TSURUHA HOLDINGS INC

TSURUHA HOLDINGS INC.

FY5/21 Financial Results Announcement

June 22, 2021

Event Summary

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[Participants]	
[Number of Speakers]	3

Jun Tsuruha	President and Representative Director
Makoto Murakami	Executive Officer and Chief Administrative Officer
Takuya Yamazaki	Investor Relations Manager

Presentation

Yamazaki: As the time has come, we will now hold a briefing on the financial results for the fiscal year ended May 15, 2021, of TSURUHA HOLDINGS INC. I would like to introduce today's attendees. Jun Tsuruha, President and Representative Director.

Tsuruha: This is Tsuruha. I'm looking forward to working with you.

Yamazaki: Makoto Murakami, Executive Officer and Chief Administrative Officer.

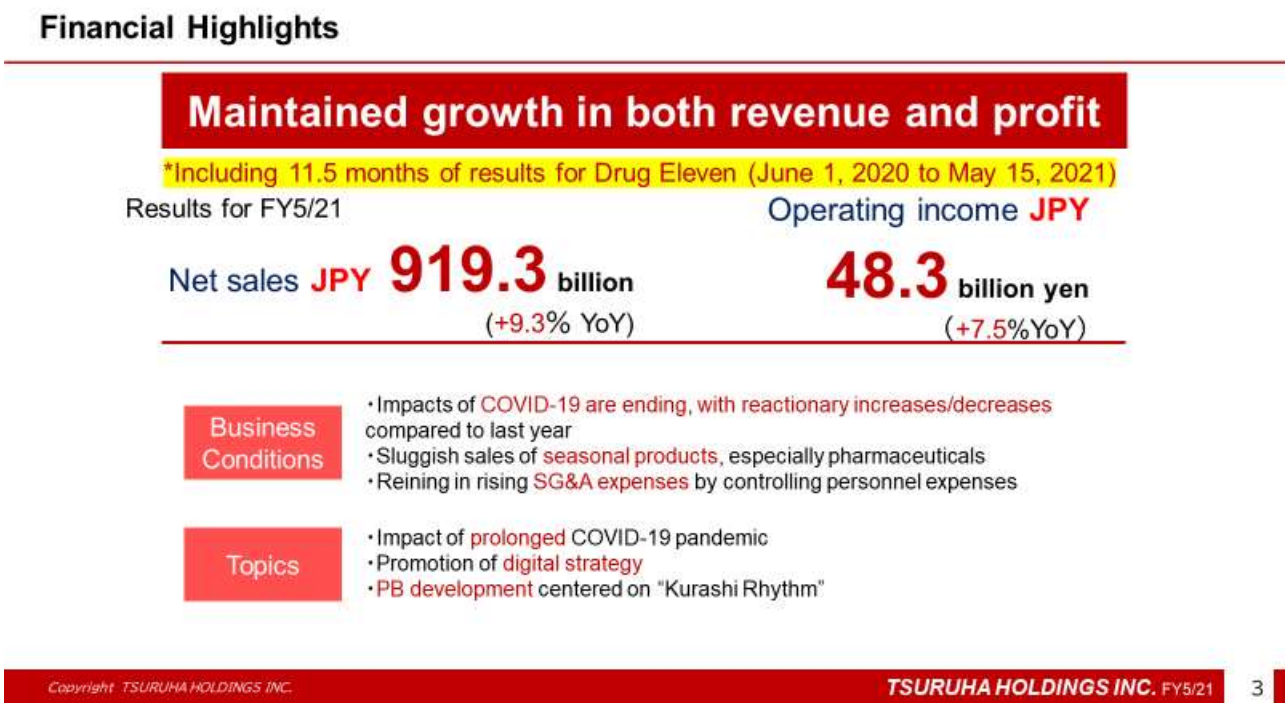
Murakami: I'm Murakami. I'm looking forward to working with you.

Yamazaki: Me, Takuya Yamazaki, Investor Relations Manager. I will also be in charge of moderating today's session. I'm looking forward to working with you.

In today's presentation, we will be sharing the presentation materials of the financial results briefing on the screen. In addition, please refer to the financial results briefing materials, supplementary materials, and financial results summary posted on our website.

I would like to give you an overview of today's proceedings. First, I will give an overview of our business results for the FY2021, followed by Murakami, who will explain the details of our business results, and finally, Tsuruha will explain our initiatives and policies for the FY2022. We will then move on to the question-and-answer session.

I will now move on to the explanation of financial results. I'm looking forward to working with you.



I will begin by providing an overview of our business performance. Please see page 3.

Full-year results for the FY2021 were sales of JPY919.3 billion and operating income of JPY48.3 billion, ending the year with increased sales and operating income despite the continuing impact of the coronavirus.

However, in the second half of the fiscal year, due to the slump in sales of seasonal winter products such as cold remedies and the saturation of demand for the coronavirus disaster last year, operating income fell below the previous year's level in the second half.

Consolidated Performance (Vs. Forecast)

Full-year	Drug Eleven 11.5 months included					2H	Drug Eleven 8.5 months included				
	Full-year Forecast (Revised on Dec. 15, 2020)		Full-year Results			2H Forecast (Revised on Dec. 15, 2020)		2H Results		
		Share		Share	Vs. Forecast		Share		Share	Vs. Forecast
Net sales	920,000	100.0	919,303	100.0	99.9	466,508	100.0	465,810	100.0	99.9
Gross profit	267,000	29.0	266,721	29.0	99.9	135,367	29.0	135,088	29.0	99.8
SG&A expenses	218,000	23.7	218,344	23.8	100.2	114,366	24.5	114,709	24.6	100.3
Operating income	49,000	5.3	48,377	5.3	98.7	21,002	4.5	20,378	4.4	97.0
Ordinary income	48,400	5.3	47,688	5.2	98.5	20,070	4.3	19,358	4.2	96.5
Net Income Attributable to Owners of the Parent	27,000	2.9	26,283	2.9	97.3	10,413	2.2	9,696	2.1	93.1

- **Gross profit**·····Inventory write-down of anti-COVID-19 products (disinfectants) negative impact of approx. 340 million yen
- **SG&A expenses**·····Exceeded plan due to commissions paid, donations (COVID-19 related), and self-consumption expenses

Then there is page 4. This is the comparison of consolidated results with the plan.

In terms of Drug Eleven's performance, we included 11.5 months for the full year and 8.5 months for the second half. Although the results were generally in line with the revised plan, there was a difference of JPY300 million each in gross profit and SG&A expenses, resulting in a downward revision of over JPY600 million in operating income.

