expenses. As part of our ongoing streamlining program, we increased the take-up rate of automated ordering and made work schedules more closely reflect reality. With these and other efforts, personnel expenses were largely in line with the target in the fourth quarter.

The specific results were as follows: Net sales amounted to 1,025.947 billion yen (up 8.0% YOY, 100.5% of target), and ordinary income amounted to 47.590 billion yen (up 3.9% YOY, 100.0% of target).

\* The figures for FY2022 adhere to the ASBJ Accounting Standard for Revenue Recognition

### Sales and Composition Ratio by Item



Q2

Tell us about your store openings.

A2

We continued our proactive expansion strategy and acquired another drugstore brand.

We now have 2,457 stores across 40 prefectures in Japan. As of end of February 2022

Although the year under review saw the greatest Covid wave sweep through Japan, we continued expanding our network of stores, taking all necessary safeguards against the virus. In Japan, we opened 142 stores and closed 25. Additionally, on December 1, 2021, we acquired Pupule Himawari, a Hiroshima-based drugstore chain with 132 stores. Consequently, as of

the end of the year under review, we now have 2,457 stores in Japan, covering 40 prefectures.

As for overseas expansion, we opened two stores, and closed one store, in Singapore, despite the country experiencing its own waves of infections. That brings the global number of stores to 2,468.

Parentheses indicate cosmetics specialty stores

The number of domestic stores  
**2,457**

As of end of February 2022

Overseas **11**  
Singapore **11**

Niigata	72
Toyama	42
Ishikawa	24 (1)
Fukui	6
Yamanashi	33
Nagano	39
Gifu	7
Shizuoka	231 (1)
Aichi	73 (1)

Mie	27
Shiga	17
Kyoto	79 (2)
Osaka	155 (5)
Hyogo	100 (1)
Nara	14 (2)
Wakayama	7

Tottori	6 (2)
Shimane	9 (1)
Okayama	73 (8)
Hiroshima	73 (1)

Chugoku Region **161**

Kinki Region **399**

Chubu Region **527**

Tohoku Region **184**

Aomori	82
Iwate	15
Miyagi	19
Akita	9
Yamagata	23
Fukushima	36

Kanto Region **1,115**

Ibaraki	154 (4)
Tochigi	68
Gunma	115 (1)
Saitama	206 (2)
Chiba	151 (3)
Tokyo	196 (4)
Kanagawa	225

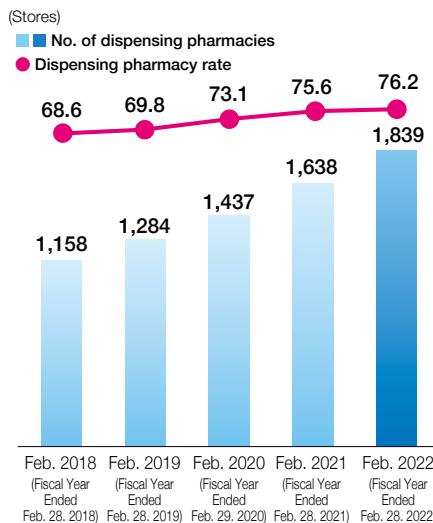
Tokushima	2 (1)
Kagawa	10
Ehime	29 (2)
Kochi	27 (1)

Shikoku Region **68**

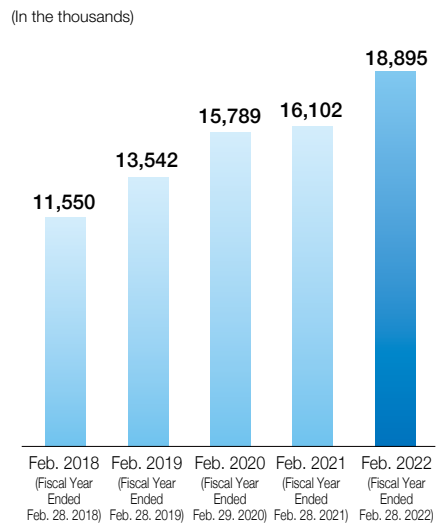
Kyushu Region **3**

Fukuoka	1
Oita	1
Miyazaki	1 (1)

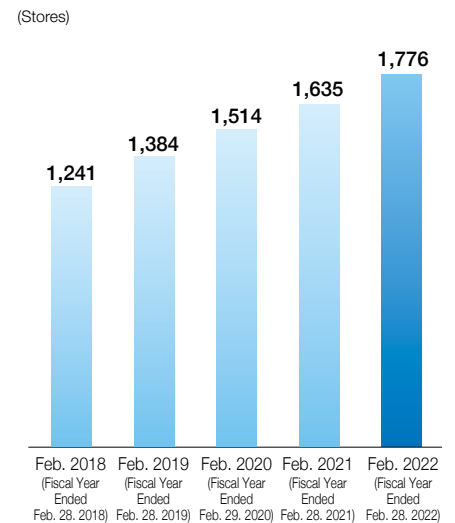
**Change of the Number of Stores with Dispensing Pharmacy**



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

Q3

**How is your progress in providing drugstores with a dispensing pharmacy and late-night operation?**

A3

**We are rolling out one-stop stores with specialist support, which serve as local infrastructure.**

The Welcia Model describes our vision of one-stop 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 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 (as of the end of February 2022) have 1,839 drugstores with dispensing pharmacies, which comes to 76.2% of our total stores in Japan. Despite record numbers of infections, the number of prescriptions was 117.3% of the previous year's figure thanks to a larger number of dispensing pharmacies and stores that open on Saturdays.

To better serve the needs of local communities, a number of our drugstores stay open late at night. We now (as of the end

of February 2022) have a total of 1,776 such stores, and 259 of them operate 24 hours a day. We continue to expand 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 promoting employee engagement?**

A4

**We are building an employee-friendly workplace and supporting employee health.**

We are working to increase employee engagement in a number of ways.

Mindful of Japan's shrinking and aging population, we support employees with family commitments. Welcia Yakkyoku exceeds legal requirements in its provision of parental leave and child-friendly hours (shorter workdays). It also offers an eldercare advisory service and other measures in the hope that no employee feels forced to choose between work and caring for an aging family member.

