

**Financial Results Briefing  
for the Second Quarter of Fiscal Year Ending  
February 2016**

October 21, 2015



**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 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.
- 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

- Due to a change in the accounting term in FY ended February 2015, year-on-year comparison is made with the data for the period from March to August in 2014 in this report.
- Due to the change of our accounting policy, distribution charges are recorded under the “Cost of sales” instead of “Selling, general and administrative expenses” for the purpose of year-on-year comparison.

1. Existing-store sales grew 5.8%. Gross operating profit was 102.0% against projections, and 121.8% over the previous year.  
Sales were 101.9% against projections, and 122.6% compared with the same period of the previous year.
2. Operating income was 103.9% against projections, and 110.0% over the previous year.  
Ordinary income was 104.7% against projections, and 110.4% over the previous year.
3. Net income was 99.6% against projections, and 114.4% over the previous year.
4. Sales from dispensing remained favorably with an increase of 133.8% from the same period of the previous year, accounting for 13.2% of sales.
5. 41 stores were newly opened compared with 47 stores planned, while 13 stores were closed compared with 11 stores planned.
6. The ratio of drug stores with a dispensing pharmacy reached 65.2%, with the increase of 63 such stores.

## 2. Outline of Financial Results

# Actual results for 2Q of FY2016

(Unit: million yen)

|                        | Actual results | Projections | Comparison with projections |                  | Comparison with the previous year |                         |
|------------------------|----------------|-------------|-----------------------------|------------------|-----------------------------------|-------------------------|
|                        |                |             | Amount                      | Achievement rate | Amount                            | Expressed in percentage |
| Net sales              | 230,990        | 226,700     | 4,290                       | 101.9%           | 42,500                            | 122.6%                  |
|                        | 100.0%         | 100.0%      |                             |                  |                                   |                         |
| Gross operating profit | 64,183         | 62,900      | 1,283                       | 102.0%           | 11,498                            | 121.8%                  |
|                        | 27.8%          | 27.7%       |                             |                  |                                   |                         |
| SG&A expenses          | 56,512         | 55,520      | 992                         | 101.8%           | 10,799                            | 123.6%                  |
|                        | 24.5%          | 24.4%       |                             |                  |                                   |                         |
| Operating income       | 7,671          | 7,380       | 291                         | 103.9%           | 698                               | 110.0%                  |
|                        | 3.3%           | 3.3%        |                             |                  |                                   |                         |
| Ordinary income        | 8,201          | 7,830       | 371                         | 104.7%           | 770                               | 110.4%                  |
|                        | 3.6%           | 3.5%        |                             |                  |                                   |                         |
| Net income             | 4,413          | 4,430       | -16                         | 99.6%            | 555                               | 114.4%                  |
|                        | 1.9%           | 2.0%        |                             |                  |                                   |                         |

# Breakdown of financial results by company for 2Q of FY 2016

(Unit: million yen)

|                              | Welcia HD<br>(consolidated) | Welcia Yakkyoku |        | Takiya  | Shimizu<br>Yakuhin | Goodwill<br>and others |
|------------------------------|-----------------------------|-----------------|--------|---------|--------------------|------------------------|
|                              |                             |                 | Y/Y    |         |                    |                        |
| Net sales                    | 230,990                     | 210,977         | 112.5% | 12,902  | 6,038              | 1,072                  |
|                              | 100.0%                      | 100.0%          |        | 100.0%  | 100.0%             |                        |
| Gross<br>operating<br>profit | 64,183                      | 59,397          | 112.9% | 3,308   | 1,396              | 80                     |
|                              |                             |                 |        | *(-154) | *(-139)            |                        |
|                              | 27.8%                       | 28.2%           |        | 25.6%   | 23.1%              |                        |
| SG&A<br>expenses             | 56,512                      | 50,699          | 112.5% | 3,791   | 1,772              | 361                    |
|                              | 24.5%                       | 24.1%           |        | 29.4%   | 29.4%              | -112                   |
| Operating<br>income          | 7,671                       | 8,697           | 114.9% | -482    | -375               | -361                   |
|                              | 3.3%                        | 4.1%            |        | -       | -                  | 193                    |
| Ordinary<br>income           | 8,201                       | 9,229           | 113.9% | -455    | -363               | -361                   |
|                              | 3.6%                        | 4.4%            |        | -       | -                  | 152                    |
| Net income                   | 4,413                       | 5,432           | 114.8% | -481    | -266               | -361                   |
|                              | 1.9%                        | 2.6%            |        | -       | -                  | 91                     |

\* Indicate the impact due to the change of calculation method under the retail method.