Gross profit was negatively impacted by JPY340 million due to one-time factors such as inventory write-downs of anti-coronavirus products such as alcohol disinfectants.

SG&A expenses include an increase in commissions due to a higher-than-expected increase in cashless payments, costs for restoring closed stores to their original state, and in-house consumption of disinfectants and masks used in stores.

In addition, each of our operating companies makes donations and contributions to local governments related to coronavirus countermeasures. We have also recorded expenses of about JPY240 million for this purpose.

Excluding Drug Eleven, we achieved our sales and gross profit targets. We were able to achieve the figures mostly as planned. However, SG&A expenses were higher due to the factors I mentioned earlier, and operating income ended up being lower than expected.

Consolidated Performance (Full-Year)

Drug Eleven 11.5 months included

(Millions of yen; %)

	FY5/20		Consolidated			Excluding Drug Eleven		
	Results	Share	FY5/21	Share	YoY	FY5/21	Share	YoY
Net sales	841,036	100.0	919,303	100.0	109.3	872,290	100.0	103.7
Gross profit	244,262	29.0	266,721	29.0	109.2	253,424	29.1	103.8
SG&A expenses	199,249	23.7	218,344	23.8	109.6	205,454	23.6	103.1
Operating income	45,013	5.4	48,377	5.3	107.5	47,969	5.5	106.6
Ordinary income	462,987	5.5	47,688	5.2	103.0	47,454	5.4	102.5
Net Income Attributable to Owners of the Parent	27,899	3.3	26,283	2.9	94.2	26,745	3.1	95.9

- **Gross profit**・・・Inventory write-down of anti-COVID-19 products (disinfectants) negative impact of approx. 340 million yen
- **SG&A expenses**・・・Paid special appreciation fund of 3,000 million in the previous fiscal year / Increased costs associated with rising use of cashless payments this fiscal year
- **Net income**・・・Increase in the previous fiscal year from the income expansion tax system no longer applies to this fiscal year

Let's move on to page 5. Compared to the previous fiscal year.

The comparison with the previous fiscal year is as shown in the table. Excluding Eleven, operating income increased by 6.6%.

However, in the previous fiscal year, all employees were given special appreciation payments. As a result of the JPY3 billion factor, the actual results were almost the same as the previous year.

Current net income was boosted by the application of the Income Tax Act in the FY2020. In the FY2021, there was less of an impact from this, so the results were lower than the previous year.

Consolidated Results (Quarterly Results)

FY5/21 (millions of yen; %)

	1Q			2Q (Drug Eleven 3 months included)			3Q (Drug Eleven 3 months included)			4Q (Drug Eleven 5.5 months included)		
	Results	Share	YoY	Results	Share	YoY	Results	Share	YoY	Results	Share	YoY
Net sales	224,623	100.0	107.6	228,869	100.0	110.2	230,421	100.0	110.2	235,389	100.0	109.3
Gross profit	65,076	29.0	108.8	66,556	29.1	111.3	66,399	28.8	108.7	68,689	29.2	108.1
SG&A expenses	49,913	22.2	105.8	53,720	23.5	110.4	54,688	23.7	113.1	60,022	25.5	109.0
Operating income	15,162	6.8	120.1	12,835	5.6	115.2	11,711	5.1	91.7	8,667	3.7	102.2
Ordinary income	15,328	6.8	119.1	13,001	5.7	112.4	11,007	4.8	84.9	8,371	3.6	94.1
Net Income Attributable to Owners of the Parent	9,137	4.1	104.7	7,450	3.3	109.1	5,968	2.6	77.0	3,762	1.6	81.9

FY5/20 (millions of yen; %)

	1Q			2Q			3Q			4Q		
	Results	Share	YoY	Results	Share	YoY	Results	Share	YoY	Results	Share	YoY
Net sales	208,805	100.0	109.3	207,661	100.0	108.2	209,142	100.0	102.7	215,427	100.0	110.0
Gross profit	59,820	28.6	111.1	59,793	28.8	109.8	61,098	29.2	105.3	63,548	29.5	110.6
SG&A expenses	47,197	22.6	110.9	48,653	23.4	107.7	48,334	23.1	102.8	55,064	25.6	116.6
Operating income	12,623	6.1	111.8	11,140	5.4	120.0	12,764	6.1	116.0	8,484	3.9	82.8
Ordinary income	12,868	6.2	110.5	11,571	5.6	118.6	12,965	6.2	115.2	8,892	4.1	83.5
Net Income Attributable to Owners of the Parent	8,727	4.2	120.8	6,827	3.3	119.4	7,748	3.7	119.1	4,596	2.1	85.5

Let's move on to page 6. This is the quarterly trend of consolidated results.

You can see the table here. In addition, the results for the 5.5 months of Drug Eleven are included in the fourth quarter. We hope you will keep this in mind.

Consolidated Results (Quarterly Results) Excluding Drug Eleven

FY5/21 (millions of yen; %)

	1Q			2Q			3Q			4Q		
	Results	Share	YoY	Results	Share	YoY	Results	Share	YoY	Results	Share	YoY
Net sales	224,623	100.0	107.6	215,923	100.0	104.0	218,333	100.0	104.4	213,411	100.0	99.1
Gross profit	65,076	29.0	108.8	62,995	29.2	105.4	62,951	28.8	103.0	62,402	29.2	98.2
SG&A expenses	49,913	22.2	105.8	50,244	23.3	103.3	51,199	23.4	105.9	54,031	25.3	98.1
Operating income	15,162	6.8	120.1	12,751	5.9	114.5	11,753	5.4	92.1	8,370	3.9	98.7
Ordinary income	15,328	6.8	119.1	12,923	6.0	111.7	11,025	5.0	85.0	8,183	3.8	92.0
Net Income Attributable to Owners of the Parent	9,137	4.1	104.7	7,511	3.5	110.0	6,103	2.8	78.8	3,993	1.9	86.9

FY5/20 (millions of yen; %)

	1Q			2Q			3Q			4Q		
	Results	Share	YoY	Results	Share	YoY	Results	Share	YoY	Results	Share	YoY
Net sales	208,805	100.0	109.3	207,661	100.0	108.2	209,142	100.0	102.7	215,427	100.0	110.0
Gross profit	59,820	28.6	111.1	59,793	28.8	109.8	61,098	29.2	105.3	63,548	29.5	110.6
SG&A expenses	47,197	22.6	110.9	48,653	23.4	107.7	48,334	23.1	102.8	55,064	25.6	116.6
Operating income	12,623	6.1	111.8	11,140	5.4	120.0	12,764	6.1	116.0	8,484	3.9	82.8
Ordinary income	12,868	6.2	110.5	11,571	5.6	118.6	12,965	6.2	115.2	8,892	4.1	83.5
Net Income Attributable to Owners of the Parent	8,727	4.2	120.8	6,827	3.3	119.4	7,748	3.7	119.1	4,596	2.1	85.5

The next page 7 shows the quarterly trend excluding Drug Eleven.

