

Financial Results Briefing for the Fiscal Year Ended August 2014

October 23, 2014



Welcia Holdings Co., Ltd.

(Securities Code: 3141; 1st Section of the Tokyo Stock Exchange)

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IR-related disclaimers

This material is prepared to provide investors with information on the management and financial conditions of Welcia Holdings Co., Ltd. for the purpose of helping them deepen their understanding of the Company.

Please understand and acknowledge the following points before referring to this material:

- Earnings forecast and other forward-looking statements found in this material are based on assumptions the Company made with every effort possible at the time of preparation.
- Please understand that actual results may differ from any forecasts and expectations contained in this material.
- All investment decisions should be made solely at the discretion of investors themselves.
- The greatest care is taken to ensure that all information contained in this material is accurate. However, please be aware that there may be discrepancies and errors due to unavoidable reasons.

1. Overview

1. Sales were 98.4% against projections, and 107.9% compared with the same period of the previous year. Existing-store sales grew 2.0%. Gross operating profit was 99.4% against projections, and 108.4% over the previous year.

2. Operating income was 98.7% against projections, and 112.7% over the previous year. Ordinary income was 99.8% against projections, and 108.4% over the previous year.

3. Net income was 100.5% against projections, and 102.2% over the previous year. An extraordinary loss of 1,500 million yen was recorded.

4. SG&A expenses increased in the 4th quarter to 100.4% against projections due to preparation costs for integration of four companies, but for the full year were 99.5% against projections, accounting for 25.9% of sales.

5. Sales from dispensing performed favorably with an increase of 19.4% from the same period of the previous year, accounting for 12.1% of sales.

6. 101 stores were newly opened compared with 100 stores planned, while 24 stores were closed compared with 15 stores planned.

7. The ratio of drug stores with dispensing pharmacy grew 5.7% from the end of previous fiscal year to 69.7%, with the increase of 104 such stores. The ratio of stores providing late-night service was 80.2%, growing 2.7% from the end of previous fiscal year.

1. For FY2015, sales are projected to be 403,000 million yen (111.7% compared with the same period of the previous year), ordinary income to be 16,200 million yen (108.2% over the previous year) with ordinary income margin of 4.0%, and net income to be 8,400 million yen (107.2% over the previous year).

2. Policy to open 100 new stores. 9 stores are scheduled for closure. Renovation of stores of former Takada and Welcia Kansai will be carried out actively.

3. Dispensing is expected to remain strong with projected sales of 118.9% over the previous year, and a sales composition ratio of 12.8%. The number of stores with dispensing pharmacy is expected to reach 804, with a high target of 77% set for the parallel establishment ratio.

4. SG&A expenses are projected at 26.0% of sales, taking into account rising factors such as costs accompanying store renovations, stepped-up recruitment of pharmacists, and start-up of the new system.

5. Promotion of the business model with integrated Welcia Yakkyoku at its core and strengthening of branding initiatives will be carried out.

2. Outline of the Financial Results

Cumulative financial results in FY2014

(Unit: million yen)

	Actual results	Projections	Comparison with projections		Comparison with the previous year	
			Amount	Achievement rate	Amount	Expressed in percentage
Net sales	360,797	366,500	▲5702	98.4%	26,404	107.9%
	100.0%	100.0%				
Gross operating profit	107,424	108,100	▲675	99.4%	8,364	108.4%
	29.8%	29.5%				
SG&A expenses	93,216	93,700	▲483	99.5%	6,764	107.8%
	25.9%	25.6%				
Operating income	14,207	14,400	▲192	98.7%	1,600	112.7%
	3.9%	3.9%				
Ordinary income	14,973	15,000	▲26	99.8%	1,161	108.4%
	4.2%	4.1%				
Net income	7,835	7,800	35	100.5%	165	102.2%
	2.2%	2.1%				

Financial results breakdown by company in FY2014

(Unit: million yen)

	Welcia Kanto*			Takada			Welcia Kansai			Goodwill and other
	Amount	Composition ratio	Comparison with the previous year	Amount	Ratio to sales	Comparison with the previous year	Amount	Composition ratio	Comparison with the previous year	
Net sales	286,732	100.0%	109.0%	44,053	100.0%	103.1%	29,860	100.0%	105.4%	150
Gross operating profit	84,802	29.6%	109.6%	14,115	32.0%	102.7%	8,453	28.3%	106.9%	52
SG&A expenses	72,024	25.1%	108.3%	12,823	29.1%	106.7%	7,791	26.1%	108.3%	858 ▲282
Operating income	12,777	4.5%	117.4%	1,292	2.9%	74.8%	661	2.2%	93.0%	▲858 334
Ordinary income	13,442	4.7%	111.7%	1,442	3.3%	77.7%	826	2.8%	94.1%	▲858 119
Net income	8,091	2.8%	96.6%	606	1.4%	55.2%	422	1.4%	104.4%	▲858 ▲426

* Financial results for Welcia Kanto include those of WELCIA KAIGO SERVICE for convenience of comparison.

