

# Financial Results Briefing for the Fiscal Year Ending February 2016

April 21, 2016



**WELCIA HOLDINGS Co., Ltd.**

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

## 1. Overview

- ▶ Overview of FY2016

## 2. Outline of Financial Results

- ▶ Actual results for FY2016
- ▶ Breakdown of financial results by company for FY2016
- ▶ Outline of financial results for FY2016
- ▶ Monthly sales growth rate
- ▶ Reference: CFS Corporation's monthly sales growth rate
- ▶ Composition ratio of sales by category
- ▶ Gross profit margin ratio by category
- ▶ SG&A expenses composition ratio
- ▶ Promotion of drug stores with dispensing pharmacy (Change of No. of stores with dispensing pharmacy and No. of prescription handled)
- ▶ Composition ratio of private-brand (PB) products sales
- ▶ Number of employees
- ▶ Store openings and closures

## 3. Earnings Forecast for FY 2017

- ▶ Projections, assumptions and key initiatives for FY2017
- ▶ Full year forecast
- ▶ Full year forecast by company
- ▶ Plan for store openings and closures
- ▶ Progress of mid-term plan

### 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 2014 to February 2015 in this report.

Sales were 101.5% against projections, and 138.9% compared with the same period of the previous year. Existing store sales grew 7.4%. Gross operating profit was 101.6% against projections, and 140.4% over the previous year. SG&A expenses ratio was 24.8% with 0.1 point lower than projections.

Operating income was 105.1% against projections, and 144.6% over the previous year. Ordinary income was 105.9% against projections, and 145.1% over the previous year.

4,072 million yen was posted as extraordinary loss. Net income was 92.5% against projections, and 127.8% over the previous year.

Sales from dispensing remained favorably with an increase of 157.8% from the same period of the previous year, accounting for 14.5% of sales.

The ratio of drug stores with a dispensing pharmacy reached 60.9%, with the increase of 207 such stores (including addition of 139 stores from acquisition of subsidiaries).

73 stores were newly opened compared with 119 stores planned, while 37 stores were closed compared with 26 stores planned.

## **2. Outline of Financial Results**

# Actual results for FY2016

(Unit: million yen)

	Actual results	Projections	Comparison with projections		Comparison with the previous year	
			Amount	Achievement rate	Amount	Expressed in percentage
Net sales	528,402	520,600	7,802	101.5%	147,941	138.9%
	100.0%	100.0%				
Gross operating profit	149,910	147,500	2,410	101.6%	43,170	140.4%
	28.4%	28.3%				
SG&A expenses	131,150	129,650	1,500	101.2%	37,381	139.9%
	24.8%	24.9%				
Operating income	18,759	17,850	909	105.1%	5,788	144.6%
	3.6%	3.4%				
Ordinary income	20,377	19,250	1,127	105.9%	6,334	145.1%
	3.9%	3.7%				
Net income	9,527	10,300	-772	92.5%	2,073	127.8%
	1.8%	2.0%				

\* Due to the change of fiscal year end date, business results for the same period in the previous year from March 2014 to February 2015 have been provided for comparison purposes.

\* The comparison reflects the change of accounting rules.

# Breakdown of financial results by company for FY2016

(Unit: million yen)

	WELCIA HD (consolidated)	WELCIA YAKKYOKU		CFS Corporation (6 months)	TAKIYA (9 months)	SHIMIZU YAKUHIN	Goodwill and others
			Y/Y				
Net sales	528,402	432,554	114.2%	62,410	19,224	12,006	2,206
	100.0%	100.0%		100.0%	100.0%	100.0%	
Gross operating profit	149,910	122,708	115.1%	18,809	5,067	3,145	180
	28.4%	28.4%		30.1%	*(-154)	*(-199)	
SG&A expenses	131,150	104,846	113.2%	16,658	5,653	3,553	722
	24.8%	24.3%		26.7%	29.5%	29.6%	-284
Operating income	18,759	17,861	127.3%	2,150	-586	-407	-722
	3.6%	4.1%		3.4%	-	-	465
Ordinary income	20,377	19,078	124.6%	2,575	-549	-370	-722
	3.9%	4.4%		4.1%	-	-	366
Net income	9,527	10,791	127.0%	1,099	-1,080	-440	-722
	1.8%	2.5%		1.8%	-	-	-119

\* Numbers in parentheses in gross operating profit indicate the impact due to the change of calculation method under the retail method.