I hope you will check this out as well.

Status of SG&A

Consolidated Results for Full-Year Including Drug Eleven (Millions of yen; %) Drug Eleven 11.5 months included

		FY5/19		FY5/20		FY5/21		Excluding Drug Eleven FY5/21	
			YoY		YoY		YoY		YoY
Personnel expenses	Amount	91,775	121.3	101,374	110.5	110,464	109.0	104,452	103.0
	Share of sales	11.7	+0.5	12.1	+0.4	12.0	-0.1	12.0	-0.1
Promotion expenses	Amount	5,539	114.4	5,502	99.3	5,948	108.1	5,523	100.4
	Share of sales	0.7	0.0	0.7	0.0	0.6	-0.1	0.6	-0.1
Expenses for rents	Amount	41,656	114.8	44,633	107.1	48,339	108.3	45,338	101.6
	Share of sales	5.3	-0.1	5.3	0.0	5.3	0.0	5.2	-0.1
Other expenses	Amount	42,984	120.0	47,738	111.1	53,592	112.3	50,073	104.9
	Share of sales	5.6	+0.3	5.7	+0.1	5.8	+0.1	5.7	0.0
SG&A expenses	Amount	181,956	119.2	199,249	109.5	218,344	109.6	205,387	103.1
	Share of sales	23.3	+0.7	23.7	+0.4	23.8	+0.1	23.5	-0.2

- **Personnel expenses**・・・・・・・Increased approx. 6% (except for Drug Eleven) when excluding **the special appreciation fund of the previous year**
- **Expenses for rents**・・・Part of leases from **closed stores** transferred to miscellaneous expenses (non-operating)

Next, let's move on to page 8. This is the status of SG&A expenses.

In the previous fiscal year, as I mentioned earlier, we recorded JPY3 billion in special appreciation payments for personnel expenses. Excluding this, the growth in labor costs, excluding Drug Eleven, would be about 6%. In addition, the growth in overall SG&A expenses is equivalent to 4.7%.

In the FY2021, sales growth was low, and there was only a modest improvement in the SG&A and labor cost ratio portions excluding Drug Eleven, but we believe that we have done a good job of controlling labor costs over the full year.

Store Openings and Closures

By Region

	End of FY5/20	FY5/21				
		Openings	Closures	Acquisitions, etc.	Net change	End of year
Hokkaido	404	21	11	-	+10	414
Tohoku	506	32	5	-	+27	533
Kanto, Koshinetsu	473	35	18	3	+20	493
Chubu, Kansai	233	17	13	-	+4	237
Chugoku	300	16	3	2	+15	315
Shikoku	211	10	9	-	+1	212
Kyushu, Okinawa	23	7	16	202	+193	216
Total for Japan	2,150	138	75	207	+270	2,420
						(Other: 4 franchise stores)
International (Thailand)	22	2	2	-	0	22

By Operating Company

	End of FY5/20	FY5/21				
		Openings	Closures	Acquisitions, etc.	Net change	End of year
Tsuruha	1,253	85	33	-	+52	1,305
Kusurino Fukutaro	230	15	12	-	+3	233
TGN	286	17	6	1	+12	298
Lady Drug Store	228	8	8	-	0	228
Kyorindo	84	5	2	-	+3	87
B&D	68	2	1	-	+1	69
Drug Eleven	-	6	13	206	+199	199
TGMD (EC HQ)	1	-	-	-	0	1
Total for Japan	2,150	138	75	207	+270	2,420

Store openings went according to plan (previous plan was for 136)

Store closures exceeded the plan (previous plan was for 55)

- The protraction of the COVID-19 pandemic resulted in more store closures than planned (inbound stores and urban stores)

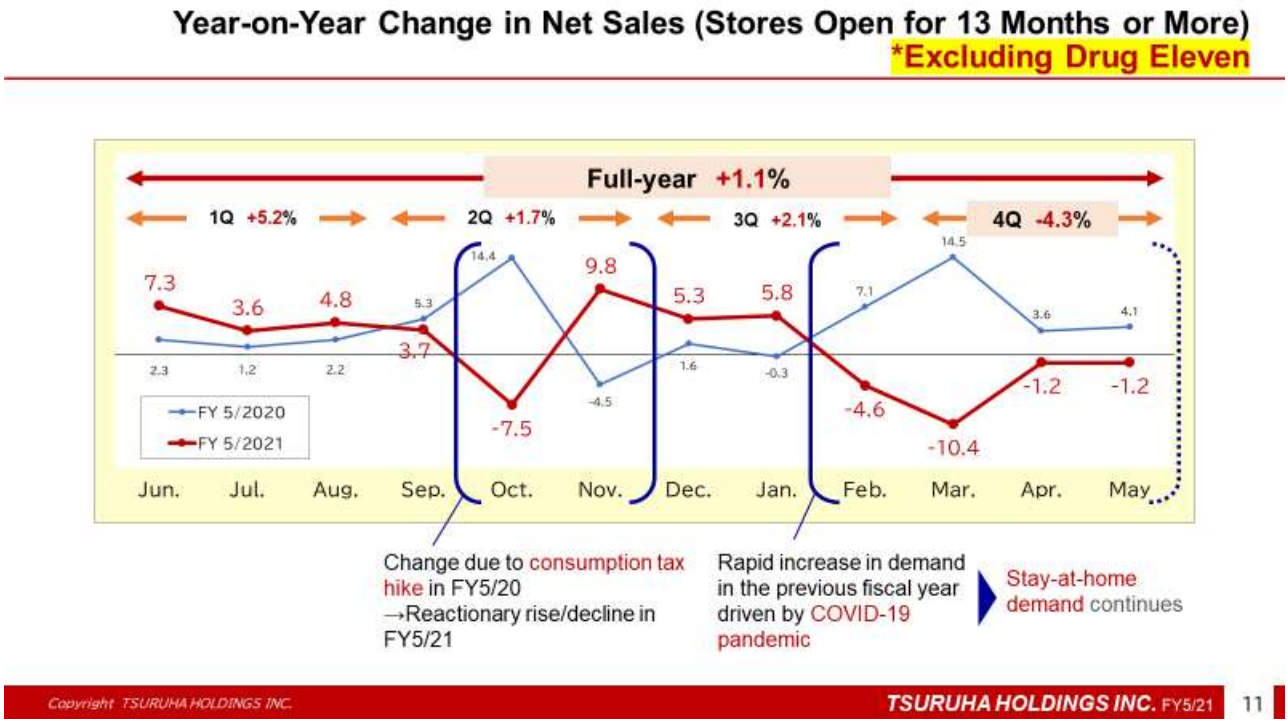
Let's move on to page 9. The status of store openings and closings.