We also promote respect for sexual and gender diversity so that all employees can bring their authentic selves to work and achieve their full potential. Welcia Yakkyoku has expanded its system of marriage benefits to cover same-sex couples and other common-law couples who have in the past been left out of such protections.

These efforts have earned us acclaim. In 2021, the Minister of Health, Labour and Welfare awarded us the Kurumin certificate, recognizing us as a family-friendly company. We were also listed as an "advanced" company at the 2021 D&I Award.\*1

In 2022, Welcia Holdings, along with our main operating company, Welcia Yakkyoku, were certified as a leader in

employee health management under the government's "health and productivity" award scheme.\*2 This accolade honors our initiatives in employee health since 2020, which include publishing an employee health declaration, encouraging employees and their families to take an active interest in health and wellbeing, helping employees quit smoking, and supporting work-life balance.

In line with our employee health declaration, we will continue efforts to make our workplaces healthier, more productive, more diverse, and more inclusive.



\*1 The D&I Award honors Japanese companies that promote diversity and inclusion in the workplace.

\*2 This award scheme honors companies with exemplary practices for addressing local health issues or promoting the health and productivity agenda of the Japan Health Council.



**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**

**Tell us about your provision of diagnostic and antibody tests for Covid-19?**

**A5**

**Customers appreciated having testing services that were convenient and safe.**

As a community-rooted drugstore operator with one of the country's largest numbers of dispensing pharmacies, we recognized our duty to facilitate Covid testing. Accordingly, we wasted no time in applying for a tender for the provision of free diagnostic and antibody tests for Covid-19 as part of comprehensive package of vaccination and testing services administered by local authorities.\*

Between December 24, 2021, and the end of February 2022, 1,800 stores administered half a million free tests. During the busiest period, a given store would administer close to 100 tests

a day. Staff processed the tests as efficiently as possible while ensuring sufficient social distancing, ventilation, and personal privacy. Thanks to their efforts, customers praised our test service for being convenient and safe.

\* The package consists of testing services specifically for unvaccinated individuals (children aged under 12 and individuals who cannot get a vaccine for medical reasons). Specifically, these individuals can receive a free test when conducting activities that require proof of vaccination or a negative test result (such as going to a restaurant or event, or going traveling).



A member of staff explains the test procedure

Q6

## How are you supporting environmental sustainability?

A6

### Together with customers, we support the environment with recycling schemes for plastic bottles and refill pouches and with sell-by-weight stations.

We are experimenting with ideas for recycling plastic bottles and refill pouches (for refillable shampoos and detergents) with a view to establishing a model for transitioning into a circular economy.

For plastic bottles, Welcia Yakkyoku teamed up with Coca-Cola Bottlers Japan Inc. to run a bottle collection scheme. Between July 2021 and February 2022, 52 Welcia Yakkyoku stores collected 3,990 kg of bottles.

For refill pouches, Welcia Yakkyoku has joined Kao Corporation and Lion Corporation in Kobe Plastic Next, a

recycling scheme organized by Kobe City. Between October 2021 and February 2022, 27 Welcia Yakkyoku stores (and Head Office) collected 16.1 kg of pouches.

Refillable shampoos and detergents are popular in Japan. By purchasing refills, consumers can keep reusing the same container, saving resources and cutting waste. Two of our stores (Welcia Aeon Town Makuharinishi and Hac Drug Utsukushigaoka) now feature a sell-by-weight station provided by Kao Corporation.



Recycling box for plastic bottles  
(Coca-Cola Bottlers Japan Inc.)



Recycling box for refill pouches  
(provided in collaboration  
with Kao and Lion)



Sell-by-weight station  
(provided in collaboration  
with Kao)

Q7

Tell us about your private brands.

A7

Welcia's private-label products

In the summer of 2021, we launched two private-label brands. The first brand, Karada Welcia, includes daily-care products for ingesting or applying to the skin. The other brand, Kurashi Welcia, consists of interior goods that make day-to-day life easier and more comfortable.

In the year under review, we launched a series of dietary supplements (Karada Welcia Supplement Series). The series features three unique selling points: 1) the supplements contain 22 species of lactic acid bacteria (not including EPA and DHA); 2) a registered dietician advised in the formulation process;

3) the products are free from fragrance materials, coloring, and preservatives. The supplements are available only in stores of our corporate group and they can be consumed daily with peace of mind.

We are also pleased to report that our sponge product, known in English as The Peaceful Sponge, went viral on social media on account of its unique name.

Stay tuned for the launch of more private-label products that serve as the face of Welcia.

Karada Welcia



Kurashi Welcia



View our private brands on this webpage.

<https://www.welcia-yakkyoku.co.jp/karadatokurashi/>



# Current Status of the Welcia Group

## Messages from Welcia Group Company Presidents

### Welcia Yakkyoku Co., Ltd.

Two years have passed since the start of this unprecedented pandemic, and there is still no end in sight. Our team of pharmacists and other professionals were determined to do their part to help safeguard the health of local people. In mid-December 2021, we applied for a public-sector tender for the provision of free diagnostic and antibody tests for Covid-19 and then worked at full steam to deliver the services.

It was only natural for us to rise to this challenge given that our stores are situated right next to residential areas and serve as neighborhood platforms for everyday needs. Still, I feel renewed pride in the Welcia team for acting so swiftly and effectively throughout the whole process, from the decision to take on the project to the preparation and implementation at each store.

We will continue to refine our expertise and further root ourselves in the communities we serve to prove ourselves worthy of the trust shareholders place in us.



**Tadahisa Matsumoto**  
President and  
Representative Director

### Marudai Sakurai Pharmacy Co., Ltd.

During the year under review, as sales of Covid-related goods trailed off, we set three objectives for the year: an operating income of 4.1%, better store management, and more effective product and sales teams. During that year, we opened four large (992 m<sup>2</sup>) stores, four stores with a dispensing pharmacy, and two dedicated dispensing pharmacies. To counter the competition, we differentiated our stores by providing one-stop stores that offer specialist support.

