

Financial Results Briefing for the First Half of Fiscal Year Ending February 2018



Welcia Holdings Co., Ltd.

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

October 11, 2017

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1. Outline of Financial Results

- Welcia Yakkyoku, a consolidated subsidiary and the surviving company, absorbed CFS Corporation on September 1, 2016.
Since the merger was conducted during the previous term, for the purpose of making year-on-year comparison of the results of Welcia Yakkyoku easy, comparison is made by including the results of the former CFS Corporation from March 1, 2016 onward.
- Since stores of B.B.ON Co., Ltd. are established together with those of Welcia Yakkyoku, results of the former are calculated together with those of the latter.

Overview of First Half of FY2018

1. Outline of financial results	Actual results	Projections	Difference
Net sales	340,665 million yen	333,800 million yen	6,865 million yen
Ordinary income	15,432 million yen	14,310 million yen	1,122 million yen
Net income attributable to owners of the Parent	9,678 million yen	8,570 million yen	1,108 million yen
2. Indicators	Actual results	Projections	Difference
Existing-store sales growth rate	5.5%	3.2%	2.3%
Store openings (in Japan)	45 stores	49 stores	-4 stores
Store closures (in Japan)	11 stores	14 stores	-3 stores
Number of stores as of the end of First Half (in Japan)	1,566 stores	1,567 stores	-1 store
Store renovations	88 stores	109 stores	-21 stores
Dispensing pharmacy sales	55,289 million yen	54,500 million yen	789 million yen
Composition ratio of dispensing sales	16.2%	16.3%	-0.1%
Number of stores with dispensing pharmacy	1,070 stores	1,060 stores	10 stores
(Ratio of stores with dispensing pharmacy)	68.3%	67.6%	0.7%
Number of stores open 24 hours	111 stores	-	-
3. Others	Actual results		
Composition ratio of PB products	4.4% (Breakdown: HapYcom 35.4%, Top valu 30.5%, Welcia PB 34.1%)		
Number of stores with Welcafe	103 stores	-	-

Results for First Half of FY2018

(Unit: million yen)

	Actual results	Projections			Actual results for the same period of the previous year		
			Change	Achievement rate		Change	Expressed in percentage
Net sales	340,665	333,800	6,865	102.1%	310,996	29,668	109.5%
	100.0%	100.0%			100.0%		
Gross operating profit	101,804	98,200	3,604	103.7%	89,600	12,204	113.6%
	29.9%	29.4%			28.8%		
SG&A expenses	87,342	84,740	2,602	103.1%	77,956	9,385	112.0%
	25.7%	25.4%			25.1%		
Operating income	14,462	13,460	1,002	107.4%	11,643	2,818	124.2%
	4.2%	4.0%			3.7%		
Ordinary income	15,432	14,310	1,122	107.8%	12,427	3,005	124.2%
	4.5%	4.3%			4.0%		
Net income attributable to owners of the Parent	9,678	8,570	1,108	112.9%	7,414	2,264	130.5%
	2.8%	2.6%			2.4%		

Breakdown of financial results by company for First Half of FY2018

(Unit: million yen)

	Welcia HD (consolidated)	Welcia Yakkyoku		Shimizu Yakuhin		Goodwill and others
			Y/Y		Y/Y	
Net sales	340,665	331,628	109.4%	7,449	113.2%	1,587
	100.0%	100.0%		100.0%		
Gross operating profit	101,804	99,302 ^{*1}	113.5%	2,243	115.7%	258
	29.9%	29.9%		30.1%		
SG&A expenses	87,342	84,882	112.1%	1,972	107.5%	334
	25.7%	25.6%		26.5%		153
Operating income	14,462	14,420	123.1%	270	258.5%	-334
	4.2%	4.3%		3.6%		104
Ordinary income	15,432	15,381	122.6%	295	240.2%	-334
	4.5%	4.6%		4.0%		89
Net income	9,678	9,814	130.3%	193	176.3%	-334
	2.8%	3.0%		2.6%		4

*1 Welcia Yakkyoku's year-on-year comparison includes a valuation loss of 226 million yen of the former CFS Corporation, due to a change of the calculation method under the retail method in the previous term.