The number of stores opened was 138, which went according to the initial plan. The initial plan was to open 136 stores. As for store closures, we ended the fiscal year with 75 store closures compared to our plan of 55 stores, mainly due to the closing of 17 stores in connection with the coronavirus. Details by Company and region are shown in the table.

This is the explanation of the materials, but I would like to make one note that our closing date for the fiscal year, May15, 2021, falls on a Saturday. B/S and cash flow statements are affected by the financial institution holidays. For details, please refer to the supplementary materials for financial results uploaded on our website.

As mentioned above, I, Yamazaki, gave an overview of our business performance.

Next, Murakami will explain the details of our achievements and initiatives for the FY2021.

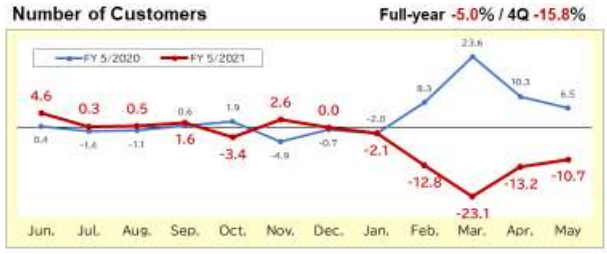


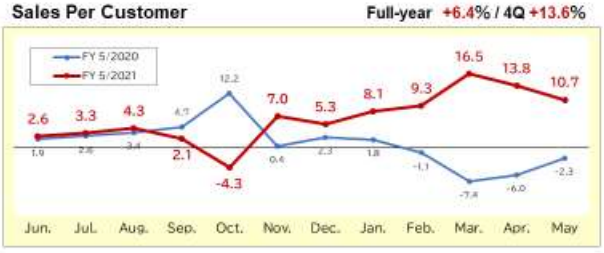
Murakami: Now, I would like to continue from here. I'm looking forward to working with you.

Please see page 11. This is the YoY change in sales.

As you can see, the growth was high in the first half, but in the third quarter, it turned negative due to the rebound from last year.

Sales Data Analysis (Stores Open for 13 Months or More)
***Excluding Drug Eleven**





Please see the next page. This is followed by the details of the sales analysis.

Especially from the second half of the year, the number of customers decreased in reaction to last year, while the average spending per customer, the average unit retail, and number of items purchased increased.

Reference: Unit Price of Products and Number of Items Purchased (excluding Plastic Bags)

Began charging for plastic bags in July 2020

- When plastic bags are purchased by customers, / their sales are recorded as merchandise sales
- Since the unit price per bag is 2 to 9 yen and 1 bag = 1 item, this is a positive factor for the number of items purchased, but a negative factor for the unit price of products
- Little impact on Sales Per Customer

Unit Price of Products (excluding the impact of plastic bags)

Number of Items Purchased (excluding the impact of plastic bags)

Please see page 13. Trends in unit price and number of items purchased, excluding chargeable plastic bags.

This has been explained in the previous briefings, so I will not go into details.

Sales Situation by Region and Operating Company

by Region (share, existing store sales [full-year]) (%)

	Share of total store sales	Existing store sales YoY		
	FY5/21	FY5/19	FY5/20	FY5/21
Hokkaido	17.1	101.7	103.8	100.5
Tohoku	19.7	101.8	104.3	101.4
Kanto, Koshinetsu	16.8	100.7	104.0	99.6
Chubu, Kansai	18.0	96.9	101.3	97.7
Chugoku	14.6	102.6	107.1	106.0
Shikoku	7.9	101.7	104.2	103.9
Kyushu	5.9	106.6	123.6	108.7
Total	100.0	101.5	104.2	101.1

by Operating Company (existing store sales [full-year]) (%)

	Existing store sales YoY		
	FY5/19	FY5/20	FY5/21
Tsuruha	101.5	103.0	99.8
Kusurino Fukutaro	99.2	103.1	98.1
TGN	102.3	108.2	105.8
Lady Drug Store	102.7	104.3	105.2
Kyorindo		104.8	101.2
B&D			99.4
Total	101.5	104.2	101.1

Please see page 14. Sales by region and by company.

The last fiscal year was a year in which the performance of operating companies correlated with the YoY change in sales by region. Specifically, please look at the results by operating company on the right side of the document.

First of all, in the case of TSURUHA, it was a very difficult year due to the high ratio of OTC and cosmetics sales and the disappearance of inbound sales.

Fukutaro is an operating company with a very high ratio of dispensing drugs, and it was the operating company most affected by the suppression of medical examinations due to the coronavirus. Fukutaro also had a very difficult year.

TGN, Lady Drug Store, and Kyorindo all performed very well in the year under review, thanks to the demand of home consumption caused by the coronavirus.

Finally, B&D experienced a year of slightly slower sales growth due to the remodeling of major stores.

Results by Product Group (Full-Year)

*Including online sales (Millions of yen; %)

		Net Sales			Gross profit margin	
			YoY	Share		YoY
Products	Pharmaceuticals	193,783	105.5	21.1	42.2	+0.4
	Prescriptions	93,029	108.7	10.1	39.0	+2.0
	OTC	100,754	102.7	11.0	45.2	△0.9
	Cosmetics	133,348	99.9	14.5	33.3	+0.1
	Misc. daily necessities	260,232	113.4	28.3	26.9	+1.2
	Foods	212,803	109.4	23.1	14.4	△0.9
	Other	115,281	119.6	12.6	32.8	△1.1
	Products total	915,449	109.3	99.6	28.9	0.0
Total		919,303	109.3	100.0	29.0	0.0

Gross profit margin declined in 3Q and 4Q due to the reactionary drop owing to COVID-19 in FY5/20

Pharmaceuticals

- Downturn in sales of cold medicine, etc.
- Declining gross profit margin for dispensing in 4Q due to NHI drug price revision (→P17)

Cosmetics

- Basic cosmetics recovering
- Specific brands boosting gross profit

Others

- Reactionary drop and weaker gross profit margin for OTC products (masks, sanitizers and thermometers, etc.)

We will continue with page 15. The results are by product group.

First of all, in terms of the categories that performed well, daily sundries continued to profit off the demand of home consumption and grew at a high rate throughout the year, as well as sales of food products, though demand has calmed down a little bit for the latter.