Sales			
1. Existing-store sales (growth rate)	2.0%	Projection: 2.6%	
2. Sales from dispensing	43,492 mil. yen	Year on Year: 119.4%	Ratio to total sales: 12.1%
3. Store openings	101 stores	Projection: 100 stores	
4. Store closures	24 stores	Projection: 15 stores	
Gross margin ratio			
1. Gross margin ratio			
Welcia Holdings (consolidated)	29.8%	Year on Year: +0.2%	
Welcia Kanto*	29.6%	Year on Year: +0.2%	
Takada	32.0%	Year on Year: ▲0.2%	
Welcia Kansai	28.3%	Year on Year: +0.4%	
2. Gross margin ratio by segment			
OTC products	39.8%	Year on Year: ▲0.2%	
Dispensing	35.1%	Year on Year: +1.8%	
SG&A expenses			
1. SG&A ratio	25.9%	Projection: 25.6%	
2. Labor costs/sales ratio	12.5%	Projection: 12.4%	

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Summary of consolidated balance sheets (as of August 31, 2014) ウェルシアホールディングス

(Unit: million yen)

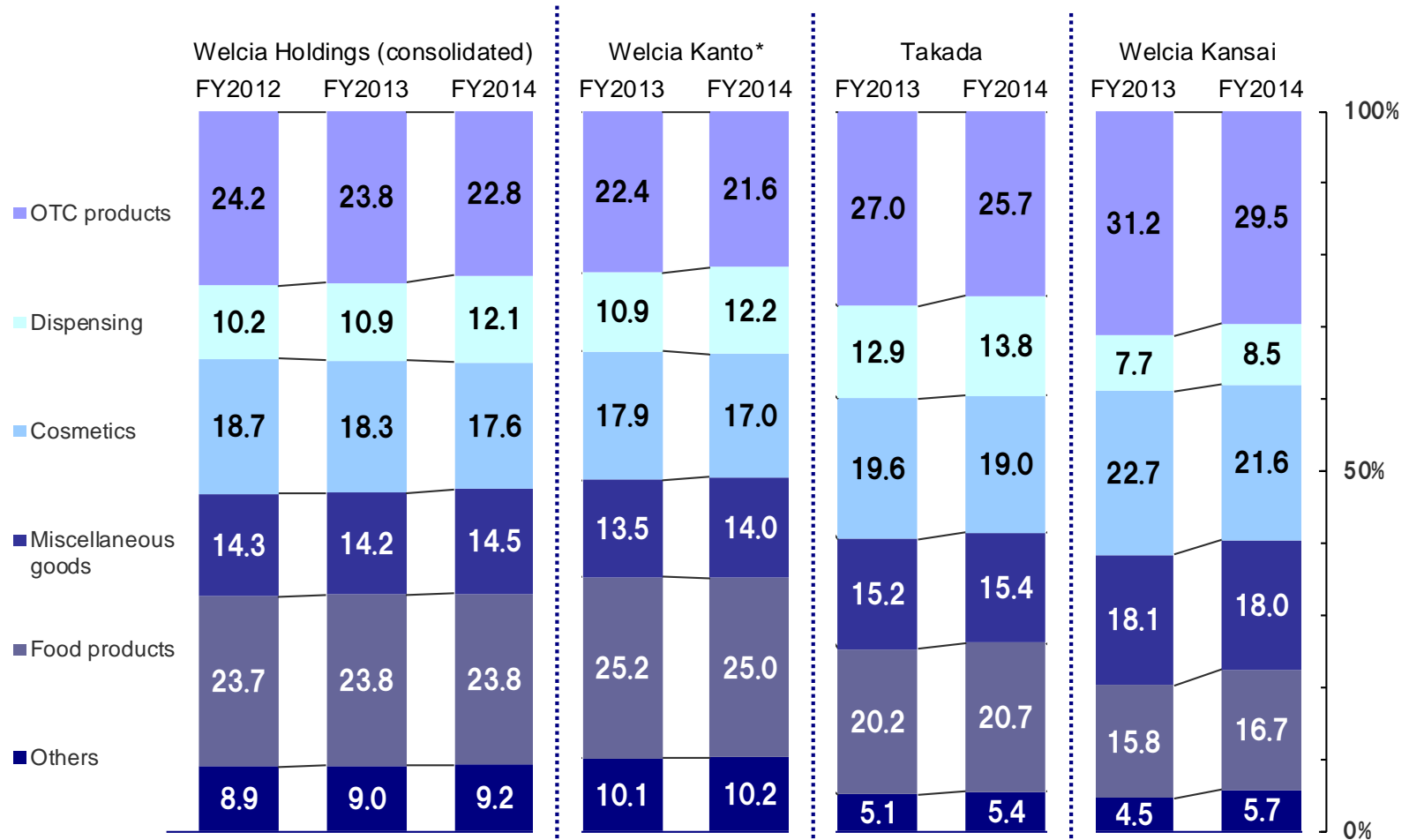
Subject	Amount
(Assets)	
Current assets	78,274
Cash and deposits	25,896
Accounts receivable-trade	9,871
Merchandise	37,755
Other	4,751
Noncurrent assets	87,080
Property, plant and equipment	59,680
Buildings and structures (net)	32,949
Land	9,065
Lease assets (net)	14,757
Other (net)	2,909
Intangible assets	9,128
Goodwill	7,050
Other	2,078
Investments and other assets	18,271
Guarantee deposits	13,959
Other	4,311
Total assets	165,355