The current year (ending February 2023) promises to be even more challenging for retailers. The challenges include intense competition resulting from an over-concentration of stores, a shrinking and aging population, the rise of online retailing, and high prices. Our general strategy for the year is threefold: integrate the Welcia one-stop model, build more stores with dispensing pharmacies, and build larger stores. Based on this strategy, we have committed to four projects. The first is to enable face-to-face health communication with customers, build functional retail space, and provide stores that are nearby, convenient, inexpensive, and informative. The second is to open ten more stores with a dispensing pharmacy and with pharmacists on hand to offer general consultations. The third is to shift to larger stores as a strategy to withstand competition. This will involve taking measures for under-performing stores and accelerating store openings. The fourth is to undertake organizational change and cultivate talent. During the year, we will open six new stores and renovate seven existing ones.



**Kiyoshi Sakurai**  
President and  
Representative Director

### Shimizu Yakuhin Co., Ltd.

Two years have passed since the outbreak of the pandemic. Society and lifestyles changed during those two years, and the changes were reflected in customers' shopping behavior. Amid these unpredictable conditions, our staff worked to address customers concerns and improve the customer experience in stores.

I am pleased to report that, as of the end of the year under review, our net sales exceeded 22.8 billion yen and our stores numbered 64 (40 of the stores have a dispensing pharmacy).

For the current year, we will focus on improving the two elements of our business model: stores with dispensing pharmacies, and counseling. We want to provide more specialized drugstores that delight local customers. This task will involve upgrading existing stores and opening six new stores. To generate fresh demand in the post-Covid world, we will keep thinking one step ahead and develop new ideas for helping our customers lead healthy and comfortable lives.



**Masayuki Hayashi**  
President and  
Representative Director

### Kanamitsu Yakuhin Co., Ltd.

Our company operates 14 drugstores (seven of which have a dispensing pharmacy) and 12 dedicated pharmacies in southern Okayama.

Three years have passed since we joined the Welcia group back in June 2019. In that time, we have worked to integrate the Welcia model by building the talent necessary to improve counseling and by providing local customers with a friendly, engaging customer service along with local merchandise. Thanks to everyone's efforts over the last three years, our performance has transformed and our entire team has grown.

June 1, 2022, will mark a new start as we merge with Welcia Yakkyoku. In the years ahead, we will devote our efforts to expanding our share of the market in Okayama Prefecture and other areas of Chugoku. I want to take this opportunity to thank our customers for their long years of patronage. In the spirit of our corporate motto, "ever forward," we will do our part to drive the growth of the Welcia group.



**Koji Fujioka**  
President and  
Representative Director

### Marue Drug Co., Ltd.

Our company operates 54 drugstores (18 of which have a dispensing pharmacy) and four dedicated pharmacies in and around Gunma Prefecture, guided by our philosophy of supporting the wellbeing and daily needs of the community. While operating under the umbrella of a nationwide chain, we maintain our local character, which allows us to forge closer ties with communities and build a network of stores cherished by local people.

We want to be seen as the most local of all the operating companies in the Welcia group. We also want to be fully interwoven in the local social fabric so that residents see our stores as an indispensable fixture of their daily life. In the current year, we will open three new drugstores and five pharmacies to bolster our foundation for growth.



**Taro Eguro**  
President and  
Representative Director

## Yodoya Co., Ltd.

A member of the Welcia group since March 2020, we are a locally rooted drugstore operator with 25 drugstores in Kochi Prefecture (10 of which have a dispensing pharmacy).

In the year under review, we opened one new store and, renovated nine existing stores, and equipped nine existing stores with a dispensing pharmacy. Adding these pharmacies helped differentiate the stores from the competition, as few drugstores in Kochi have a dispensing pharmacy. We also contributed to local medical infrastructure by providing free diagnostic and antibody tests for Covid-19 as part of a public-private provision of vaccination and testing services.

Our focus for the current year is to improve the shopping experience in all our stores (including those we renovated), streamline store operation, and cultivate talent. Guided by a spirit of hospitality that cherishes interpersonal connections, we will keep striving to be a company that plays an indispensable role for local customers and society.



**Fuminori Sato**  
President and  
Representative Director

## Pupule Himawari Co., Ltd.

Pupule Himawari joined the Welcia group in December 2021. Headquartered in Fukuyama City, Hiroshima, we operate 131 drugstores, 16 dispensing pharmacies, and 15 aesthetic salons in the Chugoku and Shikoku regions as well as in Hyogo.

We spent the year under review working on organizational reforms in connection with our entrance into the group. In the current year (ending February 2023), we are continuing this work to create a foundation for growth.

On the business side, we want to make our stores even more shoppable. This task will involve expanding store merchandise to include fresh foods and deli items. We also want to improve both our self-service technology and our counseling so that we can provide a personalized service that customers will appreciate. Alongside this, we will continue opening more pharmacies with a dispensing pharmacy, ensuring that our stores play an indispensable role in the community.

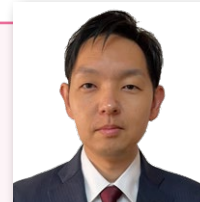


**Souichi Kajiwara**  
President and  
Representative Director

## Masaya Co., Ltd.

We have 36 cosmetics stores nationwide. Five of these stores operate under the Masaya name in Okayama Prefecture, where our company was founded. The remaining 31 operate under the Color Studio name in Aeon malls and other large retail facilities across Japan. Our business was hit hard by the pandemic, both the year under review and the year before that. For example, we had to temporarily close stores in some areas in April and May, 2021. Additionally, in all our stores we had to restrict certain activities like cosmetic touch-up services. However, amid all these challenges, we continued to expand the regional coverage of our store network, opening our first store in the Hokuriku area in July 2021. We also launched new services for customers to access our products, one of which was an online store that we opened in December of that year.

We all remain committed as ever to further improving our products and services for the benefit of the customers in the local community.



**Masahiro Uemura**  
President and  
Representative Director

## Welcia Kaigo Service Co., Ltd.

In the year under review, we continued to feel the effects of the pandemic. However, while prioritizing the health of our users and staff, we maintained our services to the fullest extent possible in the knowledge that they serve as local social assets. We also launched a bath visit service in Hokota City, Ibaraki, after noting that elderly people increasingly prefer to bathe at home. The service is proving popular.

