

WELCIA HOLDINGS CO., LTD. Financial Results Briefing for the Fiscal Year Ended
February 29, 2024 Q&A Session (Summary) April 8, 2024

【Actual results for the fiscal year ending Feb. 2024】

Q : The gross profit margin on merchandise sales for FY2024 declined 0.1% y-o-y. It was reported that the decline in gross profit was affected by the intensification of sales promotions to acquire WAON POINT members, but what is the full-year impact of this?

A : WAON POINT service was launched in March of the previous year, and after its launch, the number of members increased rapidly. Also, the impact was felt in 1Q due to double-pointing with T points. Furthermore, in the previous fiscal year, WAON POINT and T-POINT were each given points, which had an impact in 1Q.

The presentation rate did not increase after 2Q, and the impact on the full year decreased. (Presentation rate: 1Q 36% → 4Q: 43%)

【Plan for the fiscal year ending February 2025】

Q : What are your thoughts on the gross profit improvement plan for this fiscal year?

A : In FY2025, the environment will change from the previous year, with the complete convergence of Covid-19 and the impact of the dispensing fee revision, which is almost flat when the total impact of technical fees and drug prices is taken into account.

We would like to see the results of our efforts in the previous fiscal year to expand PB sales and strengthen counseling services.

Q : Of the planned FY2025 same store sales growth rate, the products sales plan is 2.7%. What is your view of the impact of the tobacco sales discontinuation at more than 1,000 stores and the effect of the change in point service?

A : Tobacco sales were discontinued at approximately 400 stores in the previous fiscal year, with plans to further increase the number of stores discontinued this fiscal year. Furthermore, the positive effects of the change in the point service and the acquisition of new members are also factored into the plan for existing store products sales growth.

Q : What are the enhancements to the product lineup in the renovation?

A : The product lineup should not be a special item or selling method, but an lineup of items for daily use. We are considering a more in-depth lineup in each category.

Q : You have been strengthening sales promotion since the 3Q of the previous fiscal year, and do you plan to continue this in the current fiscal year?

A : Cosmetics point promotions will continue.

The contents of flyers and other sales promotions are being reviewed, and in consideration of consumer behavior in the face of rising prices, sales promotions are being considered by focusing on key categories such as food and household goods.

Q : Inbound demand is increasing. Besides Kokumin, are there any other Welcia Yakkyoku stores opening in urban areas where inbound demand is expected?

A : We are not considering opening inbound specialty stores.

【WAON POINT】

Q : Regarding WAON POINT, the presentation rate is used as an indicator, but what is the presentation rate for the FY2024?

When can we expect to see the results of the initiatives taken in the previous fiscal year?

A : WAON POINT presentation rate at the end of the previous period was about 40%.

In order to concentrate measures this fiscal year, we will change to WAON POINT-centered point service starting in May. We believe it is necessary to spend promotional expenses to promote customer understanding, and after the switching phase, we expect positive effects to manifest themselves from the second half of this fiscal year, and we hope to increase the presentation rate to 70%.

In addition, the company strengthened its internal organizational structure to utilize marketing as well as membership data accumulation.

Q : WAON POINT presentation rate has not increased and is not being utilized. Are there any other measures other than changing the point service? Would this be a factor in improving gross profit margins?

A : We recognize that the rate of presentation is slightly behind initial expectations.

The change in the point service will make it more effective, for example, by making WAON POINT the only way to receive bonus points for each product, which used to be spread across two point cards.

In the future, we believe that data utilization will be promoted to generate group synergies, and gross profit will be increased.

【capital and business alliance】

Q : Has the management integration with Tsuruha Holdings affected your plans and strategies for this fiscal year?

A : Specific matters have not been incorporated in this fiscal year's plan, because the procedures under the Antimonopoly Law have not been followed.

Q : What progress has been made so far since the announcement of the management integration with Tsuruha Holdings? What are the aims and synergies?

A : There is nothing I can tell you at this time, but it is conceivable that the thickened resources could be used more efficiently in the future through mutual goals and ideas.

Q : With a management integration in sight, a slowdown in PB product development is anticipated; the improvement in gross profit margin through PB may weaken.

A : The management integration is not incorporated in this fiscal year's plan.

Although we evaluate that the improvement in PB gross profit margin was a little slow in the previous fiscal year, we recognize that the Karada-Kurashi Welcia brand SKUs have been increasing and are being well received by customers. We expect gross profit margins to improve in the future as we are focusing on commercials and other advertising.

Q : We believe that M&As in the respective companies of Tsuruha Holdings and Welcia Holdings have so far benefited from the integration of suppliers through M&As of companies of different sizes. However, the expansion of scale has already produced some economies of scale, and there is a question as to whether there will be further benefits. What are the possible synergies?

A : This will be a matter for further discussion, but both companies have their own categories in which they excel. Tsuruha specializes in household goods, while Welcia specializes in dispensing. We believe that synergies can be generated in these areas.

*NOTICE: Machine translation is used.