| <b>Sales</b>  |                 |                       |                                 |
|---|-----------------|-----------------------|---------------------------------|
| 1. Existing-store sales (growth rate)   | 5.8%            | Projection: 3.1%      |                                 |
| 2. Sales from dispensing  | 30,437 mil. yen | Year on Year: 133.8%  | Ratio to total sales: 13.2%     |
| 3. Store openings   | 41 stores       | Projection: 47 stores | (Overseas) 1 store to be opened |
| 4. Store closures   | 13 stores       | Projection: 11 stores | (Overseas) 1 store to be closed |
| <b>Gross margin ratio (*Reflect the change of indication for year-on-year comparison)</b> |                 |                       |                                 |
| 1. Gross margin ratio   |                 |                       |                                 |
| Welcia HD (consolidated)  | 27.8%           | Year on Year: -0.2%   |                                 |
| Welcia Kanto  | 28.2%           | Year on Year: +0.1%   |                                 |
| Takiya  | 25.6%           |                       |                                 |
| Shimizu Yakuhin   | 23.1%           |                       |                                 |
| 2. Gross margin ratio by segment  |                 |                       |                                 |
| OTC products  | 36.1%           | Year on Year: -1.0%   |                                 |
| Dispensing  | 36.6%           | Year on Year: +0.8%   |                                 |
| <b>SG&amp;A expenses</b>  |                 |                       |                                 |
| 1. SG&A ratio   | 24.5%           | Projection: 24.4%     |                                 |
| 2. Labor costs/sales ratio  | 12.3%           | Projection: 12.4%     |                                 |