Monthly sales growth rate

(Unit: %)

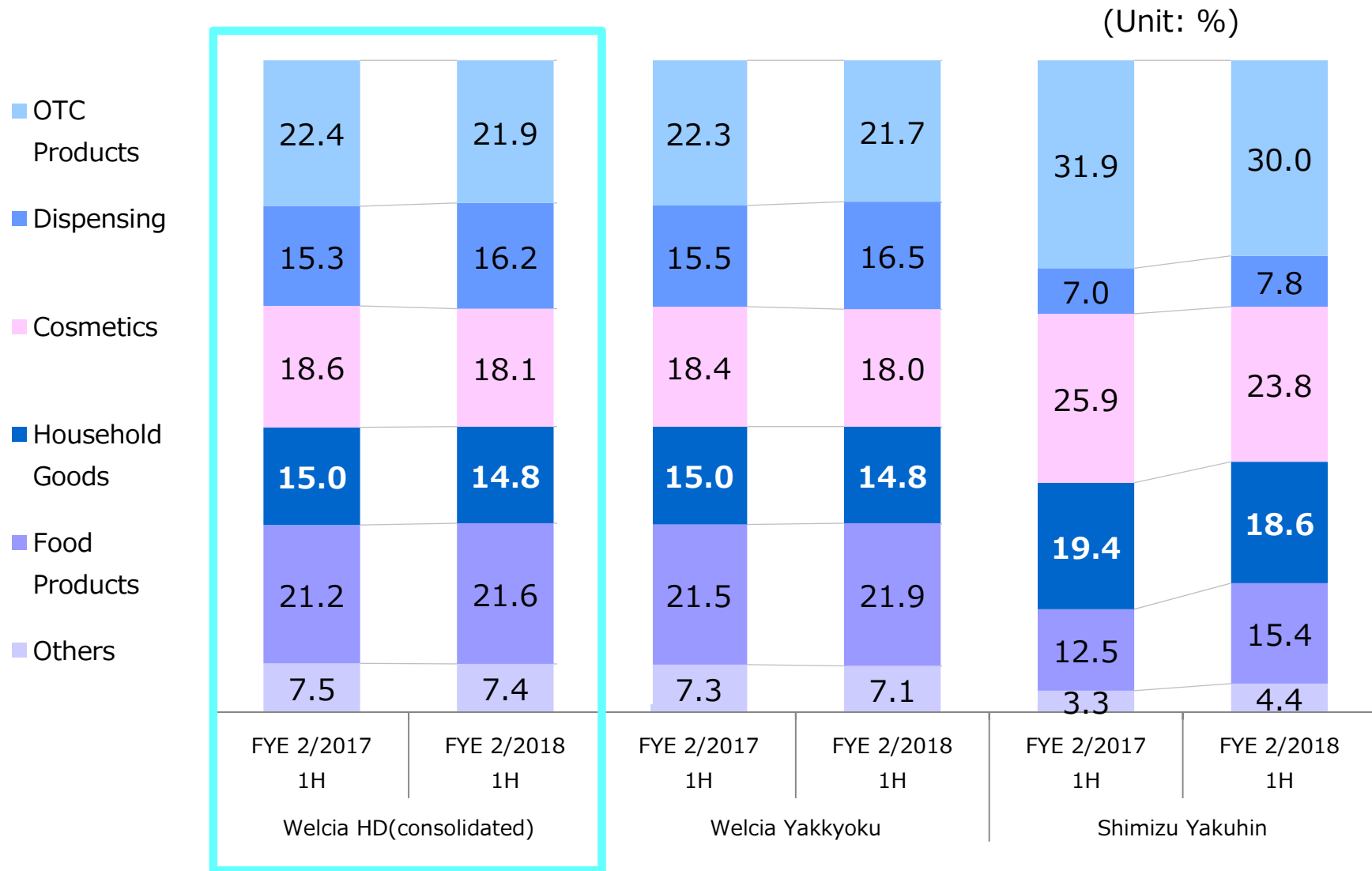
		2016				2017								
		Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.
Existing stores	Welcia Yakkyoku *1	2.8	3.6	3.1	3.2	5.1	-1.8	2.6	5.8	6.5	5.2	7.6	4.4	6.4
	Welcia Yakkyoku *2	4.8	5.6	4.8	5.1	6.4	-0.8	3.1	5.9	6.5	5.6	8.0	4.6	
	(former) Takiya	1.6	2.5	1.3										
	(former) CFS	-4.0	-3.1	-2.6	-3.5	-0.2	-5.7	0.9	5.2	6.1	3.8	5.8	3.3	
	Shimizu Yakuhin	11.5	12.5	12.5	14.4	17.8	7.3	9.6	17.0	14.1	14.0	13.1	12.6	13.0
	Group total	3.0	3.8	3.3	3.4	5.3	-1.6	2.7	6.0	6.6	5.5	7.7	4.6	6.5
All stores	Group total *3	4.0	5.5	5.6	5.8	7.8	1.5	5.9	9.7	10.7	9.8	12.2	9.2	15.4

