

WELCIA HOLDINGS CO., LTD.

Financial Results Briefing for the Third Quarter of Fiscal Year Ending February 2025

Q&A Session (Summary) January 8, 2025

“About Financial Results for the Fiscal Year Ending February 2025”

Q : While sales in the third quarter were behind the plan, what specific measures did you take to control SG&A expenses? Also, with operating income bottoming out in the third quarter, will you be able to achieve a profit level close to the plan in the fourth quarter by controlling SG&A expenses?

A : In the third quarter, we continued to strengthen sales promotions to increase the number of customers and improve gross profit margin, which we have been doing since the first half of the year. Although net sales fell short of the plan, we were able to achieve the gross profit margin target by reviewing the details of the sales promotion measures.

In SG&A expenses, we controlled personnel expenses, which account for half of the total, and also reviewed other expenses in the midst of tough sales conditions. In the fourth quarter, we will continue our efforts to achieve the plan.

Q : In the third quarter period, was the growth of advertising expenses under control, and was the gross profit margin controlled as a result of sales promotion by reviewing the details? And can this trend be continued in the fourth quarter?

A : First, we intend to improve the quality of our initiatives this term by reviewing the details of our sales floor renovations as needed. As for WAON POINT, the number of customers has been increasing at stores with a high presentation rate.

We think it is important to thoroughly implement these initiatives in the current fiscal year.

Q : In the third quarter, sales were almost at the planned level, but profits were down significantly from the previous year, and I think there are still issues to be addressed in sales. How do you plan to improve sales in the future?

A : By reviewing the contents of the sales floor renovation, which is underway this fiscal year, we intend to further improve the quality of our efforts and continue to do so.

As for WAON POINT, the number of customers has been increasing at stores with high presentation rates. We think it is important to thoroughly implement the initiatives for this fiscal year.

In addition, although the Company has not been strongly price-conscious in the past, under the continuing inflationary situation, it will make efforts to make a distinction between sales promotions to attract customers and profit-making initiatives. We intend to continue to

increase sales by implementing the necessary measures and initiatives.

“About Initiatives for this fiscal year, etc.”

Q : Regarding the WAON POINT presentation rate, I do not have the impression that it has increased significantly from the Q2 results to Q3. Is the point switching going well?

A : It is true that the WAON POINT presentation rate has been slower than planned. However, the number of stores with a high rate is increasing, and the company is promoting efforts by horizontally deploying successful examples of such stores.

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In December, WAON POINT presentation rate was 56% of the total number of customers, but the sales participation rate was higher than that. In addition, with cooperation from AEON, we are conducting campaigns for customers who have not yet used WAON POINT at our stores. We look forward to the future.

Q : What are the factors behind the strong performance of PB?

A : PB products include our own PB products, Karada Welcia and Kurashi Welcia, and the Aeon Group's PB products, Topvalu and Hapycom (pharmaceutical PB products).

The Karada Welcia and Kurashi Welcia brands are performing particularly well, characterized by their appeal to customers for value rather than price. The next best-selling brand is Topvalu, which is popular among customers due to its price advantage amid the recent high prices of commodities.

Q : Some companies in the drugstore industry have adopted a strategy of increasing sales by strengthening food products, but what about Welcia?

A : We have also been conducting various experiments. In Kyushu, a joint venture with Aeon Kyushu has developed a food-focused business model, and at the Aeon Town Makuhari-Nishi store, we are strengthening food products through our own procurement.

We have several patterns, including concessions and direct procurement.

We recognize that we also need to strengthen food products in some areas. It is true that due to the current inflation, customers are concentrating on retailers who can sell food products at low prices.

Therefore, we will continue to strengthen our food product offerings depending on the area and location.

Q : Hac Drug BLOKA store is listed in the financial results presentation materials.

This is a unique store for young people, but what is the significance of opening this store?

A : Welcia had a clear business model and had been creating similar stores,

However, this has been a hindrance to our ability to create new types of stores, which is a point of reflection.

As for the BLOKA store, there is a large, high-selling existing store nearby, but we have created a different store by respecting the opinions of young staff. We are still in the experimental stage, and we will continue to work on the store while reviewing its contents as needed. This month, we will open a dispensing pharmacy.

“About next fiscal year and beyond”

Q : At the time of the first half results, you explained that you would continue to invest to some extent in the future; has there been any change in that thinking?

A : Regarding investments, as indicated in the new policy explained at the time of the 1H results, the first part is necessary to improve productivity. As mentioned in today's presentation, we will make digital investments to improve efficiency, including investments to improve store operations. While labor costs are expected to increase due to medium- and long-term wage hikes, we will continue to make the necessary investments to improve productivity. In addition, regarding investment in store renovations, 68 stores were completely renovated this fiscal year, and we will continue to strengthen renovations into the next fiscal year in order to revitalize existing stores and improve existing store sales.

Q : At the time of the first half results, there was an explanation that new M&A would be suspended in principle. In particular, how will you raise the level of existing stores?

A : We are currently formulating a plan for the next fiscal year, so we cannot present specific figures at this time, but it will obviously be necessary to raise the level of existing stores.

In product sales, while tobacco sales are being ended with a view to becoming the No.1 health station in the community, H&BC needs to grow and expand sales of pharmaceuticals, health foods, etc. At the same time, we will also promote the dispensing business.

Furthermore, we expect that continuing efforts to renovate existing stores and promote the WAON POINT service will be fundamental to boosting the level of existing stores.

“About integration with Tsuruha HD”

Q : There have been reports that the integration with Tsuruha HD is being coordinated by the end of 2025. Additionally, you have been explained that we want to proceed with the integration as early as possible, but are there any obstacles to this?

A : Regarding the integration with Tsuruha HD, we have not yet obtained clearance under the anti-trust law. Therefore, no significant progress has been made.

The initial announcement stated that the integration would take place by the end of 2027 at the latest, but the three companies share the understanding that they would like to move forward with the integration as early as possible. We do not see any barriers at this stage.

“Others”

Q : There is a wave of DX in the drugstore industry, but what is Welcia's DX strategy?

A : A DX Promotion Department has been newly organized in Welcia HD. The department is currently formulating a medium- to long-term grand design for DX, including CRM, store operations (e.g., productivity improvement), and back-office efficiency improvement.

In terms of human resources, we are moving forward by combining the expertise of Group company Exchange, the Information Systems Department of Welcia yakkyoku, and the know-how of the dispensing and sales departments. We will start by improving productivity at stores, and then move on to back office and CRM.

Q : It was reported that outsourcing of single-packaging will be permitted at dispensing pharmacies this year. Are you already prepared for this??

A : There have been reports in the press about the outsourcing of single packet dispensing, but we are aware that this was originally a special experiment in a part of Osaka under the leadership of the government. It is a fact that pharmacists are burdened with the work of single-packaging.

In particular, single-packaging is required for home dispensing, and we believe that if this approach is successful, it will lead to greater efficiency. We will consider it if necessary.

*NOTICE: Machine translation is used.