Subject	Amount
(Liabilities)	
Current liabilities	77,558
Accounts payable-trade	57,340
Short-term loans payable (including loans for less than one year)	6,370
Other	13,847
Noncurrent liabilities	16,987
Long-term loans payable	4,985
Provision for retirement benefits	1,085
Other	10,916
Total liabilities	94,545
(Net assets)	
Capital stock	7,736
Capital surplus	24,669
Retained earnings, other	35,964
Valuation difference on available-for-sale securities, other	61
Subscription rights to shares	95
Minority interests	2,281
Total net assets	70,809
Total liabilities and net assets	165,355

Monthly sales growth rate

		2013				2014							
		Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.
Existing stores	Welcia Kanto	4.8%	0.5%	2.8%	3.4%	3.9%	3.6%	18.2%	▲8.8%	0.4%	2.1%	1.7%	2.3%
	Takada	▲1.8%	▲1.6%	5.5%	0.5%	1.1%	▲0.4%	15.6%	▲12.2%	▲4.2%	▲3.6%	▲3.0%	▲6.2%
	Welcia Kansai	▲1.2%	▲1.2%	1.6%	▲1.9%	1.0%	0.5%	15.1%	▲16.4%	▲7.7%	▲4.4%	▲3.6%	▲2.4%
	Group total	3.5%	0.1%	3.0%	2.5%	3.3%	2.7%	17.6%	▲9.9%	▲0.9%	0.9%	0.7%	0.8%
All stores	Group total	9.9%	6.3%	9.2%	8.4%	9.0%	7.7%	23.4%	▲5.3%	4.6%	6.6%	6.7%	7.6%

Sales composition ratio by segment (cumulative total)



* Financial results for Welcia Kanto include those of WELCIA KAIGO SERVICE for convenience of comparison.