\* WELCIA HD made CFS Corporation a subsidiary as of September 1, 2015 (results of CFS Corporation subject for review are for the six months from September 1, 2015).

\* WELCIA YAKKYOKU merged with and absorbed TAKIYA as of December 1, 2015 (results of TAKIYA subject for review are for the nine months from March to November 2015).

# Outline of financial results for FY2016

Sales				
1. Existing-store sales (growth rate)	7.4%	Projection:	3.5%	
2. Sales from dispensing	76,487 mil.yen	Year on Year:	157.8%	Ratio to total sales:14.5%
3. Store openings (domestic)	73 stores	Projection:	119 stores	(Overseas) 1 store to be opened
4. Store closures (domestic)	37 stores	Projection:	26 stores	(Overseas) 3 stores to be closed
Gross margin ratio				
1. Gross margin ratio				
WELCIA HD (consolidated)	28.4%	Year on Year:	+0.3%	
WELCIA YAKKYOKU	28.4%	Year on Year:	+0.2%	
CFS Corporation	30.1%			
TAKIYA	26.4%			
SHIMIZU YAKUHIN	26.2%			
2. Gross margin ratio by segment				
OTC products	37.1%	Year on Year:	-0.3%	
Dispensing	36.7%	Year on Year:	+0.7%	
SG&A expenses				
1. SG&A ratio	24.8%	Projection:	24.9%	
2. Labor costs/sales ratio	12.4%	Projection:	12.3%	
Extraordinary loss				
Extraordinary loss	4,072 mil. yen	WELCIA KAIGO SERVICES/former Takada Yakkyoku/former Welcia Kansai		2,109 mil. yen
		CFS Corporation		809 mil. yen
	Major breakdown	TAKIYA/SHIMIZU YAKUHIN		578 mil. yen
		Former Welcia Kanto		545 mil. yen



# Monthly sales growth rate

		2015										2016		
		Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Existing stores	former Welcia Kanto	-9.0%	18.0%	9.7%	7.8%	7.6%	8.5%							
	former Takada Yakkyoku	-15.7%	13.7%	6.6%	4.5%	7.1%	11.0%							
	former Welcia Kansai	-20.4%	15.3%	7.5%	2.3%	3.0%	4.8%							
	former TAKIYA													-3.8%
	WELCIA YAKKYOKU	-10.6%	17.3%	9.2%	6.9%	7.2%	8.5%	6.0%	10.6%	9.2%	5.3%	7.9%	15.9%	7.3%
	SHIMIZU YAKUHIN													7.2%
	Group total	-10.6%	17.3%	9.2%	6.9%	7.2%	8.5%	6.0%	10.6%	9.2%	5.3%	7.9%	15.9%	7.3%
All stores	Group total	4.7%	37.3%	27.4%	23.9%	23.2%	23.6%	52.9%	58.7%	55.4%	50.2%	52.3%	62.5%	37.8%