On the other hand, in terms of sluggish categories, the OTC category had a very tough year due to a slump in sales of medicine against colds and other products as a result of thorough infection prevention.

In addition, although sales of basic cosmetics have been recovering, sales of cosmetics were down YoY due to factors such as people cutting back on going out and wearing masks. Please refer to the next page for more information on dispensing.

Results by Product Group (Full-Year) *Excluding Drug Eleven

*Includes online sales (Millions of yen; %)

		Net Sales			Gross profit margin	
			YoY	Share		YoY
Products	Pharmaceuticals	184,594	100.5	21.2	42.4	+0.5
	Prescriptions	90,788	106.1	10.4	38.9	+1.9
	OTC	93,805	95.6	10.8	45.7	△0.4
	Cosmetics	123,491	92.5	14.2	33.5	+0.4
	Misc. daily necessities	244,741	106.7	28.1	27.4	+1.7
	Foods	209,947	107.9	24.1	14.4	△0.9
	Other	105,633	109.6	12.2	32.6	△1.3
	Products total	868,408	103.7	99.6	28.9	0.0
Total		872,089	103.7	100.0	29.0	0.0

Breakdown of "Other" in product groups

	Net sales *POS basis		
		YoY	Share of total products
Health foods	32,035	108.3	3.5
Healthcare products/nursing care	61,008	125.2	6.7
Childcare products	21,813	98.1	2.4

Please turn to page 16. This figure excludes Drug Eleven. The trend is almost the same as what I explained earlier, so I will spare you the details.

Dispensing Division Results

Consolidated Results *Including Drug Eleven

(Millions of yen; %)

	FY5/21 Full-Year			4Q	
	FY5/20	FY5/21	YoY	Results	YoY
Dispensing remuneration (millions of JPY)	85,597	93,029	108.7	25,224	114.4
Gross profit margin (%)	37.0	39.0	+2.0	38.6	-0.7
Prescriptions filled (thousands)	8,252	8,650	104.8	2,360	121.4
Unit price (JPY)	10,372	10,754	103.7	10,686	94.3

Excluding Drug Eleven

(Millions of yen; %)

	FY5/21 Full-Year		4Q	
	Results	YoY	Results	YoY
Dispensing remuneration (millions of JPY)	90,788	106.1	24,151	109.5
Gross profit margin (%)	38.9	+1.9	38.2	-1.1
Prescriptions filled (thousands)	8,361	101.3	2,223	114.3
Unit price (JPY)	10,858	104.7	10,861	95.8

Dispensing Pharmacies by Operating Company

	End of FY5/20	End of FY5/21	Details	
			Attached	Independent
Tsuruha	288	310	271	39
Kusurino Fukutaro	96	104	46	58
TGN	92	103	81	22
Lady Drug Store	54	55	32	23
Kyorindo	67	67	54	13
B&D	18	24	18	6
Drug Eleven	-	20	10	10
Total for Japan	615	683	512	171

- **Gross profit margin increased 2.0pts for FY5/21 despite declining in 4Q**
  - Gross profit margin declined in the due to the NHI price revision in April 2021
  - In FY5/20, gross profit margin increased in 4Q at the conclusion of negotiations for NHI price revision in October 2019 → Reactionary decrease in FY5/21

Please turn to page 17. This is an achievement in dispensing.

On a consolidated basis, we achieved 108.7% of the dispensing fee amount compared to the previous year. As I mentioned earlier, in the first half of the year, the number of prescriptions fell below the previous year's level due to restraints on medical visits, but it has finally returned to normal in the fourth quarter.

Reference: Changes in Prescriptions Filled and Unit Price
***Excluding Drug Eleven**

Number of prescriptions filled year on year (full-year; excluding Drug Eleven): 101.3%

- Secured prescriptions by promoting face-to-face services using the dominant area store network (dispensing pharmacies attached to drug stores)

Impacts after Japan's state of emergency were relatively limited compared to last year

- April 2021: Large bounce back from last year, leading to increased prescriptions and declining unit price

18 pages of details. Let us move on to the trends in the number of prescriptions and unit prices.

As you can see, in the first half of the year, the number of prescriptions fell below the previous year's level, while the unit price continued to be very high.

Finally, the number of prescriptions has been increasing compared to the previous year.

PB Products Results (Full-Year) *Excluding Drug Eleven

(Millions of yen; %)

	Net sales			Share of sales (%) *Product sales excluding dispensing		Gross profit margin (%)	
	FY5/20	FY5/21	YoY	Results	YoY	Results	YoY
Kurashi Rhythm series	15,266	24,484	160.4	3.2	+1.2	46.4	-4.3
M's one / Medis' one	21,862	17,067	78.1	2.2	-0.7	38.7	-4.8
Subtotal	37,128	41,551	111.9	5.4	+0.5	43.2	-3.3
Exclusive products / Limited edition products	23,176	22,440	96.8	2.9	-0.2	44.5	-1.6
Total	60,304	63,991	106.1	8.3	+0.3	43.7	-2.6

	SKUs			
	Kurashi Rhythm series	M's one / Medis' one	Exclusive products / Limited edition products	Total
Pharmaceuticals	98	38	593	729
Foods	51	107	355	513
Medical supplies	203	77	115	395
Childcare products	4	4	16	24
Cosmetics	76	10	158	244
Daily necessities	308	54	316	678
Total	740	290	1,553	2,583

- **Achieved targets for net sales and SKUs**
  - Total sales including Kurashi Rhythm and M's one: **41.5 billion yen**
  - Kurashi Rhythm at year-end: **740SKUs**
- **Decline in gross profit margin and slowdown in sales growth**
  - **Weaker sales of cold medicine and nutritional supplement drinks, lower gross profit margin on masks**

Progress: Drug Eleven

- Kurashi Rhythm Series Introduced approx. 550 SKUs
- Share of total PB sales: 2.4% for full-year (4.3% from March to May)

Please turn to page 19. The following are the achievements of our Private Brand (PB).

At the beginning of the fiscal year, we set a goal of increasing the number of SKUs in Kurashi Rhythm to 700, and we were able to realize this by achieving 740 SKUs. As a result, the ratio of PB to total sales was 8.3%, up 0.3% from last year. I believe that the penetration of PB is progressing smoothly.

On the other hand, the gross profit margin declined slightly, as you can see in the table below. This was due to a slump in sales of cold medicine and drinks, and a decline in the gross profit margin of masks.

Next, the situation of Drug Eleven's PB. Please see the bottom right corner of the page. The introduction of Kurashi Rhythm is going very smoothly.

President Tsuruha will now explain our business forecast and initiatives for the FY2022.

Thank you very much.