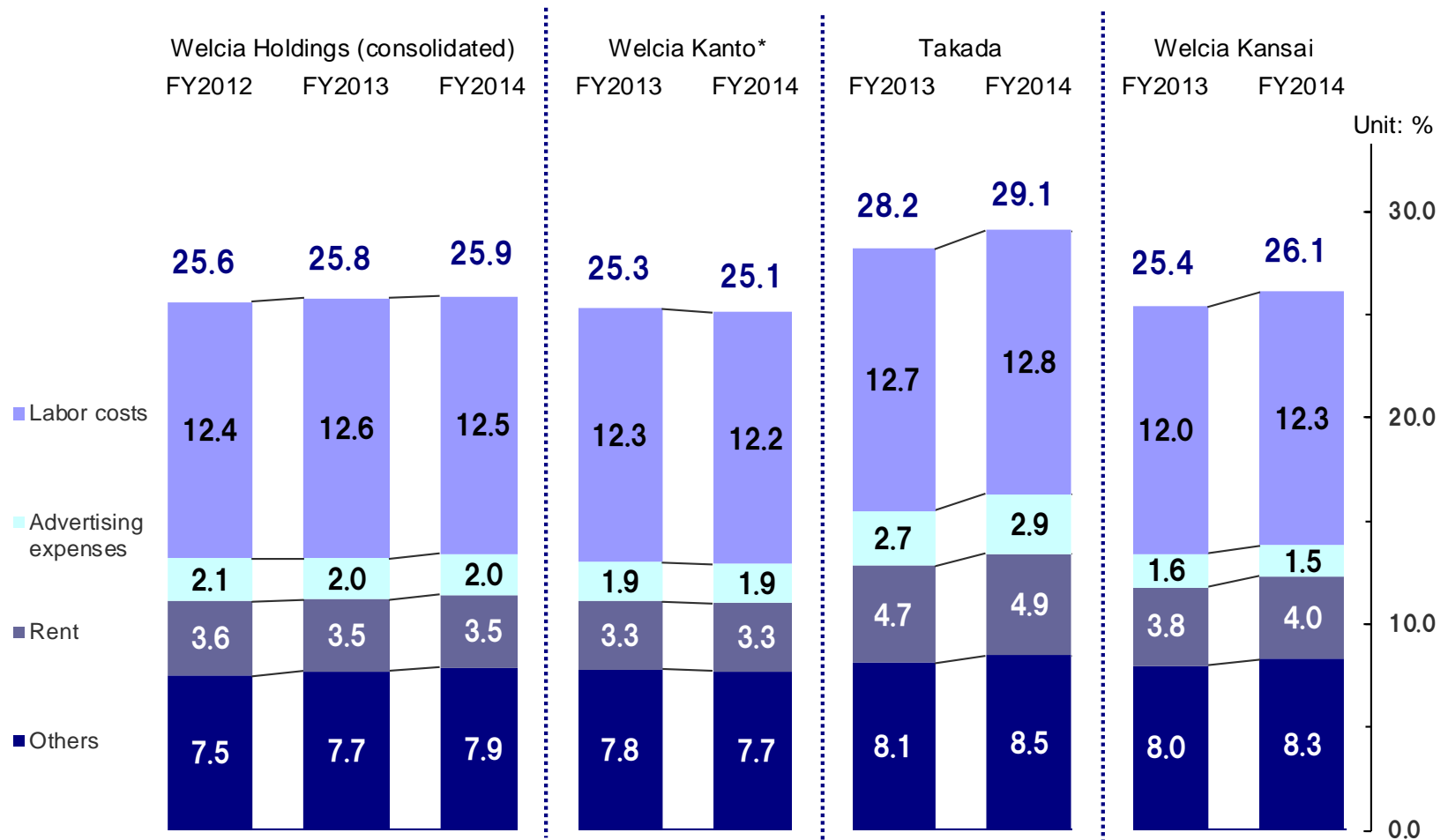
Gross profit margin by segment (cumulative total)

(Unit: %)

	Welcia HD (consolidated)		Welcia Kanto*		Takada		Welcia Kansai	
	Actual results	Year on Year	Actual results	Year on Year	Actual results	Year on Year	Actual results	Year on Year
OTC products	39.8	▲0.2	39.7	▲0.3	44.1	▲0.7	34.5	+0.7
Dispensing	35.1	+1.8	35.2	+1.7	33.7	+2.3	36.2	+1.0
Cosmetics	33.6	+0.4	33.8	+0.5	34.2	▲0.3	31.2	+0.5
Miscellaneous goods	27.2	▲0.3	27.3	▲0.7	27.4	±0.0	25.8	+0.9
Food products	22.6	+0.6	23.1	+0.6	21.3	+0.3	17.3	+1.0
Others	13.8	▲0.3	13.4	▲0.5	17.8	+0.8	13.4	▲0.2
Total	29.8	+0.2	29.6	+0.2	32.0	▲0.2	28.3	+0.4