As for the current year, on April 1, we opened a comprehensive community-care center in Shimada City, Shizuoka, in a public-private partnership with the municipal government. As we head further into the super-aging society, the center will play a major role in coordinating local care services so that elderly residents can live out their days in familiar surroundings.

We will continue to provide quality long-term care and many other kinds of services that safeguard elderly residents and enhance their quality of life.



**Tetsuya Matsumura**  
President and  
Representative Director

## Welcia Oasis Co., Ltd.

Welcia Oasis is as a "special subsidiary"\* of Welcia Yakkyoku. In the year under review, we welcomed 27 new hires, bringing our number to 650, 521 of whom are members (employees with disabilities).

To mark our tenth anniversary, we updated our corporate philosophy and vision statement.

Our revamped corporate philosophy states the following: "Health first, wear a smile, contribute to society." Our revamped vision states the following: "Be a company that helps employees find stability and growth."

This philosophy expresses a threefold mechanism of company health management. First, you ensure a healthy workforce. Next, employees wear a smile at work, brightening the workplace. Finally, the positive energy ripples outward, benefiting society and customers.

We will continue to provide a supportive and accommodating workplace for our members so that they can experience job security along with personal growth and empowerment.



**Hisayuki Nagata**  
President and  
Representative Director

## Welcia-BHG (Singapore) Pte. Ltd.

Our company was founded in 2017 as a joint venture of Welcia Holdings and BHG Singapore Pte Ltd. In the year under review, we closed one store and opened two, bringing the number of stores to 11. Despite the severe effects of the pandemic, we pressed on with business operations.

We will continue to expand our store network while making the stores more profitable, and undertake all efforts to ensure that our stores are trusted by the residents of Singapore.



**Masato Ishii**  
President and  
Representative Director

\* "Special subsidiary" is a designation granted by the Ministry of Health, Labour and Welfare to a disability-friendly employer under the Act for Promotion of Employment of Persons with Disabilities.

## Management Indices (Consolidated)

	FY2020 (March 1, 2020 – February 28, 2021)	FY2021 (March 1, 2021 – February 28, 2022)
Net Sales (million yen)	949,652	<b>1,025,947</b>
Ordinary income (million yen)	45,800	<b>47,590</b>
Net income attributable to owners of parent (million yen)	27,999	<b>26,453</b>
Comprehensive income (million yen)	28,025	<b>26,423</b>
Net assets (million yen)	180,351	<b>207,886</b>
Total assets (million yen)	435,685	<b>463,048</b>
Net assets per share (yen)	862.82	<b>966.66</b>
Net income per share (yen)	134.23	<b>126.99</b>
Diluted net income per share (yen)	134.10	<b>126.88</b>
Capital ratio (%)	41.2	<b>43.5</b>
Return on equity (%)	16.4	<b>13.9</b>
Price earnings ratio (times)	25.4	<b>24.1</b>
Net cash provided by (used in) operating activities (million yen)	46,396	<b>16,228</b>
Net cash provided by (used in) investment activities (million yen)	(16,147)	<b>(37,088)</b>
Net cash provided by (used in) financing activities (million yen)	(16,970)	<b>(7,282)</b>
Cash and cash equivalents at the end of the period (million yen)	50,937	<b>22,837</b>
Number of employees (persons)	11,708	<b>13,294</b>
(Average number of temporary employees)	22,372	<b>24,480</b>

## (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 2021 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

## Business Strategy, Business Climate, and Issues to be Addressed

Although the drugstore industry is expanding, with chains eager to open new stores and capitalize on the demand for prescription dispensing services and food products, 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 and a rise in stay-at-home lifestyles.

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, counseling services, late-night operation, 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 one-stop stores that offer specialist support and serve as a platform for everyday needs

### Progress in Medium-Term Management Plan

This year (ending February 2023) marks the final year of our medium-term management plan (FYE Feb 2021 – Feb 2023). Our performance forecasts for this year are as follows: ¥1.11 trillion in net sales of, ¥51.6 billion in ordinary income, ¥28.4 billion in net income attributable to owners of parent, 129 store openings, 25 store closures, and 1,975 drug stores (in Japan) with a dispensing pharmacy (dispensing pharmacy rate of 78.7%). Compared to the medium-term targets, which we announced two years ago, the forecasts for net sales and numbers of stores are above target,

which we attribute to proactive store openings and acquisitions. However, the ordinary income forecast is under target. This is mainly because of SG&A expenses have increased, offsetting an improvement in gross profit. The business climate remains tough, but we remain committed as ever to sustainable growth.

	FYE Feb 2023 Target (as stated in medium-term plan)	FYE Feb 2023 Initial forecast (as of start of period)
Net sales	¥1,080 billion	¥1,110 billion
Ordinary income	¥54.0 billion	¥51.6 billion
Ordinary income margin	5.0%	4.6%
Number of stores	2,308	2,572
Prescription dispensing rate	80.0%	78.7%

### Issues to be Addressed

- (1) 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.
- (2) We will continue our aggressive store-opening program, ensuring that each new store is tailored to local needs.
- (3) 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.
- (4) To meet customers' needs, we will attract exceptional talent and provide training to cultivate a team of professionals that includes pharmacists, registered pharmaceutical sales clerks, registered dietitians, dispensing clerks, healthcare providers, and beauty care advisors.
- (5) In order to boost profitability, we will undergo a digital transformation to streamline store operations and strengthen our digital marketing.
- (6) 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).

## Overview of Business Performance

- (7) Overseas, we will continue strengthening store development in Singapore.
- (8) To be a sustainable organization, we will balance our corporate philosophy with the goal of a sustainable society and establish a policy enshrining sustainability principles.

### 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.

We work to minimize all these risks, and we also regard them as an impetus for positive change.

#### **(1) The risk of being unprepared for the post-pandemic world**

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 sales performance of the Company and its corporate group was affected by a shift in sales mix, fewer prescriptions, and higher prices for prescription drugs. Once the pandemic abates, society will likely change irreversibly, with more diversity in how people attend school or a job and in how they spend leisure time and time at home. If the Company fails to adapt to these changes, it may lose business opportunities.