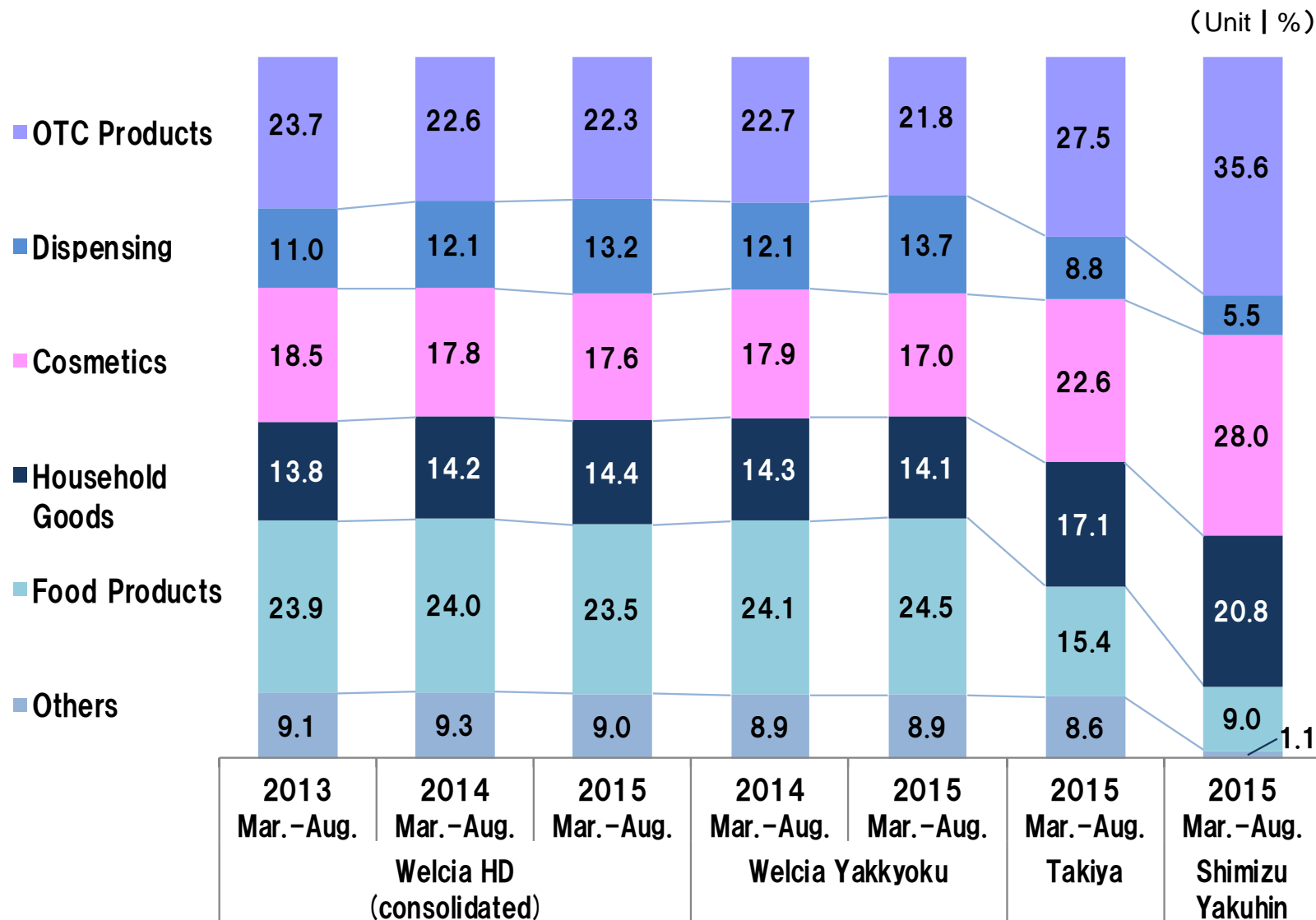
# Monthly sales growth rate

|                 |                        | 2014  |       |       |       | 2015  |       |        |       |       |       |       |       |       |
|-----------------|------------------------|-------|-------|-------|-------|-------|-------|--------|-------|-------|-------|-------|-------|-------|
|                 |                        | Sep.  | Oct.  | Nov.  | Dec.  | Jan.  | Feb.  | Mar.   | Apr.  | May   | Jun.  | Jul.  | Aug.  | Sep.  |
| Existing stores | former Welcia Kanto    | 5.6%  | 5.1%  | 3.8%  | 7.6%  | 5.1%  | 4.8%  | -9.0%  | 18.0% | 9.7%  | 7.8%  | 7.6%  | 8.5%  |       |
|                 | former Takada Pharmacy | -0.3% | -3.0% | -8.0% | -2.1% | -0.4% | 0.3%  | -15.7% | 13.7% | 6.6%  | 4.5%  | 7.1%  | 11.0% |       |
|                 | former Welcia Kansai   | -2.5% | -2.9% | -2.4% | -2.2% | -1.4% | -1.4% | -20.4% | 15.3% | 7.5%  | 2.3%  | 3.0%  | 4.8%  |       |
|                 | Group total            | 4.2%  | 3.5%  | 1.8%  | 5.6%  | 3.9%  | 3.7%  | -10.6% | 17.3% | 9.2%  | 6.9%  | 7.2%  | 8.5%  | 6.0%  |
| All stores      | Group total            | 11.2% | 10.8% | 9.0%  | 13.2% | 11.6% | 12.0% | 4.7%   | 37.3% | 27.4% | 23.9% | 23.2% | 23.6% | 52.9% |

\* While Takiya Co., Ltd. and Shimizu Yakuhin Co., Ltd. are included in the sales growth rate of all stores from March 2015, they are not included in the growth of existing stores, as these stores are regarded as new ones.

\* While CFS Corporation is included in the sales growth rate of all stores from September 2015, they are not included in the growth of existing stores, as these stores are regarded as new ones.