Full-Year Plan for FY5/22

(Millions of yen; %)

	FY5/21		FY5/22		Revenue recognition standard Before change (estimated)		
	Results	Share	Forecast	Share	Forecast	Share	YoY
Net sales	919,303	100.0	956,000	100.0	975,700	100.0	106.1
Gross profit	266,721	29.0	286,500	30.0	287,700	29.5	107.9
SG&A expenses	218,344	23.7	235,300	24.6	236,500	24.2	108.3
Operating income	48,377	5.4	51,200	5.4	51,200	5.2	105.8
Ordinary income	47,708	5.5	51,367	5.4	51,367	5.3	107.7
Net Income Attributable to Owners of the Parent	26,318	3.3	28,280	3.0	28,280	2.9	107.6

Main impacts from change in revenue recognition standard

- Outsourced sales·····Net amount of fees/commissions recognized as net sales
- Points granting····Deducted from net sales at time of points granting (at the time of use before)

Tsuruha: I will now explain the earnings forecast for the FY2022. I'm looking forward to working with you.

Page 21. First of all, since the accounting standard for revenue recognition will be newly applied from the beginning of this fiscal year, the forecast is based on this standard.

This is the full-year plan for the FY2022. The blue column here is the actual plan, and the red column shows the figures compared to the figures before the change in revenue recognition standards.

First of all, sales of JPY956 billion, a rough estimate on a pre-revenue recognition basis, will be 106.1% of the previous year's level. Gross profit was JPY286.5 billion, 107.9% of the previous year's level; SG&A expenses were JPY235.3 billion, 108.3% of the previous year's level; operating income was JPY51.2 billion, 105.8% of the previous year's level; and net income attributable to shareholders of the parent was JPY28.28 billion, 107.6% of the previous year's level.

The main impact of this change in revenue recognition standards will be on consignment sales and point system. Overall, this will have an impact of approximately 2% on the Group's sales.

Full-Year Plan for FY5/22 (H1/H2)

	1H		Revenue recognition standard Before change (estimated)			2H		Revenue recognition standard Before change (estimated)		
	Forecast	Share	1H Forecast	Share	YoY	Forecast	Share	2H Forecast	Share	YoY
Net sales	472,000	100.0	481,600	100.0	106.2	484,000	100.0	494,100	100.0	106.1
Gross profit	140,300	29.7	140,900	29.3	107.0	146,200	30.2	146,800	29.7	108.7
SG&A expenses	115,700	24.5	116,300	24.1	112.2	119,600	24.7	120,200	24.3	104.8
Operating income	24,600	5.2	24,600	5.1	87.9	26,600	5.5	26,600	5.4	130.5
Ordinary income	24,777	5.2	24,777	5.1	87.5	26,590	5.5	26,590	5.4	137.4
Net Income Attributable to Owners of the Parent	14,300	3.0	14,300	3.0	86.2	13,980	2.9	13,980	2.8	144.2

- 1H
  - Hurdle of stay-at-home consumption of FY5/21
- **2H**
  - **Impacts from weaker cold medicine sales from FY5/21 will end**
- **Assumptions for existing store sales**
  - Stores open for 13 months or more・・・Full-year: **+2.3** (H1: **+0.4**, H2: **+4.3**)

Next, please turn to page 22. Here is the breakdown of the plan for the first half and the second half.

In the first half of the year, there is a consumption hurdle from the previous year's home consumption. In addition, the economic instability caused by the coronavirus is expected to continue.

On the other hand, the second half of the fiscal year has been set higher due to expectations of a future economic recovery as a result of the spread of vaccines, as well as the fact that the effect causing the slump in the previous year is expected to come to an end.

Sales at existing stores are expected to increase by 2.3% for the full year.

Forecast of Store Openings and Closures for FY5/22

by Region

	End of FY5/21	FY5/22			
		Openings	Closures	Net change	Stores at end of FY5/22
Hokkaido	414	17	12	+5	419
Tohoku	533	40	5	+35	568
Kanto, Koshinetsu	493	38	7	+31	524
Chubu, Kansai	237	15	5	+10	247
Chugoku	315	19	4	+15	330
Shikoku	212	15	5	+10	222
Kyushu, Okinawa	216	14	10	+4	220
Total for Japan	2,420	158	48	+110	2,530

(Other: 4 franchise stores)

by Operating company

	End of FY5/21	FY5/22			
		Openings	Closures	Net change	Stores at end of FY5/22
Tsuruha	1,305	95	28	+67	1,372
Kusurino Fukutaro	233	10	4	+6	239
TGN	298	25	3	+22	320
Lady Drug Store	228	12	2	+10	238
Kyorindo	87	4	-	+4	91
B&D	69	5	-	+5	74
Drug Eleven	199	7	11	-4	195
TGMD (EC HQ)	1	-	-	0	1
Total for Japan	2,420	158	48	+110	2,530

Renovations to existing stores: 290

- Increased product lineup include meats and fresh product, introduce 100 JPY products, and renovated dispensing pharmacies, etc.

Page 23, please. We are planning to open and close stores.

In the current fiscal year, we plan to open 158 stores and close 48 stores. The net increase will be 110 stores. We are planning to open more stores than usual.

As you can see in the table below, we are mainly opening stores to strengthen our dominant position in the Tohoku, North Kanto, Chugoku, and Shikoku regions.

We are also planning to renovate 290 existing stores this fiscal year.

Review of FY5/21 (Main Initiatives)

Pursued new approaches to stores and services compatible with changes in lifestyles and consumption due to the protracted nature of the COVID-19 pandemic

- **Promoted digital strategy**
  - Increased app users
    - 3.5 million downloads as of end of FY5/21
  - Improved app functionality
    - Added product search and inventory check features
    - Began streaming video content
  - Utilized shift creation system
    - Ascertained required workers/hours for each store
    - Reduced overtime and rationalized part-timer hours
- **Acquired Drug Eleven**
  - Mainly urban stores faced downturn in sales from COVID-19
  - Gross margin improved from joint purchasing
  - Promoted renovations of existing stores
- **Expanded meat and fresh produce**
  - Stores with outsourced sales: approx. 740
  - Increased sales and customers
- **Developed Kurashi Rhythm brand**
  - Expanded products co-developed with manufacturers
  - Dieticians participated in product development

Please turn to the next page. I would now like to explain our initiatives and policies for the current FY2022.

Page 25, please. This is a review of the previous year's activities.

Again, in the previous fiscal year, amid the prolonged effects of the coronavirus, we pursued stores and services that respond to changes in lifestyle and consumption.

In this context, as part of our digital strategy, we have been strengthening our efforts to acquire app members, mainly for smartphones. We did not reach our target of 4 million app downloads, and ended the previous fiscal year with just over 3.5 million.