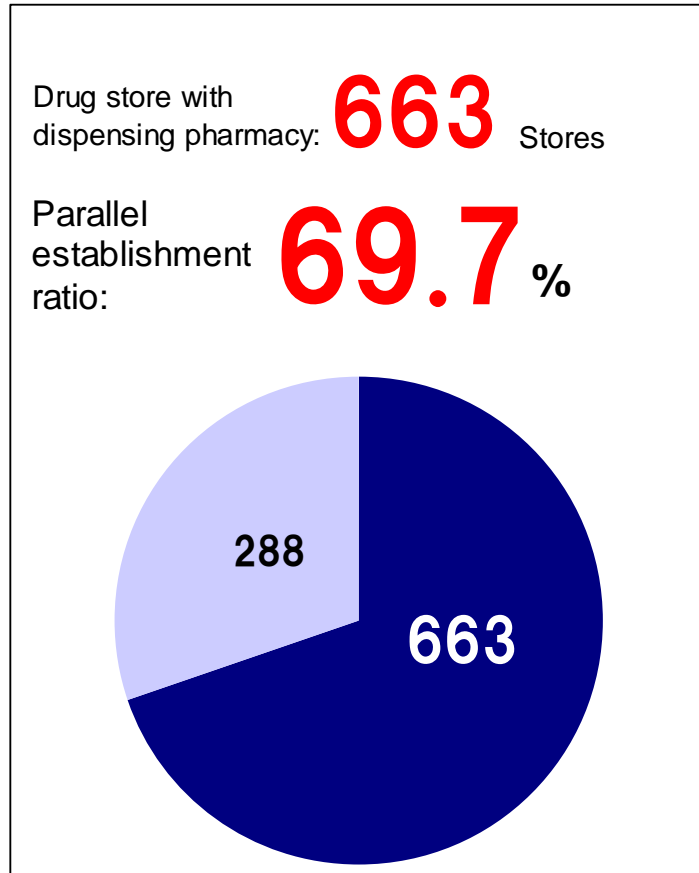
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SG&A expenses composition ratio (cumulative total)



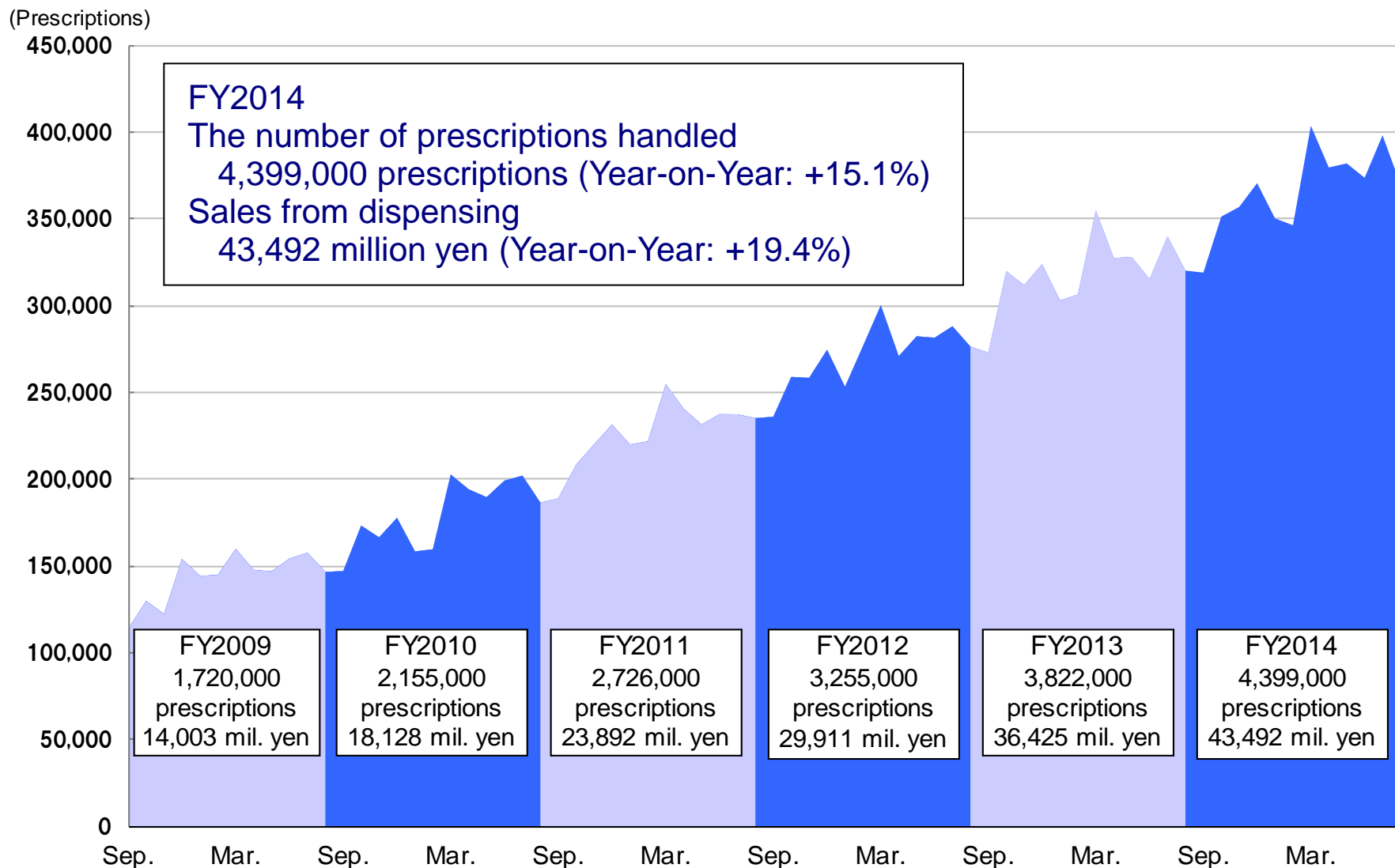
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Promotion of drug stores with dispensing pharmacy (‘Pharmacy for Family’)