To avoid missing these opportunities, the Company will accelerate plans for digital transformation, focusing on the new forms of retail marketing and shopping, whose rise the pandemic has facilitated.

#### **(2) The risk to business continuity from natural disasters, epidemics/pandemics, and similar emergencies**

The Company's corporate group operates across an extensive area of Japan, including Tohoku and other regions across Honshu, as well as Shikoku and Kyushu. Across this area, floods, storms, and other extreme weather events occur every year, impacting local areas. Climate change may be increasing the frequency and intensity of such events. The Company therefore faces a

growing risk that an area where it operates is impacted. As well as these local threats, it faces the risk of an emergency occurring on a much larger scale, such as a Nankai megathrust earthquake and or pandemic, Covid-19 being an example of the latter. Any such incidents could damage the corporate group's assets or cause injuries or deaths of employees, forcing suspension of business in all or part of the corporate group.

To mitigate this risk and ensure that its stores continue to serve as social infrastructure during an emergency, the Company envisages multiple disaster scenarios in its business continuity planning, specifying for each scenario how to minimize business disruption. To ensure that these plans will be effective in practice, the Company and its corporate group organize regular drills.

#### **(3) 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.

#### **(4) 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.

#### **(5) 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 one-stop stores that offer specialized support and 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.

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.

#### **(6) Recognizing 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 ¥22,799 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.

#### **(7) Recognizing impairment losses when stores underperform**

One of the medium-term targets is for the corporate group to be opening an annual average of 120 new stores by FYE Feb 2023, the final year of the term. There is a possibility that stores could experience a downturn in performance as a result of unforeseeable market changes. 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.

#### **(8) Reputational damage resulting from a dispensing error**

As mentioned earlier, the corporate group is integrating the Welcia Model of dispensing pharmacies in an effort to achieve its vision of one-stop stores that offer specialized support and serve as community platforms. As of the period under review, the corporate group has 1,839 drugstores with dispensing pharmacies and 6,799 pharmacists. The corporate group has never experienced a fatal dispensing error. However, if such an unfortunate event does occur, it would entail reputational damage that would 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

## Overview of Business Performance

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.

### **(9) 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. Additionally, largescale unannounced drills are conducted across the corporate group to improve employees' phishing awareness.

### **(10) Reputational damage resulting from misconduct**

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.

### **(11) Tougher interindustry competition following pharmaceutical deregulation**

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.

### **(12) Delays to store expansion program resulting from a lack of 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.

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.

### **(13) Incidents 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 Yakkyoku to provide dispensing services in a home-care setting. Additionally, staff in charge of administering the corporate group help augment any shortfalls in resources.

## Financial Position, Financial Performance

Here, we describe and discuss the corporate group's financial position and financial performance as of the year under review.

All future-looking statements are based on assumptions deemed reasonable as of the end of the year under review.

### (1) Financial Performance

During the year under review (ended February 28, 2022), the Covid-19 pandemic continued to pose an economic challenge. The Japanese economy remained on the path toward normalization, but a new and more powerful variant dampened hopes of an end to the crisis. The economic outlook was further mired by soaring prices for energy and raw materials.

In the drugstore industry, where we primarily operate, a wave of consolidation intensified competition, including with players from other industries. Ongoing Covid restrictions fueled demand for Covid-related products and for food and alcoholic beverages. On the other hand, demand for medical products and cosmetics was undercut by a rise in sanitary practices, including use of facemasks and frequent hand washing.

Meanwhile, the market for dispensing pharmacies saw signs of recovery in medical prescriptions following an easing of restrictions on medical visits.

Against this backdrop, we endeavored to keep business open and to provide goods and services, taking all necessary precautions to prevent infections. In terms of non-pharmaceutical products, cosmetics sales failed to recover to pre-Covid levels, while food sales experienced a comedown from the Covid-related demand spike in the previous year. In terms of pharmaceutical dispensements, despite the impact of drug pricing reform, dispensements of prescription drugs increased after further store openings (we have 1,844 stores as of the end of the year under review). Meanwhile, we worked to improve SG&A expenses, focusing on labor costs. For example, we tightened labor scheduling in stores, introduced an automated ordering system to streamline store operations, and opened more stores with a dispensing pharmacy.

## Consolidated Balance Sheets

	Million Yen	
	FY2020 (February 28, 2021)	FY2021 (February 28, 2022)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	¥ 51,918	¥ 23,401
Accounts receivable-trade	44,821	49,710
Merchandise	103,283	116,230
Other	15,867	18,656
Allowance for doubtful accounts	(1)	(1)
Total current assets	215,890	207,998
<b>Noncurrent assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures	160,562	190,624
Accumulated depreciation	(76,468)	(90,425)
Buildings and structures, net	84,094	100,199
Land	14,743	15,494
Lease assets	70,817	80,984
Accumulated depreciation	(28,736)	(35,643)
Lease assets, net	42,081	45,340
Other	22,201	24,729
Accumulated depreciation	(14,891)	(17,366)
Other, net	7,309	7,363
Total property, plant and equipment	148,229	168,397
<b>Intangible assets</b>		
Goodwill	16,899	22,799
Other	2,509	2,895
Total intangible assets	19,409	25,694
<b>Investments and other assets</b>		
Investment securities	1,031	902
Long term loans receivable	47	44
Guarantee deposits	37,017	41,882
Deferred tax assets	12,161	14,523
Other	1,921	3,626
Allowance for doubtful accounts	(23)	(22)
Total investments and other assets	52,155	60,957
Total noncurrent assets	219,794	255,049
<b>Total assets</b>	¥ 435,685	¥ 463,048