However, we were able to increase the purchase amount of the acquired members, so I think we were able to achieve a certain effect.

In addition, there is the integration of Drug Eleven, which joined the Group in the previous fiscal year. Increase in the number of customers through the introduction of meat and produce. We have been developing and fostering our PB of Kurashi Rhythm.

In the current fiscal year, we will continue and strengthen the efforts made in the previous fiscal year.

Dispensing Business Strategy

Promote openings of attached pharmacies and expand share of sales

Promote new store openings mainly of pharmacies attached to existing stores through collaboration between store development and hiring departments

- **Promote new store openings**
  - New pharmacies in FY5/22: **91**
- **Promote in-home services**
  - Respond to demand for prescription drugs from **nursing care facilities, etc.**
- **Streamline drug dispensing operations**
  - Introduce **dispensing systems**
  - **Systemize** orders and inter-store transfers

Please turn to page 26. One of our initiatives for the current fiscal year is to promote the opening of new dispensing pharmacies, and we plan to open 91 new pharmacies; more than usual.

We will also strengthen the promotion of home care by filling prescriptions from nursing homes and other facilities.

We will also continue to work on the introduction of dispensing equipment and systemization for operational efficiency.

Reference: Summary of Tsuruha Group Dispensing Business

Trailing 5 Years

		FY5/17	FY5/18	FY5/19	FY5/20	FY5/21
		(Tsuruha + Fukutaro + TGN + Lady)		(4 companies on the left + Kyorindo, B&D)		(All)
Net sales	(Millions of JPN)	54,796	58,992	76,703	85,597	93,029
(YoY)	(%)	101.9	107.7	※2 103.3	111.6	※3 106.1
Gross margin ratio	(%)	37.5	37.6	37.5	37.0	39.0
Prescriptions filled	(Thousands)	5,651	5,964	7,822	8,252	8,650
(YoY)	(%)	107.6	105.5	※2 105.7	105.5	※3 106.1
Prescriptions filled per pharmacy per day *1	(Prescriptions/day)	54.2	52.4	55.3	53.7	50.7
Number of stores at year-end	(Stores)	417	455	566	615	683
New pharmacy openings	(Stores)	45	41	56	57	66
Attached to existing drugstores	(Stores)	39	34	47	46	56
Pharmacy closures	(Stores)	13	3	17	10	22
Number of pharmacists	(Persons)	1,906	2,081	2,738	2,870	3,204

*1. Calculated according to the following formula: Number of prescriptions ÷ Number of stores at year-end ÷ 250 (estimated number of business days)
*2. Year-on-year comparison except for Kyorindo and B&D
*3. Year-on-year except for Drug Eleven

Share of Sales and Number of Pharmacies

	Share of sales (%)	Share of pharmacies (%)
Tsuruha	6.4	23.8
Kusurino Fukutaro	26.1	44.6
TGN	12.8	34.6
Lady Drug Store	10.0	24.1
Kyorindo	14.2	77.0
B&D	9.7	34.8
Drug Eleven	4.7	10.1
Consolidated	10.1	28.2

Please turn to page 27. We have included this page for your reference. The following is an overview of the dispensing business of the TSURUHA Group for the past 5 years.

Currently, the ratio of sales to total sales is 10.1%, and the ratio of dispensing stores is 28.2%.

Digital Strategy

Development of data infrastructure and Creation of business improvement synergies using IT

Simplify store operations, secure opportunities to serve customers, and improve the efficiency of headquarters operations through the introduction and use of digital tools

Leveraging the digital cosmetics ledger

- **Improve efficiency of customer and performance management tasks**
  - Separate ledgers for each manufacturer
    →**Centralized management based on customer ID**
  - Manual management of customer information, products used, etc.
    →**Linked membership and POS data**
  - Monthly total and reporting
    → **Automation**
- **Centralized company-wide customer data**
  - Maintain a ledger at each store
    →**Data sharing among all stores and use it in marketing**

Support system for shift creation

- **Expansion to operating companies**
  - Introduced to Lady Drug Store and Kusurino Fukutaro

Improving efficiency of administrative department operations

- Promote paperless and digitalization

Building a new network

- Traffic improvement to enhance time efficiency
- Ensure security

Please turn to page 28. Our initiatives for this fiscal year will continue to be digital strategy.

Through the introduction and use of digital tools, we will work to simplify store operations and secure opportunities to serve customers, as well as improve the efficiency of headquarters operations.

From this fiscal year, we have digitized our cosmetics ledger. With the digitalization of the cosmetics ledger, which used to be based on the manufacturer's information, it will now be based on the customer's information, which will enable us to make proposals that are closer to the customer's purchasing information than ever before.

It can also create an environment where other staff members can easily cover customer service when the cosmetics staff is not available. In addition, the data will be automatically entered into the ledger, which is expected to significantly reduce the workload of those in charge of cosmetics.

In addition, we will start to introduce the shift preparation support system to our operating companies from this fiscal year onward. This system has already been introduced at TSURUHA CO., LTD.

Digital Strategy

Expand customer contact points with DX

Develop a digital infrastructure to realize 1 to 1 marketing centered on smartphone apps and promote coordination and integration of various DX measures

Further expansion of app members

- Promote download and membership registration

Strengthen functions for customers

- Enhance content distribution
- Strengthen product-related functions
  Product search, inventory information, layaway, etc.

Synergy effects with other DX measures

- Linkage with digital cosmetics ledger
  - Purchase history, messages from the person in charge, etc.
- E-commerce growth
  - Delivery and in-store pickup from each store
- Construction of database, utilization of DMP
  - Development of data analysis infrastructure
  - Testing of 1-to-1 marketing measures

Page 29, please. This is a continuation of the digital strategy.

In the current fiscal year, we have set a target of 7 million downloads for app members, and we will further promote membership registration. Data show that the frequency of visits to the store increases 1.5 times more when you become a member of the smartphone app than when you become a regular loyalty card member.

In addition, we will continue to strengthen our efforts to acquire more members, as data show that the purchase amount has increased by 110%.

In addition, we will continue to build the customer database that we started in the previous fiscal year, and will start implementing 1-to-1 marketing measures on a trial basis from this fiscal year.