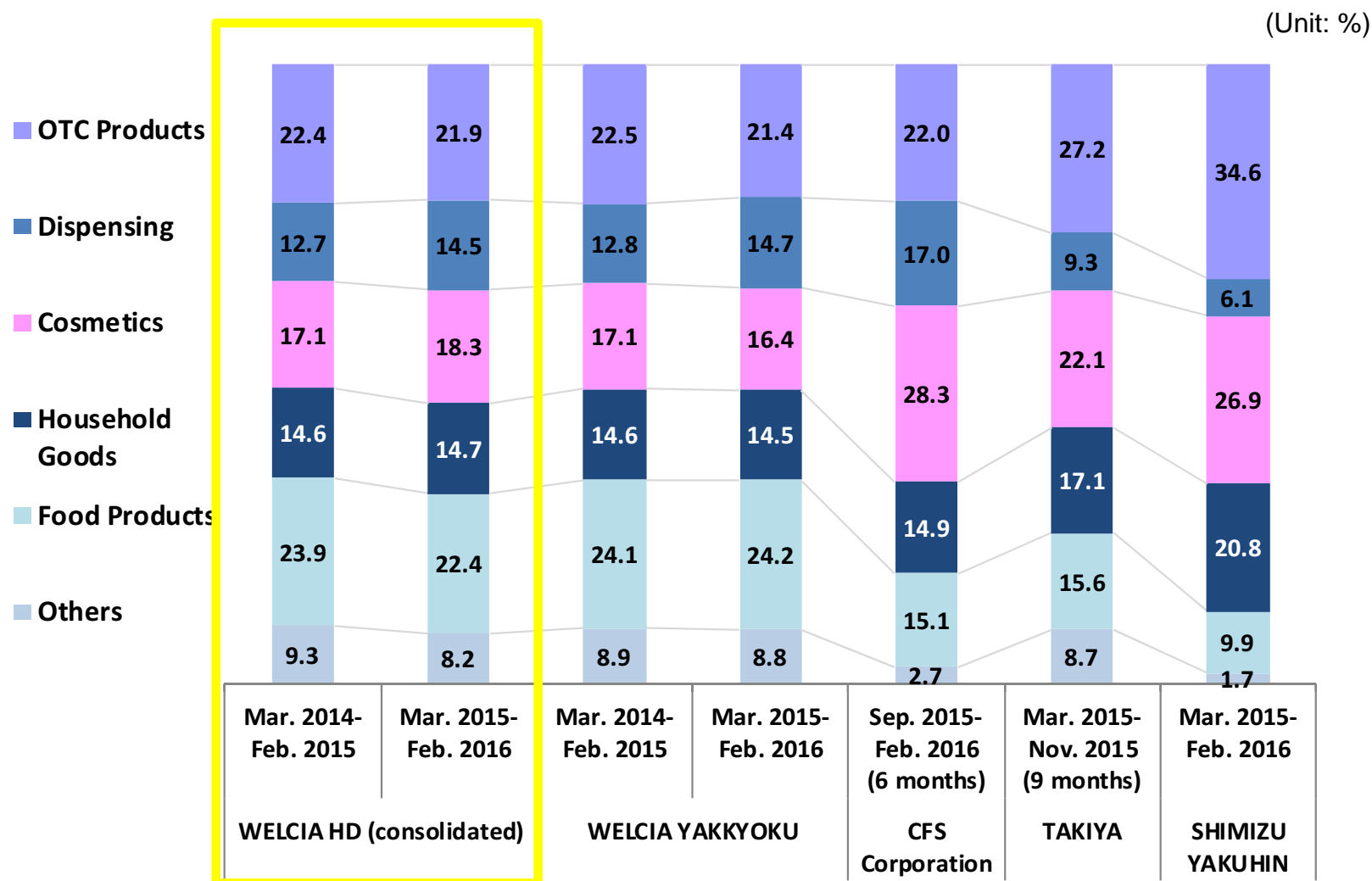
\* TAKIYA and SHIMIZU YAKUHIN are included in existing stores from March 2016.

\* CFS Corporation is included in all stores, as its stores are regarded as new ones.

## Reference: CFS Corporation's monthly sales growth rate

	2015										2016		
	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Existing stores	-14.1%	16.3%	10.8%	6.9%	4.9%	4.7%	5.5%	7.7%	2.9%	1.9%	4.9%	8.0%	-2.5%
All stores	-14.9%	16.5%	11.4%	7.5%	5.2%	4.2%	5.7%	8.9%	4.0%	2.7%	6.2%	9.4%	-1.6%

# Composition ratio of sales by category



\* Results of CFS Corporation subject for review are for the six months from September, 2015.

\* Results of TAKIYA subject for review are for the nine months from March to November, 2015.