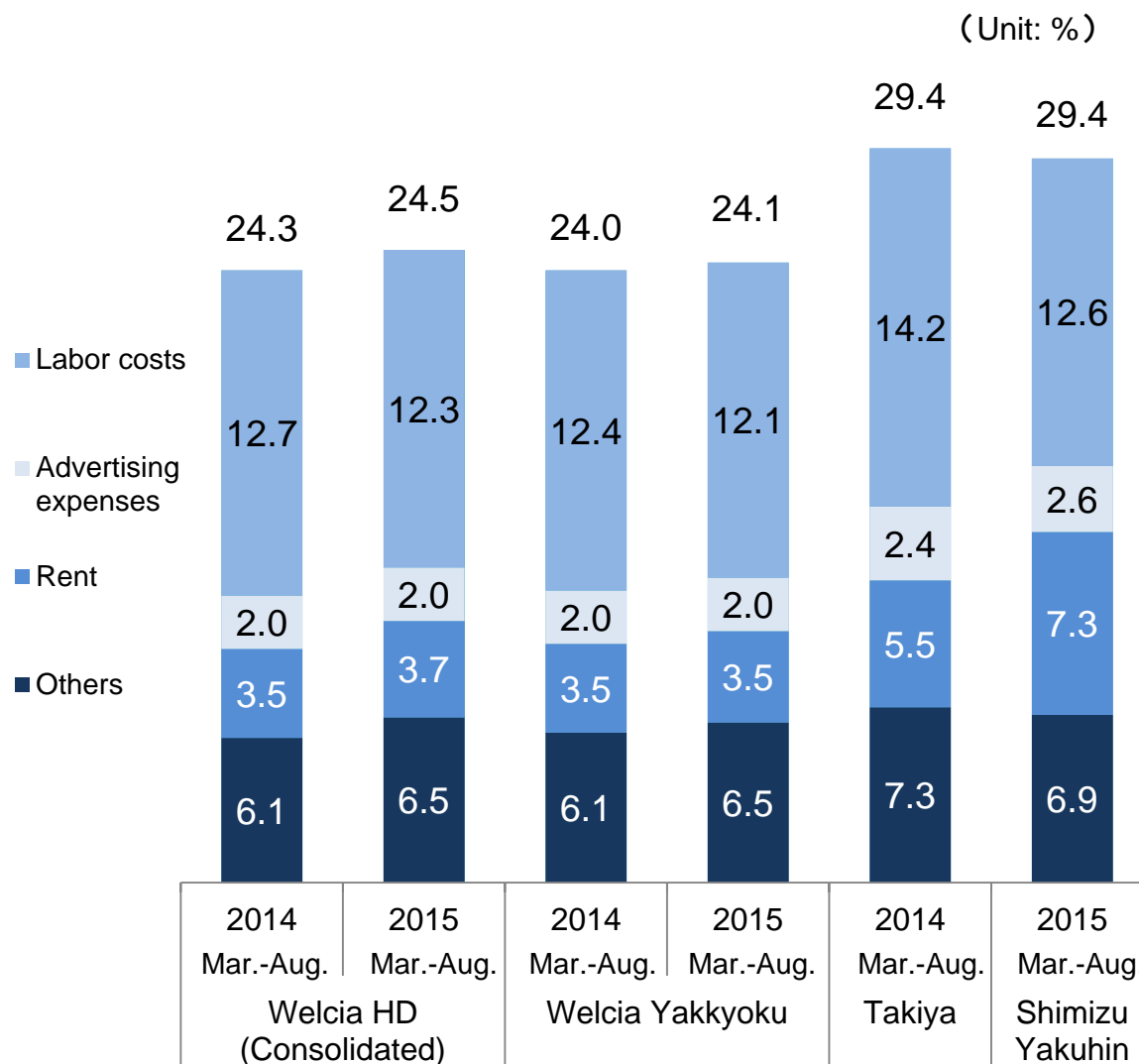
# Composition ratio of sales by category [2Q]



# Gross profit margin ratio by category [2Q]

|                    | Welcia HD<br>(consolidated)      |                        | Welcia Yakkyoku                  |                        | Takiya                           | Shimizu<br>Yakuhin               |
|--------------------|----------------------------------|------------------------|----------------------------------|------------------------|----------------------------------|----------------------------------|
|                    | Gross<br>Operating<br>Margin (%) | Year-on-year<br>change | Gross<br>Operating<br>Margin (%) | Year-on-year<br>change | Gross<br>Operating<br>Margin (%) | Gross<br>Operating<br>Margin (%) |
| OTC Products       | 36.1                             | -1.0                   | 36.9                             | -0.3                   | 33.2                             | 24.8                             |
| Dispensing         | 36.6                             | +0.8                   | 36.4                             | +0.6                   | 38.5                             | 41.6                             |
| Cosmetics          | 31.4                             | -0.4                   | 32.3                             | +0.5                   | 26.8                             | 22.4                             |
| Household<br>Goods | 24.6                             | -0.3                   | 25.1                             | +0.2                   | 19.8                             | 20.8                             |
| Food<br>Products   | 19.8                             | -0.2                   | 20                               | ±0.0                   | 16.8                             | 14.2                             |
| Others             | 13.2                             | ±0.0                   | 13.7                             | +0.1                   | 12.5                             | 13.4                             |
| Total              | 27.8                             | -0.2                   | 28.2                             | +0.1                   | 25.6                             | 23.1                             |

# SG&A expenses composition ratio [2Q]



## Overview

As the ratio of Takiya and Shimizu Yakuhin are both high(29.4%), the expense ratio was increased on a consolidated basis.

## Labor Costs

12.7% → 12.3%

Due to the Improvement of man-hour management

## Advertising expenses

The expense ratio of Takiya and Shimizu Yakuhin is higher compared with Welcia Yakkyoku due to the difference of marketing measures.

## Rent

3.5% → 3.7%

The expense ratio of Takiya and Shimizu Yakuhin is higher compared with Welcia Yakkyoku.

## Others

6.1% → 6.5%

Due to the cost for introducing new main system, store renovation costs, and consumption tax

\* Results of Welcia Yakkyoku for the period from March to August in 2014 were calculated by aggregating the results of Welcia Kanto, Takada Yakkyoku, and Welcia Kansai for the comparison purpose.