	Million Yen	
	FY2020 (February 28, 2021)	FY2021 (February 28, 2022)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable-trade	¥ 150,388	¥ 133,524
Short-term loans payable	6,394	8,991
Lease obligations	7,528	8,962
Accounts payable-other	13,287	10,362
Income taxes payable	7,757	9,944
Provision for bonuses	4,653	4,898
Provision for bonuses to directors (and other officers)	142	51
Provision for point card certificates	26	155
Other	12,868	12,134
Total current liabilities	203,049	189,024
<b>Noncurrent liabilities</b>		
Long-term loans payable	9,222	17,560
Lease obligations	24,406	26,996
Asset retirement obligations	9,955	11,418
Retirement benefits-related liabilities	5,281	6,457
Deferred tax liabilities	109	110
Allowance for executive stock benefit	717	722
Other	2,590	2,871
Total noncurrent liabilities	52,284	66,136
Total liabilities	255,333	255,161
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	7,736	7,736
Capital surplus	51,672	51,670
Retained earnings	125,866	146,032
Treasury stock	(5,855)	(3,841)
Total shareholders' equity	179,419	201,597
<b>Accumulated other comprehensive income</b>		
Other valuation difference on available-for-sale securities	357	295
Foreign currency translation adjustment	3	41
Accumulated adjustment related to retirement benefits	(289)	(332)
Total accumulated other comprehensive income	70	4
Subscription rights to shares	230	183
Minority interests	630	6,101
<b>Total net assets</b>	180,351	207,886
<b>Total liabilities and net assets</b>	¥ 435,685	¥ 463,048

## Consolidated Statements of Income

	Million Yen	
	FY2020 (March 1, 2020 – February 28, 2021)	FY2021 (March 1, 2021 – February 28, 2022)
Net sales	¥ 949,652	¥1,025,947
Cost of sale	653,607	705,002
Gross profit	296,044	320,944
<b>Selling, general and administrative expenses</b>		
Advertising expenses	18,740	20,603
Salaries	99,485	109,411
Bonuses	4,068	4,777
Provision for bonuses	4,647	4,849
Provision for share-based remuneration for directors (and other officers)	148	139
Retirement benefit expenses	1,694	1,904
Rent expenses on real estate	39,599	43,809
Depreciation	14,887	16,713
Commission fees	19,510	20,106
Rent expenses	696	774
Amortization of goodwill	1,797	1,973
Other	47,791	52,862
Total selling, general and administrative expenses	253,070	277,925
Operating income	42,974	43,018
<b>Non-operating income</b>		
Interest income	5	5
Dividends income	8	9
Gain on equity investments	16	—
Real estate rent	961	969
Gain on the donation of noncurrent assets	240	174
Commission fees	576	546
Subsidy income	—	1,629
Co-sponsor fees	287	426
Other	1,351	1,712
Total non-operating income	3,445	5,474
<b>Non-operating expenses</b>		
Interest expenses	428	468
Share of loss of entities accounted for using equity method	—	11
Rent cost of real estate	159	166
Other	30	256
Total non-operating expenses	619	902
Ordinary income	45,800	47,590
<b>Extraordinary income</b>		
Gain on step acquisitions	169	—
Gain on sale of investment securities	104	6
Damage compensation income	426	—
Compensation received	—	54
Other	79	33
Total extraordinary income	779	94
<b>Extraordinary loss</b>		
Loss on sale of noncurrent assets	27	1
Loss on retirement of noncurrent assets	122	206
Impairment loss	3,826	4,989
Covid-related losses	1,179	11
Other	112	65
Total extraordinary losses	5,268	5,274
<b>Net income before income taxes and minority interests</b>	41,311	42,410
<b>Income taxes-current</b>	15,054	17,443
<b>Income taxes-deferred</b>	(1,670)	(1,485)
<b>Total income taxes</b>	13,383	15,957
<b>Net Income</b>	27,928	26,452
Loss attributable to non-controlling interests	(71)	(0)
<b>Net income attributable to owners of parent</b>	¥ 27,999	¥ 26,453

# Consolidated Statements of Comprehensive Income

	Million Yen	
	FY2020 (March 1, 2020 – February 28, 2021)	FY2021 (March 1, 2021 – February 28, 2022)
Net income	¥ 27,928	¥ 26,452
<b>Other comprehensive income</b>		
Other valuation difference on available-for sale securities	94	(61)
Foreign currency translation adjustment	45	76
Remeasurements of defined benefit plans	(43)	(43)
Total other comprehensive income	96	(29)
Comprehensive income	28,025	26,423
<b>Comprehensive income attributable to</b>		
Comprehensive income attributable to owners of the parent company	28,091	26,386
Comprehensive income attributable to non-controlling interests	¥ (66)	¥ 37

# Consolidated Statements of Cash Flows

	Million Yen	
	FY2020 (March 1, 2020 – February 28, 2021)	FY2021 (March 1, 2021 – February 28, 2022)
<b>Net cash provided by (used in) operating activities</b>		
Net income before income taxes and minority interests	¥ 41,311	¥ 42,410
Depreciation and amortization	15,178	16,988
Impairment loss	3,826	4,989
Amortization of goodwill	1,797	1,973
Loss (gain) on step acquisitions	(169)	—
Increase (decrease) in the allowance for doubtful accounts	(10)	(0)
Increase (decrease) in the provision for bonuses	357	205
Increase (decrease) in liabilities for retirement benefit	784	911
Increase (decrease) in the allowance for executive stock benefit	128	4
Increase (decrease) in the provision for point card certificates	1	(1)
Increase (decrease) in provision for share-based remuneration for directors (and other officers)	142	(91)
Interest and dividends income	(13)	(14)
Interest expenses	428	468
Rent as a counterbalance to construction assistance funds receivable	1,048	1,071
Loss on sale of noncurrent assets	27	1
Loss on the retirement of noncurrent assets	122	206
Gain on the donation of noncurrent assets	(240)	(174)
Decrease (increase) in notes and accounts receivable-trade	(354)	(4,128)
Decrease (increase) in inventories	(10,428)	(5,703)
Increase (decrease) in notes and accounts payable-trade	8,907	(21,903)
Increase (decrease) in accounts payable	3,982	(3,453)
Increase (decrease) in accrued consumption taxes	512	1,239
Other	(3,801)	(2,913)
Subtotal	63,540	32,086
Interest and dividends income received	17	14
Interest expenses paid	(423)	(493)
Income taxes paid	(18,012)	(16,987)
Income taxes refund	1,275	1,608
Net cash provided by (used in) operating activities	46,396	16,228
<b>Net cash provided by (used in) investing activities</b>		
Payment into time deposits	(818)	(1,001)
Proceed from the withdrawal of time deposits	1,147	1,421
Purchase of property, plant and equipment	(13,638)	(19,129)
Proceeds from the sales of property, plant and equipment	617	13
Purchase of intangible assets	(823)	(1,024)
Proceeds from refund of deposit paid in subsidiaries and affiliates	7,000	—
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(2,445)	(11,545)
Payment for lease deposits	(5,971)	(5,808)
Collection of lease deposits	278	426
Other	(1,494)	(440)
Net cash provided by (used in) investing activities	¥ (16,147)	¥ (37,088)