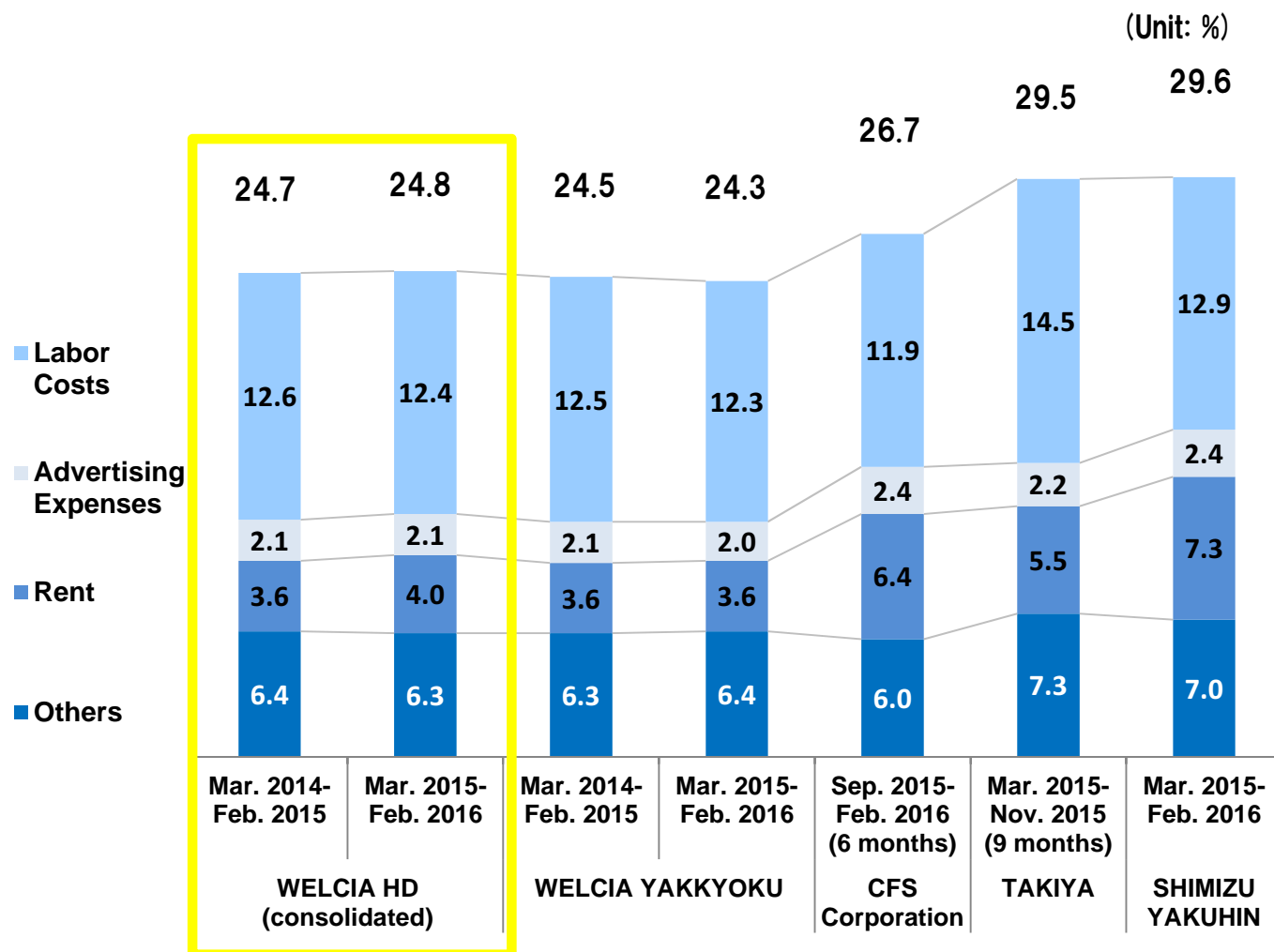
## Gross profit margin ratio by category

	WELCIA HD (consolidated)		WELCIA YAKKYOKU		CFS Corporation	TAKIYA	SHIMIZU YAKUHIN
	Gross Operating Margin (%)	Year-on-year change	Gross Operating Margin (%)	Year-on-year change	Gross Operating Margin (%)	Gross Operating Margin (%)	Gross Operating Margin (%)
OTC Products	37.1	- 0.3	37.6	0.2	35.8	36.8	30.1
Dispensing	36.7	0.7	36.0	0.0	40.6	36.2	39.6
Cosmetics	31.3	- 0.7	32.4	0.4	28.7	27.3	26.2
Household Goods	24.8	- 0.2	25.4	0.4	23.2	19.6	22.1
Food Products	20.0	0.0	19.9	- 0.1	22.3	16.1	14.9
Others	13.3	0.1	13.6	0.0	15.1	12.2	13.3
Total	28.4	0.3	28.4	0.2	30.1	26.4	26.2

\* Results of CFS Corporation subject for review are for the six months from September, 2015.

\* Results of TAKIYA subject for review are for the nine months from March to November, 2015.

# SG&A expenses composition ratio



**Overview**  
As the ratio of TAKIYA (29.5%), SHIMIZU YAKUHIN (29.6%) and CFS (26.7%) are high, the expense ratio was increased on a consolidated basis.

**Labor Costs**  
12.6% → 12.4%  
Due to the improvement of man-hour management

**Advertising Expenses**  
The expense ratio of each company remained at the same level as the previous year, though slightly fluctuated due to the difference of market measures.