# Promotion of drug stores with dispensing pharmacy

(Change of No. of stores with dispensing pharmacy and No. of prescription handled)

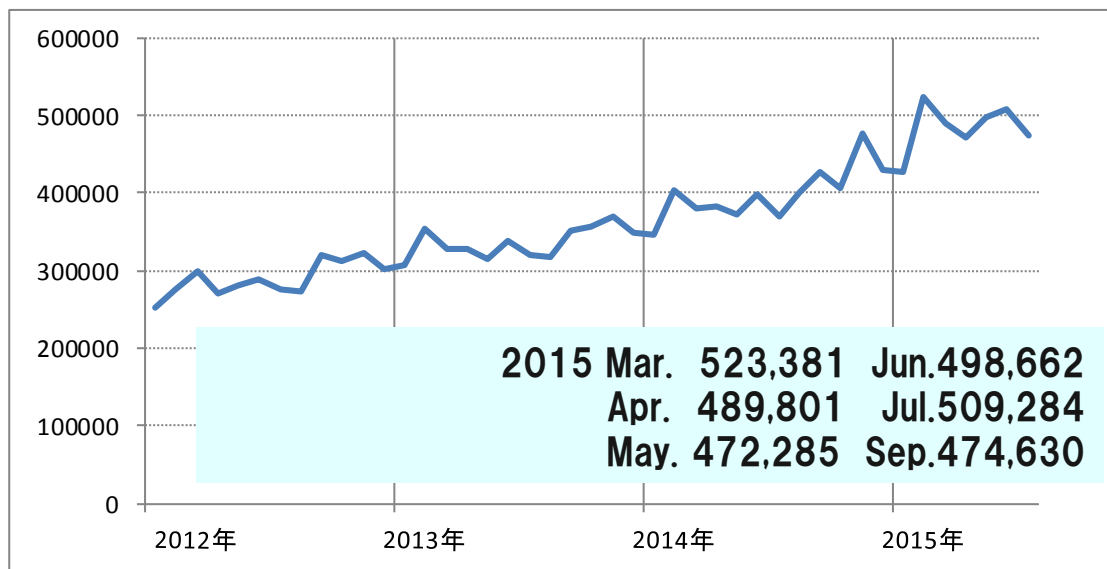
## ■ Change of No. of Stores with Dispensing Pharmacy