*1 Welcia Yakkyoku absorbed Takiya in December 2015 and CFS Corporation in September 2016.

*2 Estimated figures obtained by excluding the results of the former Takiya and the former CFS Corporation.

*3 Marudai Sakurai Pharmacy Ltd. is included in the calculation of monthly sales growth rate of all stores from September 2017 onwards. However, since its stores are regarded as new stores, it is not included in the calculation of monthly sales growth rate of existing stores.

Composition ratio of sales by category



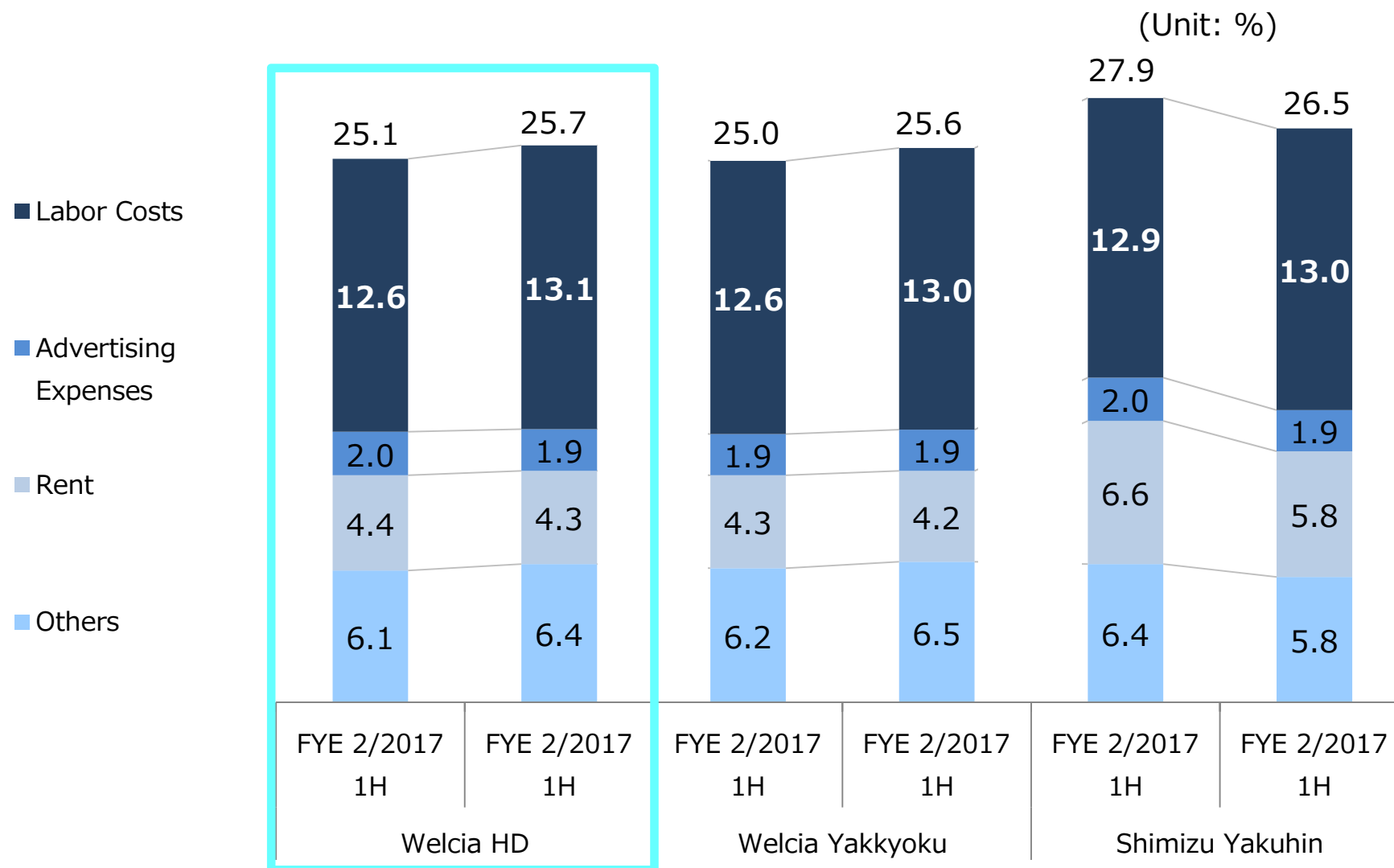
Gross profit margin ratio by category

(Unit: %)

	Welcia HD (consolidated)		Welcia Yakkyoku		Shimizu Yakuhin	
		Year-on-year change		Year-on-year change		Year-on-year change
OTC Products	38.1	0.8	38.1	0.8	37.0	1.5
Dispensing	38.6	3.4	38.6	3.4	39.6	2.3
Cosmetics	32.6	0.8	32.6	0.8	32.0	1.4
Household Goods	26.7	1.0	26.7	1.0	25.7	0.4
Food Products	20.3	0.2	20.3	0.1	18.5	0.7
Others	14.3	0.2	14.5	0.3	15.0	1.1
Total	29.9	1.1	29.9	^{*1} 1.0	30.1	0.6