**Rent**  
3.6% → 4.0%  
The expense ratio increased as the area for opening stores expanded in the city due to integration.

\* Results of CFS Corporation subject for review are for the six months from September, 2015.

\* Results of TAKIYA subject for review are for the nine months from March to November, 2015.

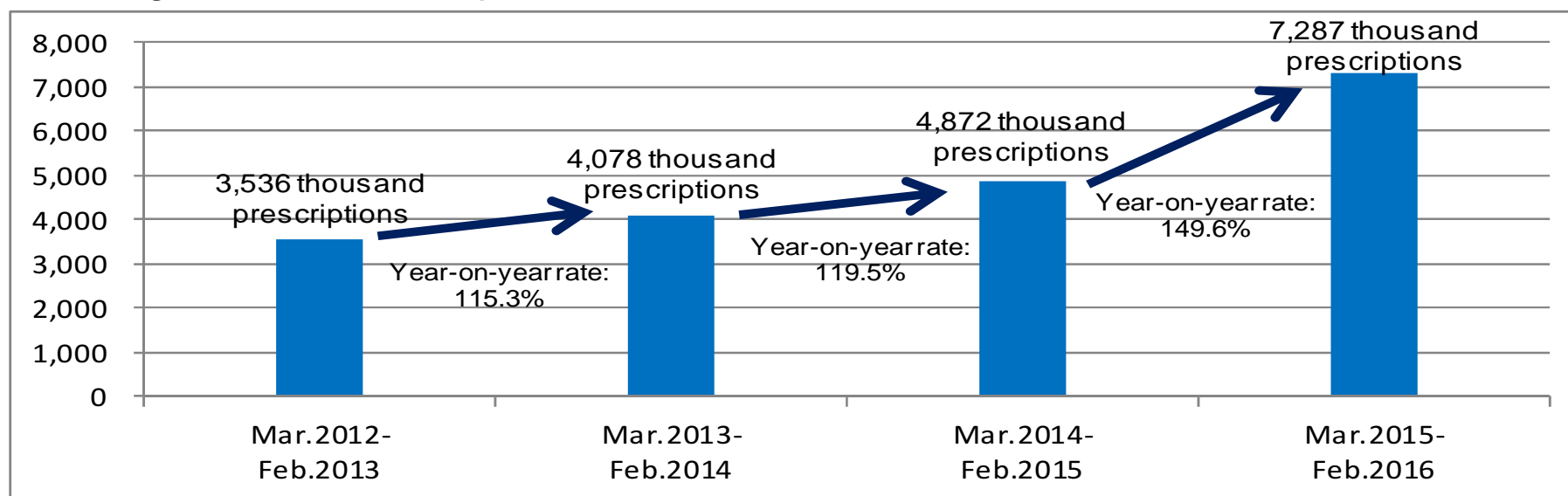
## Change of No. of Stores with Dispensing Pharmacy