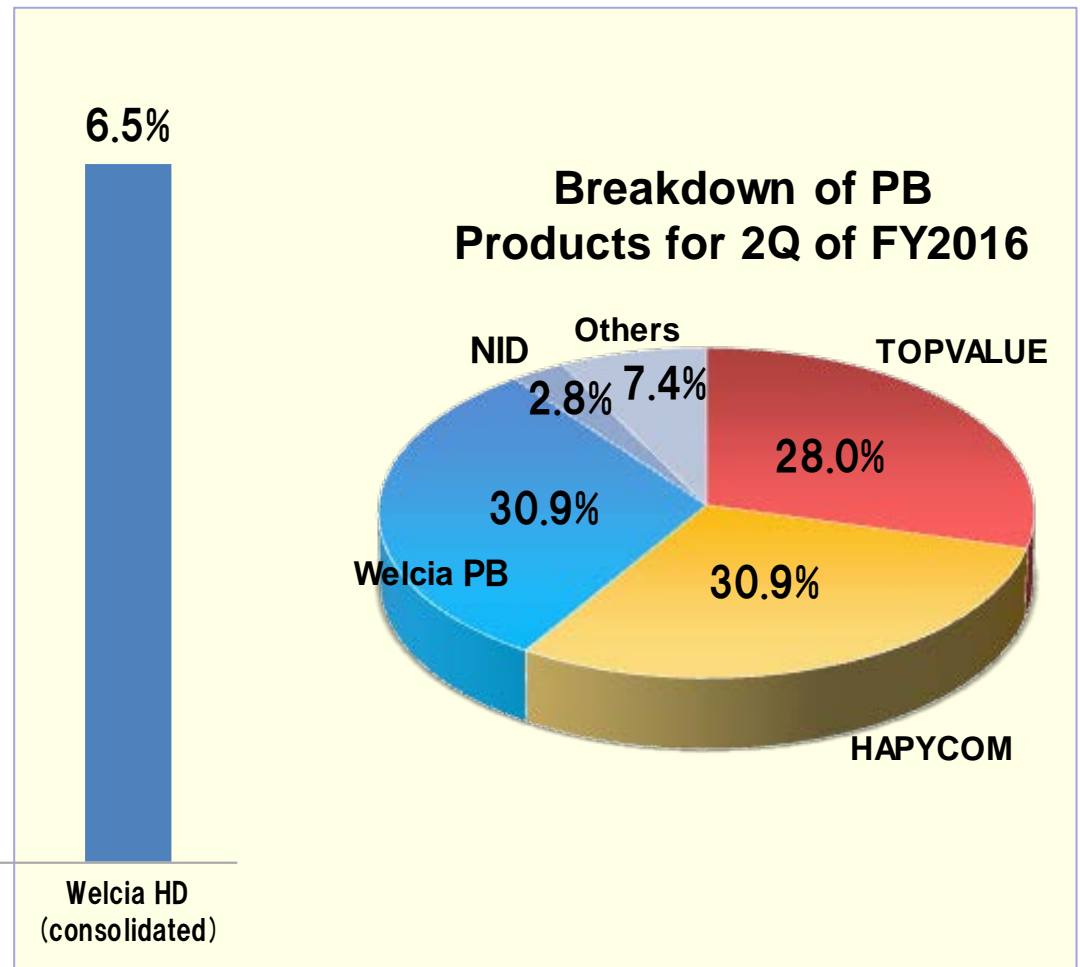
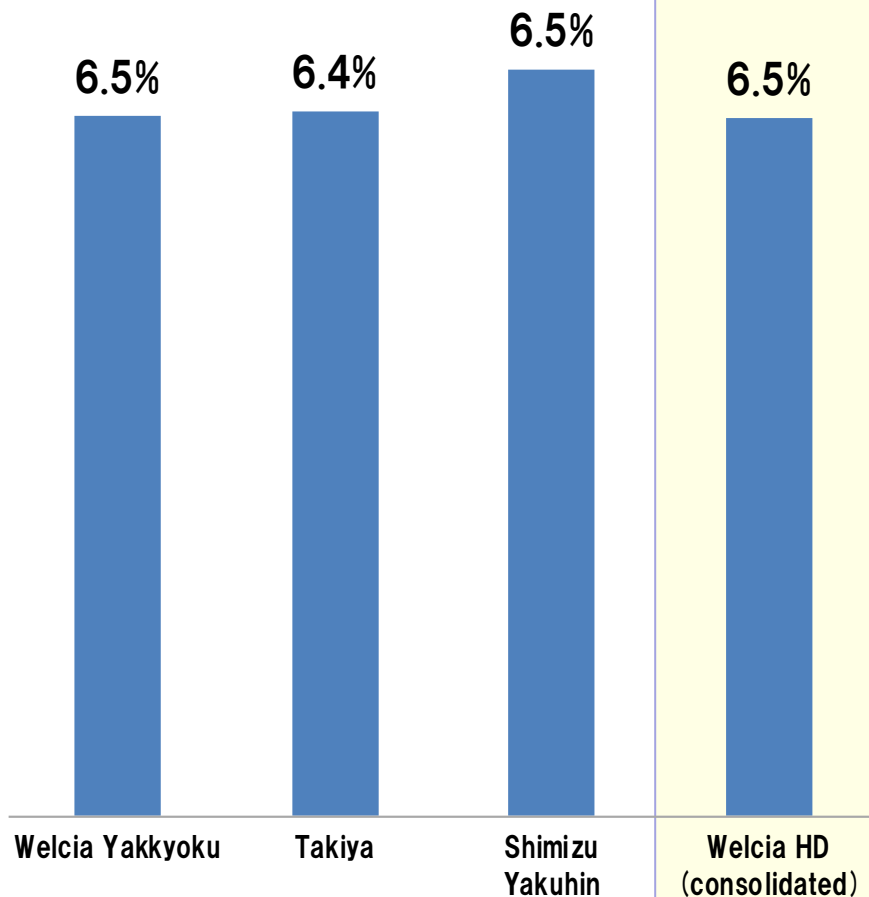
|                 | As of Feb. 28, 2015                    |  | Increase by acquiring subsidiaries | As of May 31, 2015                     |  |
|-----------------|--|--|------------------------------------|--|--|
|                 | No. of stores with dispensing pharmacy | Ratio of stores with dispensing pharmacy |                                    | No. of stores with dispensing pharmacy | Ratio of stores with dispensing pharmacy |
| Welcia Yakkyoku | 687                                    | 69.6%                                    |                                    | 713                                    | 70.6%                                    |
| Takiya          |  |  | +27                                | 29                                     | 34.9%                                    |
| Shimizu Yakuhin |  |  | +7                                 | 8                                      | 14.0%                                    |
| Group Total     | 687                                    | 69.6%                                    | +34                                | 750                                    | 65.2%                                    |