*1 Welcia Yakkyoku's year-on-year change includes a valuation loss of 226 million yen of the former CFS Corporation due to a change of the calculation method under the retail method in the previous term.

SG&A expenses composition ratio



Labor costs rose from 12.6% to 13.1% due to employment of an increasing number of pharmacists and registered sales clerks as well as an increasing number of stores open late-night and 24 hours.

Promotion of drug stores with dispensing pharmacy

	Welcia HD (consolidated)		Welcia Yakkyoku		Shimizu Yakuhin	
	FYE 2/2017 1H	FYE 2/2018 1H	FYE 2/2017 1H	FYE 2/2018 1H	FYE 2/2017 1H	FYE 2/2018 1H
Dispensing pharmacy sales (million yen)	47,572	55,289	47,008	54,620	460	584
No. of prescriptions (in the thousands)	4,753	5,540	4,685	5,461	54	66
Prescription unit price (yen)	10,008	9,979	10,033	10,001	8,427	8,786
No. of stores with dispensing pharmacy at the end of the term	919	1,070	908	1,052	11	18
Ratio of stores with dispensing pharmacy	62.2%	68.3%	63.9%	69.6%	20.0%	33.3%

* The number of stores belonging to Meiriling Business (Shanghai) Co., Ltd. is not included in the table above.