Unit: No. of stores

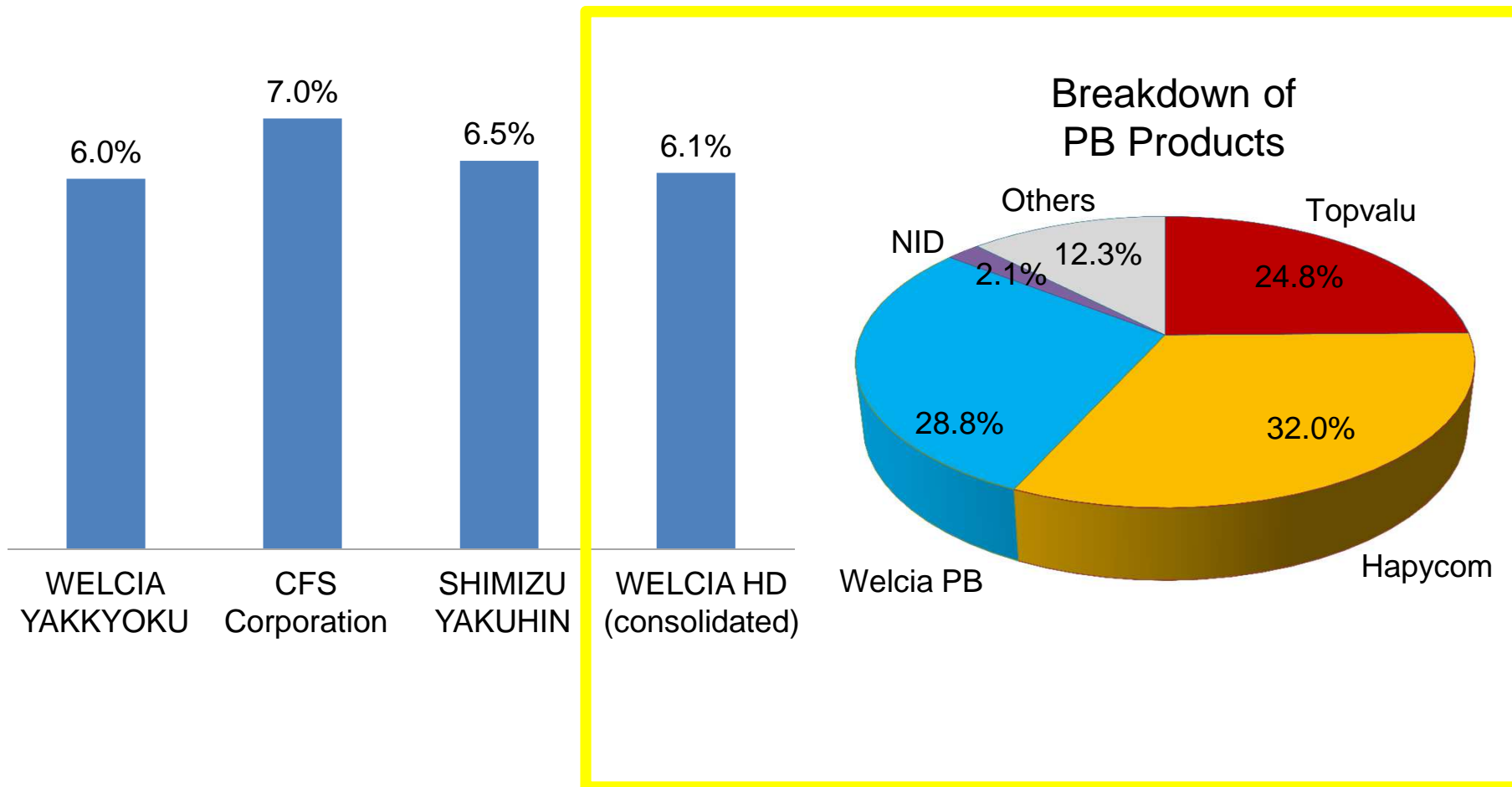
	As of Feb. 2015		Increase by acquiring subsidiaries	Changes due to store openings and store closures	Changes due to integration	As of Feb. 2016	
	No. of stores with dispensing pharmacy	Ratio of stores with dispensing pharmacy				No. of stores with dispensing pharmacy	Ratio of stores with dispensing pharmacy
WELCIA YAKKYOKU	687	69.6%		45	45	777	70.4%
CFS Corporation			104	2		106	34.3%
TAKIYA			27	18	- 45		
SHIMIZU YAKUJIN			7	3		10	17.9%
Nihonbashi Pharma			1	0		1	100.0%
Group total	687	69.6%	139	68		894	60.9%

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

## Change of No. of Prescriptions Handled



# Composition ratio of private-brand (PB) products sales



\* Results of CFS Corporation subject for review are for the six months from September, 2015.

## Number of employees

	WELCIA HD (consolidated)	Year-on-year change	WELCIA YAKKYOKU	CFS Corporation	SHIMIZU YAKUHIN
Number of employees	6,219	2,114	4,621	1,154	220
Number of temporary employees (based on 8h/employee)	13,048	3,621	10,464	2,163	232
Sales per employee (unit: thousand yen)	27,425	- 1,513	29,948	18,815	26,563
Number of pharmacists (enrollment)	3,266	1,171	2,488	719	54
Number of registered sales clerks (enrollment)	7,928	2,795	6,229	1,441	256
Number of stores	1,472	485	1,103	309	56
Number of pharmacists per store	2.22	0.1	2.26	2.33	0.96
Number of registered sales clerks per store	5.39	0.2	5.65	4.66	4.57

\* Results of CFS Corporation subject for review are for the six months from September, 2015.