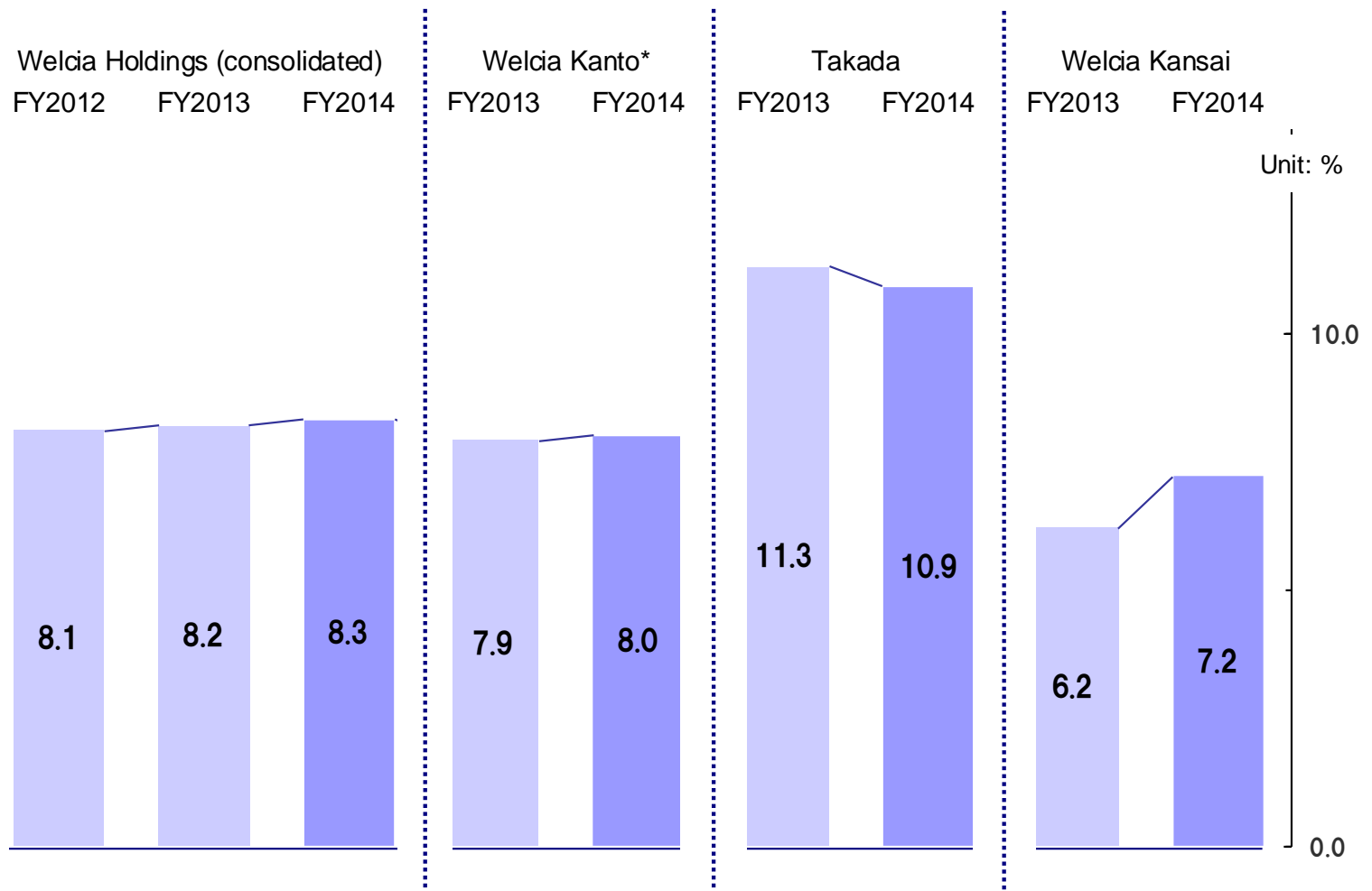


		End of Aug. 2014	End of Aug. 2013	Increase/decrease
Welcia Kanto	With dispensing pharmacy	522	451	71
	Parallel establishment ratio	73.4%	70.1%	3.3%
Takada	With dispensing pharmacy	93	75	18
	Parallel establishment ratio	63.7%	52.8%	10.9%
Welcia Kansai	With dispensing pharmacy	48	33	15
	Parallel establishment ratio	51.1%	37.1%	14.0%
Total	With dispensing pharmacy	663	559	104
	Parallel establishment ratio	69.7%	64.0%	5.7%

Trends in the number of prescriptions handled



Sales expansion of private-brand (PB) products



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Number of employees (as of August 31, 2014)

	Welcia Holdings (consolidated)	Welcia Kanto	Takada	Welcia Kansai
Number of employees	4,180	3,032	515	440
Number of temporary employees (based on 8h/employee)	8,389	6,626	1,001	647
Sales per employee (unit: thousand yen)	28,705	29,522	29,059	27,470
Number of pharmacists (enrollment)	2,082	1,738	198	140
Number of registered sales clerks (enrollment)	4,626	3,539	654	432
Number of stores	951	711	146	94
Number of pharmacists per store	2.19	2.44	1.36	1.49
Number of registered sales clerks per store	4.86	4.98	4.48	4.60

(Unit: store)

	August 31, 2013	Store openings		Store closures		August 31, 2014
		Actual results	Projection	Actual results	Projection	
Welcia Kanto	643	83	73	15	9	711
Takada	142	8	15	4	4	146