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

## ■ Change of No. of Prescription Handled

Unit: No. of Prescription





# Number of employees (as of August 31, 2015)

|  | Welcia HD<br>(consolidated) | Welcia Yakkyoku | Takiya | Shimizu Yakuhin |
|--|-----------------------------|-----------------|--------|-----------------|
| Number of employees                                  | 5,102                       | 4,298           | 382    | 211             |
| Number of temporary employees (based on 8h/employee) | 10,715                      | 9,683           | 607    | 222             |
| Sales per employee (unit: thousand yen)              | 14,603                      | 15,090          | 13,046 | 13,944          |
| Number of pharmacists (enrollment)                   | 2,544                       | 2,278           | 209    | 56              |
| Number of registered sales clerks (enrollment)       | 5,943                       | 5,330           | 395    | 216             |
| Number of stores                                     | 1,154                       | 1,010           | 83     | 57              |
| Number of pharmacists per store                      | 2.20                        | 2.26            | 2.52   | 0.98            |
| Number of registered sales clerks per store          | 5.15                        | 5.28            | 4.76   | 3.79            |

Unit: number of store

|               |                    | Feb. 28,<br>2015 | Increase by<br>acquiring<br>subsidiaries | Openings |         | Closures |         | May. 31,<br>2015 |
|---------------|--------------------|------------------|--|----------|---------|----------|---------|------------------|
|               |                    |                  |  | Actual   | Planned | Actual   | Planned |                  |
| By<br>company | Welcia<br>Yakkyoku | 987              |  | 35       | 40      | 12       | 11      | 1,010            |
|               | Takiya             |                  | +78                                      | 6        | 7       | 1        | -       | 83               |
|               | Shimizu<br>Yakuhin |                  | +57                                      | -        | -       | -        | -       | 57               |
| By area       | Tohoku             | 22               |  | 2        | 1       | -        | -       | 24               |
|               | Kanto              | 577              |  | 20       | 24      | 9        | 8       | 588              |
|               | Chubu              | 279              |  | 8        | 10      | 1        | 1       | 286              |
|               | Kinki              | 109              | +135                                     | 11       | 12      | 3        | 2       | 252              |
| Total         |                    | 987              | +135                                     | 41       | 47      | 13       | 11      | 1,150            |

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



(Unit: million yen)

|                        | Actual results | Projections | Comparison with projections |                  | Comparison with the previous year |                         |
|------------------------|----------------|-------------|-----------------------------|------------------|-----------------------------------|-------------------------|
|                        |                |             | Amount                      | Achievement rate | Amount                            | Expressed in percentage |
| Sales                  | 63,454         | 61,500      | 1,954                       | 103.2%           | 2,378                             | 103.9%                  |
|                        | 100.0%         | 100.0%      |                             |                  |                                   |                         |
| Gross operating profit | 18,706         | 18,270      | 436                         | 102.4%           | 776                               | 104.3%                  |
|                        | 29.5%          | 29.7%       |                             |                  |                                   |                         |
| SG&A expenses          | 17,047         | 16,770      | 277                         | 101.7%           | 419                               | 102.5%                  |
|                        | 26.9%          | 27.3%       |                             |                  |                                   |                         |
| Operating income       | 1,659          | 1,500       | 159                         | 110.6%           | 357                               | 127.4%                  |
|                        | 2.6%           | 2.4%        |                             |                  |                                   |                         |
| Ordinary income        | 1,734          | 1,500       | 234                         | 115.6%           | 359                               | 126.1%                  |
|                        | 2.7%           | 2.4%        |                             |                  |                                   |                         |
| Net income             | 560            | 700         | -139                        | 80.0%            | -62                               | 89.9%                   |
|                        | 0.9%           | 1.1%        |                             |                  |                                   |                         |

## **3. Earnings Forecast for FY2016**

# Full-year forecast by company

(Unit: million yen)