Number of employees (as of August 31, 2017)

	Welcia HD (consolidated)		Welcia Yakkyoku	Shimizu Yakuhin
		Change from the previous term-end		
No. of employees	7,347	571	6,901	189
No. of temporary employees (based on 8h/employee)	15,963	1,776	15,402	365
No. of pharmacists (enrollment)	4,072	318	4,007	56
No. of registered sales clerks (enrollment)	9,082	306	8,788	272
No. of stores	1,569	34	1,512	54
No. of pharmacists per store	2.60	0.15	2.65	1.04
No. of registered sales clerks per store	5.79	0.07	5.81	5.04

Store openings and closures

(Unit: No. of stores)

		28-Feb-17	Openings		Closures		Increase/decrease resulting from merger	31-Aug-17
			Planned	Actual	Planned	Actual		
By Company	Welcia Yakkyoku	1,477	49	45	14	11	1	1,512
	Shimizu Yakuhin	54	0	0	0	0	0	54
	Nihonbashi Pharma	1	0	0	0	0	-1	0
By Area	Tohoku	36	5	4	0	0	0	40
	Kanto	832	17	12	7	5	0	839
	Chubu	399	13	13	6	6	0	406
	Kinki	265	14	16	1	0	0	281
Total (in Japan)		1,532	49	45	14	11	0	1,566
Reference	No. of stores with dispensing pharmacy	1,025						1,070
	Ratio of stores with dispensing pharmacy	66.9%						68.3%

* The number of stores belonging to Meiriling Business (Shanghai) Co., Ltd. is not included in the table above.

2. Earnings Forecast for FY2018

- Welcia Yakkyoku, a consolidated subsidiary and the surviving company, absorbed CFS Corporation on September 1, 2016.
Since the merger was conducted during the previous term, for the purpose of facilitating year-on-year comparison of the results of Welcia Yakkyoku, comparison is made by including the results of former CFS Corporation from March 1, 2016 onward.
- On October 4, 2017, consolidated earnings forecast announced on April 18, 2017 was revised.

Initial projections (announced on April 18, 2017)

(Unit: million yen)

	1H		2H		Full-year		
	Amount	Composition ratio	Amount	Composition ratio	Amount	Composition ratio	Y/Y
Sales	333,800	100.0%	341,200	100.0%	675,000	100.0%	108.3%
Gross operating profit	98,200	29.4%	101,200	29.7%	199,400	29.5%	108.5%
SG&A expenses	84,740	25.4%	88,360	25.9%	173,100	25.6%	108.4%
Operating income	13,460	4.0%	12,840	3.8%	26,300	3.9%	109.2%
Ordinary income	14,310	4.3%	13,790	4.0%	28,100	4.2%	109.2%
Net income attributable to shareholders of the parent company	8,570	2.6%	6,430	1.9%	15,000	2.2%	103.8%
Existing-store sales growth rate	3.2%		3.5%		3.3%		

Revised projections (announced on October 4, 2017)

(Unit: million yen)

	1H/Actual		2H		Full-year		
	Amount	Composition ratio	Amount	Composition ratio	Amount	Composition ratio	Y/Y
Sales	340,665	100.0%	351,334	100.0%	692,000	100.0%	111.0%
Gross operating profit	101,804	29.9%	103,945	29.6%	205,750	29.7%	111.9%
SG&A expenses	87,342	25.7%	91,507	26.1%	178,850	25.8%	112.0%
Operating income	14,462	4.2%	12,437	3.5%	26,900	3.9%	111.7%
Ordinary income	15,432	4.5%	13,367	3.8%	28,800	4.2%	112.0%
Net income attributable to shareholders of the parent company	9,678	2.8%	6,122	1.7%	15,800	2.3%	109.3%
Existing-store sales growth rate	5.5%		3.5%		4.5%		

Revised projections by company (announced on October 4, 2017)

(Unit: million yen)