# Store openings and closures

Unit: number of stores

		Feb. 2015	Increase by acquiring subsidiaries	Openings		Closures		Increase by integration	Feb. 2016
				Actual	Planned	Actual	Planned		
By Company	WELCIA YAKKYOKU	987		62	100	28	18	82	1,103
	CFS Corporation		310	4	5	5	7		309
	TAKIYA		78	6	13	2	1	- 82	0
	SHIMIZU YAKUHIN		57	1	1	2	-		56
	Nihonbashi Pharma		1	-	-	-	-		1
By Area	Tohoku	22		4	3	-	-		26
	Kanto	577	205	39	73	20	19		801
	Chubu	279	103	14	21	7	4		389
	Kinki	109	138	16	22	10	3		253
Total		987	446	73	119	37	26		1,469

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

## **3. Earnings Forecast for FY2017**

## 1. Projections

- ▶ Sales: 630 billion yen  
Ordinary income: 23.7 billion yen (Ordinary income ratio: 3.8%)
- ▶ Net income: 12.8 billion yen

## 2. Assumptions

- ▶ Existing store sales growth rate: 3.5%.
- ▶ Domestic store openings: 140 stores; Domestic store closures: 43 stores
- ▶ Sales from dispensing: 100 billion yen (composition ratio of sales: 15.9%)  
Number of stores with dispensing pharmacy: 1,019 stores (ratio of  
▶ stores with dispensing pharmacy: 65.1%)

## 3. Key initiatives

- ▶ Enhancement of the dispensing division (Enhancing enrollment of pharmacists)
- ▶ Refurbishment for activating existing stores (former TAKIYA & CFS Corporation)
- ▶ Cultivation of human resources
- ▶ Increasing the number of 24-hour stores and stores with "Welcafe" to 100

# Full-year forecast

Unit: million yen

	1H		2H		Full-year		Y/Y
	Amount	Composition ratio	Amount	Composition ratio	Amount	Composition ratio	
Sales	309,100	100.0%	320,900	100.0%	630,000	100.0%	119.2%
Gross operating profit	86,900	28.1%	93,100	29.0%	180,000	28.6%	120.1%
SG&A expenses	77,450	25.1%	80,750	25.2%	158,200	25.1%	120.6%
Operating income	9,450	3.1%	12,350	3.8%	21,800	3.5%	116.2%
Ordinary income	10,400	3.4%	13,300	4.1%	23,700	3.8%	116.3%
Net income	5,900	1.9%	6,900	2.2%	12,800	2.0%	134.3%
Existing-store sales growth rate	3.7%		3.3%		3.5%		
Reference: CFS Corporation's existing-store sales growth rate	1.6%		3.4%		2.5%		

\* CFS Corporation's existing stores are those as a stand-alone unit.

# Full-year forecast by company

Unit: million yen

	Welcia HP (consolidated)		WELCIA YAKKYOKU		CFS Corporation	SHIMIZU YAKUHIN	Goodwill and others
		Y/Y		Y/Y			
Sales	630,000	119.2%	484,870	107.3%	129,600	12,650	
	100.0%		100.0%		100.0%	100.0%	2,880
Gross operating profit	180,000	120.1%	137,510	107.6%	38,330	3,730	
	28.6%		28.4%		29.6%	29.5%	430
SG&A expenses	158,200	120.6%	119,050	107.7%	34,560	3,680	715
	25.1%		24.6%		26.7%	29.1%	195
Operating income	21,800	116.2%	18,460	106.8%	3,770	50	- 715
	3.5%		3.8%		2.9%	0.4%	235
Ordinary income	23,700	116.3%	19,600	105.7%	4,520	85	- 715
	3.8%		4.0%		3.5%	0.7%	210
Net income	12,800	134.3%	11,160	114.8%	2,230	10	- 715
	2.0%		2.3%		1.7%	0.1%	115

\* Year-on-year change of WELCIA YAKKYOKU is calculated combining with the figures of the result of TAKIYA.

## Plan for store openings and closures

Unit: number of stores

		Feb. 2016	Openings	Closures	Number of stores expected to be opened as of the end of Feb. 2017.
By Company	Welcia Yakkyoku	1,103	113	23	1,193
	CFS Corporation	309	25	18	316
	Shimizu Yakuhin	56	2	2	56
	Nihonbashi Pharma	1	—	—	1
By Area	Tohoku	26	9	0	35
	Kanto	801	80	17	864
	Chubu	389	24	18	395
	Kinki	253	27	8	272
Total		1,469	140	43	1,566
Reference	with dispensing pharmacy	894			1,019
	Parallel establishment ratio	60.9%			65.1%

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

# Progress of mid-term plan (from FY2016 to FY2018)