## Consolidated Statements of Cash Flows

	Million Yen	
	FY2020 (March 1, 2020 – February 28, 2021)	FY2021 (March 1, 2021 – February 28, 2022)
<b>Net cash provided by (used in) financing activities</b>		
Net increase (decrease) in short-term loans payable	¥ 0	¥ 40
Proceeds from long-term loans payable	5,000	10,580
Repayment of long-term loans payable	(4,116)	(5,291)
Payments for redemption of bonds	(380)	(110)
Cash dividends paid	(5,659)	(6,287)
Repayment of finance lease obligations	(7,177)	(8,574)
Proceeds from sale of treasury stock	875	1,988
Purchase of treasury stock	(5,512)	(2)
Other	—	375
Net cash provided by (used in) financing activities	(16,970)	(7,282)
<b>Effect of exchange rate change on cash and cash equivalents</b>	18	43
<b>Net increase (decrease) in cash and cash equivalents</b>	13,297	(28,099)
<b>Increase in cash and cash equivalents resulting from merger</b>	41	—
<b>Cash and cash equivalents at the beginning of the period</b>	37,599	50,937
<b>Cash and cash equivalents at the end of the period</b>	¥ 50,937	¥ 22,837



# Notes to the Consolidated Financial Statements

(Explanatory notes regarding the going concern assumptions)

## 1. Scope of Consolidation

### (1) Number of consolidated subsidiaries: 10

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., Pupule Himawari Co., Ltd.

(Notes)

- (1) Pupule Himawari is included in the scope of consolidation as of the consolidated period under review, because Welcia Holdings Co., Ltd., purchased shares therein on December 1, 2021.
- (2) Neo Pharma, Inc., and Summit Co., Ltd., are no longer included in the scope of consolidation, because Welcia Yakkyoku Co., Ltd., subsumed both companies in a merger enacted on March 1, 2021.

### (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.

## Corporate Mergers from Stock Acquisitions

### 1. Overview of Merger

#### (1) Name of acquiree, description of acquiree's business

Name	Pupule Himawari Co., Ltd.
Business description	Operator of drugstores

#### (2) Reason for merger

Welcia Holdings Co., Ltd., has a corporate group that operates in Kanto and other regions across Japan, from Tohoku to Chugoku and Shikoku. The company's mission statement declares that its purpose is "to promote higher quality of life and healthy lifestyles for our customers." To achieve this purpose, the company has developed a business model for delivering one-stop stores that offer specialist support and serve as everyday life platforms, providing health-related, value-added products and services. This business model emphasizes four elements: drugstores with a dispensing pharmacy, counselling services, late-night operation, and long-term care services.

In line with this vision and business model, the company wants to ensure that its stores serve the needs of local residents in terms of health, beauty, and the daily routine. To that end, it is cultivating professional talent (pharmacists, registered pharmaceutical sales clerks, beauty care advisors, registered dietitians, and dispensing clerks) who can deliver expert and empathetic counseling and customer service. It is also providing merchandise tailored to local needs and making its stores more convenient to shop at.

Pupule Himawari has built a network of drugstores beginning in Hiroshima Prefecture and now covering the prefectures of Okayama, Shimane, Tottori, Hyogo, Ehime, and Kagawa.

The company's corporate philosophy commits the company to...

- being an organization that helps local residents lead healthy, beautiful, and enriched lives;
- taking a customer-first approach in which staff always express their gratitude, greet customers with a warm welcome and beaming smile, and give accurate information about products;
- providing a mutually respectful workplace that encourages professional development and quality of life.

Welcia Holdings wants to expand its network of stores in the Chugoku and Shikoku regions. It also

believes that it will be possible to expand corporate scale and strengthen corporate structure by pooling each other's knowhow, workforce, and other corporate resources.

#### (3) Date of merger

December 1, 2021

#### (4) Legal form of merger

Acquisition of stock for cash consideration

#### (5) Names of companies following merger

No change

#### (6) Percentage of voting rights to be acquired

51.0%

#### (7) Main grounds for deciding on acquisition

Welcia Holdings will acquire the stock for a cash consideration.

### 2. Period During Which Acquiree's Performance is Included in Consolidated Balance Sheets

December 1, 2021, to February 28, 2022

### 3. Value of Acquiree's Stock, Breakdown of Stock Classes

Consideration for acquisition	¥13,200 million in cash
Acquisition cost	¥13,200 million

### 4. Description and Amounts of any Expenses Associated with the Acquisition

Advisory expenses	29 million
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### 5. Amount of and Reason for any Goodwill, Method and Period of Amortization

#### (1) Amount of goodwill

¥7,948 million

#### (2) Reason for goodwill

The acquisition cost exceeded the net asset value at the time of the merger.

#### (3) Method and period of amortization

The declining balance method will be used. The period will be 14 years.

# Material Subsequent Events

## Merger Following Acquisition of Stock

On January 18, 2022, the Board of Directors approved the signing of a memorandum of understanding with Kokumin Co., Ltd., and Kabushiki Kaisha French concerning a business and capital alliance (the acquisition). The memorandum of understanding was signed on the same day. The number of shares to be transferred and the acquisition price were finalized on March 30, 2022.