	Welcia HD (consolidated)		Welcia Yakkyoku		Shimizu Yakuhin		Marudai Sakurai Pharmacy		Goodwill and others
		Y/Y		Y/Y		Y/Y		Y/Y	
Sales	692,000	111.0%	663,403	109.3%	14,651	110.4%	10,400	-	3,546
	100.0%		100.0%		100.0%		100.0%		
Gross operating profit	205,750	111.9%	197,952	110.3%	4,404	111.1%	2,750	-	644
	29.7%		29.8%		30.1%		26.4%		
SG&A expenses	178,850	112.0%	170,799	110.1%	3,967	105.9%	2,449	-	980
	25.8%		25.7%		27.1%		23.5%		
Operating income	26,900	111.7%	27,153	111.4%	436	199.6%	301	-	-980
	3.9%		4.1%		3.0%		2.9%		
Ordinary income	28,800	112.0%	29,080	111.6%	480	188.6%	571	-	-980
	4.2%		4.4%		3.3%		5.5%		
Net income	15,800	109.3%	16,529	112.1%	217	111.5%	360	-	-980
	2.3%		2.5%		1.5%		3.5%		

Planned store openings and closures

(Unit: No. of stores)

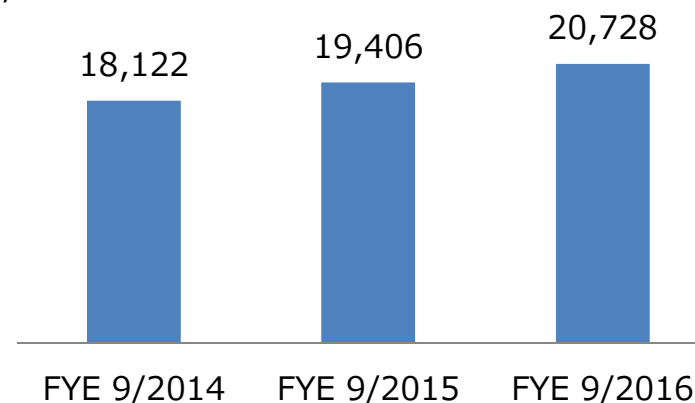
		Actual number at the beginning of the term	Increase/decrease resulting from merger	1H (Actual)		Increase/decrease resulting from acquisition of 100% ownership	2H (Planned)		Estimated number at the end of the term
				Openings	Closures		Openings	Closures	
By company	Welcia Yakkyoku	1,477	1	45	11	0	65	13	1,564
	Shimizu Yakuhin	54	0	0	0	0	3	2	55
	Nihonbashi Pharma	1	-1	0	0	0	—	—	0
	Marudai Sakurai Pharmacy	—	—	—	—	71	6	1	76
By area	Tohoku	36	0	4	0	71	15	1	125
	Kanto	832	0	12	5	0	35	5	869
	Chubu	399	0	13	6	0	13	3	416
	Kinki	265	0	16	0	0	11	7	285
Total (in Japan)		1,532	0	45	11	71	74	16	1,695
Reference	No. of stores with dispensing	1,025							1,247
	Ratio of stores with dispensing	66.9%							73.6%

* The number of overseas stores is not included in the table above.

(Reference) Marudai Sakurai Pharmacy Ltd.

Trade name	Marudai Sakurai Pharmacy Ltd.
Location of Head Office	2-72, Oaza Sannai Tamatsukuri, Aomori City, Aomori
Representative	Kiyoshi Sakurai, President
Establishment	October 1972
Business description	Management of drug stores and dispensing pharmacies
No. of stores	71 stores (as of September 1, 2017)
Net sales	20,728 million yen (Fiscal year ended September 2016)

Trend of net sales (Unit: million yen)



- * On September 1, 2017, integration of systems, promotional activities, bookkeeping and logistics was completed.
- * Basis for projections (for 6 months from September 2017 to February 2018)
 - (1) Existing-store sales growth rate: -9.9%
 - (2) Gross profit improvement: +3.0%
(Cost improvement: +4.5%; valuation loss on inventory: -1.5%)
 - (3) Gain on insurance cancellation recorded as non-operating income: +220 million yen



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 forecasts 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.
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