Welcia Kansai	89	10	12	5	2	94
Total	874	101	100	24	15	951

Number of stores by prefecture (as of August 31, 2014)

Prefecture	Number of stores	Prefecture	Number of stores	Prefecture	Number of stores
Miyagi	1	Kanagawa	21	Mie	8
Fukushima	19	Niigata	40	Shiga	8
Ibaraki	126	Toyama	38	Kyoto	4
Tochigi	43	Ishikawa	7	Osaka	57
Gunma	41	Yamanashi	29	Hyogo	18
Saitama	149	Nagano	21	Nara	2
Chiba	100	Shizuoka	122	Wakayama	4
Tokyo	77	Aichi	16	Total	951

3. Earnings Forecast for FY2015

Full-year earnings forecast

(Unit: million yen)

	First Half		Second Half		Full FY2015		Comparison with FY2014
	Amount	Composition ratio	Amount	Composition ratio	Amount	Composition ratio	
Sales	192,200	100.0%	210,800	100.0%	403,000	100.0%	111.7%
Gross operating profit	57,570	30.0%	62,430	29.6%	120,000	29.7%	111.7%
SG&A expenses	50,320	26.2%	54,580	25.9%	104,900	26.0%	112.5%
Operating income	7,250	3.8%	7,850	3.7%	15,100	3.7%	106.3%
Ordinary income	7,970	4.1%	8,230	3.9%	16,200	4.0%	108.2%
Net income	4,320	2.2%	4,080	1.9%	8,400	2.1%	107.2%
Existing-store sales grew	3.6%		3.2%		3.4%		

(Unit: store)

	August 31, 2014	Openings	Closures	Estimated number of stores at the end of FY2015
Tohoku	20	3	-	23
Kanto	557	65	4	618
Chubu	273	23	3	293
Kinki	101	9	2	108
Total	951	100	9	1,042
With dispensing pharmacy (reference)	663			804
Parallel establishment ratio (reference)	69.7%			77.2%