### 1. Overview of Merger

#### (1) Name of acquiree, description and scale of acquiree's business

##### (i) Kokumin Co., Ltd.

Name	Kokumin Co., Ltd.
Business description	Operator of drugstores and pharmacies
Capital	¥91 million

##### (ii) Kabushiki Kaisha French

Name	Kabushiki Kaisha French
Business description	Operator of pharmacies
Capital	¥18 million

#### (2) Reason for merger

Welcia Holdings and its corporate group have built a network of drugstores beginning in the Kanto area and now stretching from Tohoku to Kyushu.

The company's mission statement declares that its purpose is "to promote higher quality of life and healthy lifestyles for our customers." To achieve this purpose, the company has developed a business model for delivering one-stop stores that offer specialist support and serve as everyday life platforms, providing health-related, value-added products and services. This business model emphasizes four elements: drug stores with a dispensing pharmacy, counselling services, late-night operation, and long-term care services.

In line with this vision and business model, the company wants to ensure that its stores serve the needs of local residents in terms of health, beauty, and the daily routine. To that end, it is cultivating professional talent (pharmacists, registered pharmaceutical sales clerks, beauty care advisors, registered dietitians, and dispensing clerks) who can deliver expert and empathetic counseling and customer service. It is also providing

merchandise tailored to local needs and making its stores more convenient to shop at.

Kokumin and French share a corporate philosophy that emphasizes serving the public in terms of beauty and wellness. They also share a vision that emphasizes a personal customer service and a team of professionals who can advise on wellness and everyday life. Together, the companies operate drugstores boasting a high level of professional services in prime locations within principal cities (these areas include commercial complexes, airports, areas in and around stations, shopping districts, and residential areas) across Hokkaido, Kanto, Kansai, and Kyushu. The companies also operate dispensing pharmacies in university hospitals and general hospitals, as well as in medical malls and railway termini.

Welcia Holdings wants to expand its network of stores across Japan and operate more stores in urban areas. It also believes that it will be possible to expand corporate scale and strengthen corporate structure by pooling each other's knowhow, workforce, and other corporate resources.

#### (3) Date of merger

June 1, 2022

#### (4) Legal form of merger

Acquisition of stock for cash consideration

#### (5) Names of companies following merger

No change

#### (6) Percentage of voting rights to be acquired

- (i) Kokumin Co., Ltd.  
93.86% (100% when French's stock is acquired.)
- (ii) Kabushiki Kaisha French  
100.00%

#### (7) How the acquisition will be funded

Welcia Holdings will borrow the funds.

#### (8) Main grounds for deciding on acquisition

Welcia Holdings will acquire the stock for a cash consideration.

## Material Subsequent Events

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### 2. Value of Acquiree's Stock, Breakdown of Stock Classes

(i) Kokumin Co., Ltd.

Consideration for acquisition	¥20,398 million in cash
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Acquisition cost	¥20,398 million
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(ii) Kabushiki Kaisha French

Consideration for acquisition	¥1,333 million in cash
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Acquisition cost	¥1,333 million
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### 3. Description and Amounts of any Expenses Associated with the Acquisition

To be determined

### 4. Amount of and Reason for any Goodwill, Method and Period of Amortization

To be determined

### 5. Description and Amounts of any Assets and Liabilities Inherited on day of Merger

To be determined

# Company Information / Investor Information

(As of February 28, 2022)

## 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

03-5209-1415

### Website

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

### Number of Group Employees

13,294 (excluding part-time employees)

## Executives (As of May 24, 2022)

### Chairman and Representative Director

Takamitsu Ikeno

### President and Representative Director

Tadahisa Matsumoto

### Executive vice president

Juichi Nakamura

### Director

Takamune Shibazaki  
Motoya Okada

### Outside Directors

Yukari Narita  
Tomoko Nakai  
Kunio Ishizuka  
Tadashi Nagata  
Katsunori Nozawa  
Shigeo Horie

### Corporate Auditor

Toshio Miyamoto

### Outside Corporate Auditors

Hirohisa Kagami  
Atsuko Sugiyama  
Takashi Fujii

## Number of Shares

### Number of Shares Authorized

494,947,200

### Number of Shares Issued

209,621,018

(excluding 12,658 treasury shares)

### Number of Shareholders

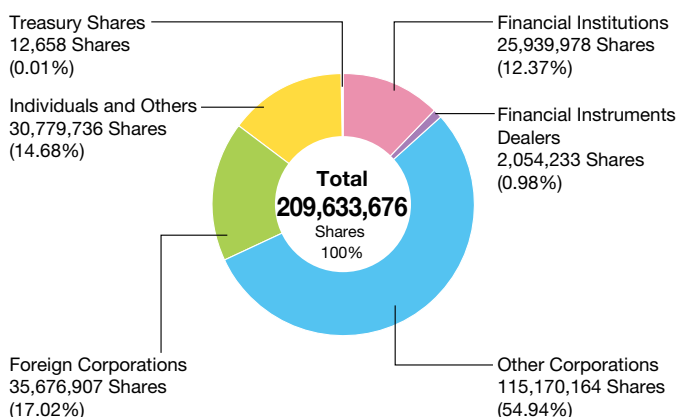
57,122

## Major Shareholders

Name of Shareholder	Number of Shares (Thousands)	Shareholding Ratio (%)
AEON Co., Ltd.	105,940	50.54
The Master Trust Bank of Japan, Ltd. (trust account)	14,736	7.03
Welcia Holdings Employee Stock Ownership	3,445	1.64
Custody Bank of Japan, Ltd. (trust account)	3,434	1.64
Tsuruha Co., Ltd.	3,352	1.60
STATE STREET BANK WEST CLIENT-TREATY 505234	2,548	1.22
BNYM AS AGT/CLTS NON TREATY JASDEC	1,950	0.93
JP MORGAN CHASE BANK 385635	1,699	0.81
Ishida Co., Ltd.	1,616	0.77
Saitama Resona Bank, Limited	1,417	0.68

(Note) In calculating shareholding ratio, we omitted 12,658 shares of treasury shares. The treasury shares do not include the 624,800 shares held in the ESOP Trust or the 440,442 shares held in the BIP Trust.

## Breakdown of Holdings by Shareholder Type





**WELCIA HOLDINGS CO., LTD.**

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

Tel. 03-5207-5878 (main)

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