|                           | Welcia HD<br>(consolidated) | Welcia Yakkyoku | Y/Y    | Takiya | Shimizu<br>Yakuhin | CFS<br>Corporation | Goodwill and<br>others |
|---------------------------|-----------------------------|-----------------|--------|--------|--------------------|--------------------|------------------------|
|                           |                             |                 |        |        |                    |                    |                        |
| Sales                     | 520,600                     | 415,820         | 109.8% | 27,210 | 12,410             | <b>62,900</b>      |                        |
|                           | 100.0%                      | 100.0%          |        | 100.0% | 100.0%             | 100.0%             | 2,260                  |
| Gross<br>operating profit | 147,500                     | 117,590         | 110.3% | 7,540  | 3,300              | <b>18,900</b>      |                        |
|                           | 28.3%                       | 28.3%           |        | 27.7%  | 26.6%              | 30.0%              | 170                    |
| SG&A<br>expenses          | 129,650                     | 101,370         | 109.4% | 7,490  | 3,500              | <b>16,750</b>      | 723                    |
|                           | 24.9%                       | 24.4%           |        | 27.5%  | 28.2%              | 26.6%              | -183                   |
| Operating<br>income       | 17,850                      | 16,220          | 115.6% | 50     | -200               | <b>2,150</b>       | -723                   |
|                           | 3.4%                        | 3.9%            |        | 0.2%   | -                  | 3.4%               | 353                    |
| Ordinary income           | 19,250                      | 17,310          | 113.1% | 50     | -190               | <b>2,600</b>       | -723                   |
|                           | 3.7%                        | 4.2%            |        | 0.2%   | -                  | 4.1%               | 203                    |
| Net income                | 10,300                      | 9,900           | 116.5% | -30    | -180               | <b>1,300</b>       | -723                   |
|                           | 2.0%                        | 2.4%            |        | -      | -                  | 2.1%               | 33                     |

\* Year-on-year change of Welcia Pharmacy is calculated based on the total of the result of Welcia Kanto, Takada Pharmacy, and Welcia Kansai for the 2nd half of FY2014 and the result of Welcia Pharmacy for FY2015, comparing with the figures.

\* The comparison reflects the change of accounting rules.

# Actual results for 1H and earnings forecast for 2H

(Unit: million yen)

|                                  | 1H (actual results) |                   | 2H                        |        |          |                   | Full-year |                   | Comparison with the previous year |
|----------------------------------|---------------------|-------------------|---------------------------|--------|----------|-------------------|-----------|-------------------|-----------------------------------|
|                                  | Amount              | Composition ratio | Amount                    |        |          | Composition ratio | Amount    | Composition ratio |                                   |
|                                  |                     |                   | Welcia HD (excluding CFS) | CFS    | Totaling |                   |           |                   |                                   |
| Sales                            | 230,990             | 100.0%            | 226,710                   | 62,900 | 289,610  | 100.0%            | 520,600   | 100.0%            | 136.8%                            |
| Gross operating profit           | 64,183              | 27.8%             | 64,417                    | 18,900 | 83,317   | 28.8%             | 147,500   | 28.3%             | 138.2%                            |
| SG&A expenses                    | 56,512              | 24.5%             | 56,388                    | 16,750 | 73,138   | 25.3%             | 129,650   | 24.9%             | 138.3%                            |
| Operating income                 | 7,671               | 3.3%              | 8,029                     | 2,150  | 10,179   | 3.5%              | 17,850    | 3.4%              | 137.6%                            |
| Ordinary income                  | 8,201               | 3.6%              | 8,449                     | 2,600  | 11,049   | 3.8%              | 19,250    | 3.7%              | 137.1%                            |
| Net income                       | 4,413               | 1.9%              | 4,587                     | 1,300  | 5,887    | 2.0%              | 10,300    | 2.0%              | 138.2%                            |
| Existing-store sales growth rate | 5.8%                |                   | 3.9%                      |        | 3.9%     |                   | 4.8%      |                   |                                   |

\* The year-on-year change represents the comparison with business results for the year from March 2014 to February 2015.

# Plan for store openings and closures

Unit: number of store

|             |                              | Feb.28,2015 | Increase due to a new subsidiary | Openings | Closures | Expected No. of Stores as of the end of Feb. 2016 |
|-------------|------------------------------|-------------|----------------------------------|----------|----------|---|
| By Company  | Welcia Yakkyoku              | 987         |                                  | 100      | 18       | 1,069   |
|             | Takiya                       |             | + 78                             | 13       | 1        | 90  |
|             | Shimizu Yakuhin              |             | + 57                             | 1        | -        | 58  |
|             | CFS Corporation              |             | + 310                            | 5        | 7        | 308   |
| By area     | Tohoku                       | 22          |                                  | 3        | -        | 25  |
|             | Kanto                        | 577         | + 204                            | 73       | 19       | 835   |
|             | Chubu                        | 279         | + 103                            | 21       | 4        | 399   |
|             | Kinki                        | 109         | + 138                            | 22       | 3        | 266   |
| Total       |                              | 987         | + 445                            | 119      | 26       | 1,525   |
| (Reference) | With dispensing pharmacy     | 687         | + 138                            |          |          | 954   |
|             | Parallel establishment ratio | 69.6%       |                                  |          |          | 62.6%   |

\* Takiya Co. Ltd. and Shimizu Yakuhin Co., Ltd. were merged into Welcia HD on March 1, 2015.

\* We also merged CFS Corporation on September 1, 2015.

※In addition to the above, we plan to newly open two stores and close one store overseas (in China).