Initiatives to Increase Convenience

Respond to new lifestyles

Leverage the strengths of brick-and-mortar stores to enhance the convenience of one-stop shopping and to address changes in consumption behavior during the protracted COVID-19 pandemic

- **Introduce meats and fresh produce**
  - **Further expand stores carrying meats and fresh produce**
    Synergistic effects of meat and fresh produce
    600 stores carrying both → 900 stores
  - **Improve quality, lineup and sales floor**
    Work closely with vendors in each region
- **Introduce 100-yen products**
  - **Introduce at same time as renovations to existing stores**
    Planned to add 59 stores in FY5/22
- **Provide pick-up locations for e-commerce products**
  - **Tie-up with Yamato Transport (Hokkaido area)**
    - Able to designate Tsuruha store of choice as pick-up location for purchases
  - **Install lockers for pick up**
- **Utilize delivery services**
  - **Partnership with Wolt (Hokkaido area)**
    - Starting with 7 stores in Hokkaido, with plans to expand steadily thereafter

Please go to page 30. As part of our efforts to improve convenience, we will continue to support one-stop shopping at our stores.

We will continue to introduce meat and produce for convenience.

In the current fiscal year, we are also planning to introduce JPY100 sales sections in stores with even larger sales floor space. The goal is to increase the number of customers and purchases.

Also, although the scale is still small in some stores, we have already started an experiment to introduce this EC product pickup and delivery service, Wolt, in only a few stores in Hokkaido. Once the experimental phase is over, we plan to expand the number of stores.

Other Initiatives

Private brand strategy

Leverage scale merits to expand private brands with a focus on Kurashi Rhythm

- **Further expand product lineup**
  - Target SKUs for Kurashi Rhythm: **850 SKUs**
    - Strategically priced products to combat national brands
    - Unique (only-one) products with exceptional quality
- **Expand sales using recommendations and proposal strengths**
  - Target net sales of private brand products: 70 billion yen

Product	Future Directions
M's one	Planning to discontinue sales after switch to Kurashi Rhythm or removal
Kurashi Rhythm	Expanding SKUs and fostering the brand value while providing differentiated high value-added products
Exclusive products / Limited edition products	Complementing the product line of Kurashi Rhythm with a focus on pharmaceuticals, foods, and general cosmetics

PMI of Drug Eleven

Revitalize existing stores using renovations and S&B and pursue synergies and further integration

- **Increase competitiveness of existing stores**
  - Fully renovated stores in FY5/22: **10**
  - Closures associated with **S&B**
    - 7 store closures in FY5/22 →4 store openings in FY5/22 and 3 store openings in FY5/23
    - Re-opened one store in FY5/22 that was closed in FY5/21
- **Release new point card and smartphone app**
  - Operate on shared Group-wide platform
- **Introduce shift creation system**
  - Planned to introduce in H2 FY5/22

Page 31, please. This will be a private brand product initiative.

Kurashi Rhythm is the Group's brand. We have set a development target of 850 SKUs by the end of this fiscal year. This is 114% compared to the previous fiscal year.

In addition, we have set a budget of JPY46.2 billion for the combined sales of the Group brands Kurashi Rhythm and the former M's one. This is also a YoY increase of 111%.

For PB as a whole, we are targeting sales of JPY70 billion, which is 108% of the previous year's level, but we will aim to achieve 8.5% of the so-called PB sales composition this fiscal year.

As for Drug Eleven, we will continue to revitalize existing stores through renovation and scrap-and-build activities this fiscal year. In the current fiscal year, Drug Eleven plans to fully renovate 10 stores and sand rebuild 7 stores.

Drug Eleven plans to fully renovate and scrap-and-build 60 to 70 stores over the next 3 years, including the current fiscal year. For the next 1 to 2 years, the overall performance of the Company will tend to level off, but we have already started to see the effects of the recent renovation of food stores, et cetera, and we believe that these renovations as well as scrap-and-build initiatives will definitely contribute to our performance.

In addition, Drug Eleven will be shifting to a Group-wide format for its loyalty cards and apps in the fall, so we expect to be able to operate more effectively.

Initiatives for Sustainability

Expand ESG-related disclosures

Launched a "Sustainability" page on the Tsuruha HD website to organize and promote the disclosure of non-financial information

- **Organize initiatives and begin improving disclosure status**
  - Disclose on website
  - Identify materiality

New corporate website:
https://www.tsuruha-hd.com

Please turn to page 32. Here is a report on our efforts to promote sustainability.

We also consider ESG-related initiatives and the enhancement of information disclosure to be important issues, and we are pleased to announce that we have opened a new sustainability page on our website.

Initiatives for Sustainability

Management Philosophy and the SDGs

ツルハグループ Management Philosophy

We bring richness and surplus to customers' lives. Tsuruha Holdings, Inc. will become the pride of Japan.
Let us become the drug store that everyone wants to visit again and to share with their friends.
Let us become the drug store that community residents will recommend with confidence. This is the one and only way for us to ensure happiness, richness, and surplus in the life of our employees and customers and generate high productivity and profitability, thereby contributing to the society.

We make social contributions through providing a healthy lifestyle and a platform for employment and economic activities as a lifeline that ensures the livelihood of the community.

Contributing to the local community through our business

Business Strategy and Social Value

Basic strategy		Social value
Expand stores following the dominant area strategy	Open stores mainly in regions and seek to further expand network	Provide products and services essential to everyday life as a lifeline for local communities
Pursue specialization and convenience	Aim to be a drug store that is convenient and trusted by focusing on the development of human resources with specialized knowledge	Help to solve customer issues through the provision of products and services focused on health care and beauty care
Expand lineup of PB products and enhance product strengths	Actively develop new products and improve existing ones to provide more appealing products	Build positive relationships with manufacturers and suppliers and increase the quality of life of customers through products with exceptional quality
Boost Group's organizational strengths and earnings power	Seek to grow profits using scale merits and strive to further increase corporate value	Return profits to shareholders and investors by increasing the dividend based on continuous profit growth

Please turn to page 33.

Our approach has been to promote business activities based on the management philosophy of the TSURUHA Group, which is to provide affluence and comfort to the lives of our customers.

In the future, in order to fulfill our corporate responsibilities, we will strive to make further contributions to local communities through our business, face various social and environmental challenges, and aim to be a Company that contributes to the development of the SDGs through dialogue with our stakeholders.

Initiatives for Sustainability

Recent and future initiatives

Climate change countermeasures

- Utilize J-Credit System
  - Sales of CO_2 credits reduced by energy saving measures such as store lighting and air conditioning
  - Finalized portion for April 2021: 29,439t-CO_2
    →Cumulative since 2018: 70,120t-CO_2
- Solar power generation system for own use
  - Utilize renewable energy
  - Preparing to install in fall 2021 and beyond

Further strengthen Corporate Governance System

- Transition to the governance structure of a company with Audit & Supervisory Committee
  *Conditional on approval at the shareholders' meeting scheduled for August 10
- Establish policy on the compensation of individual directors
- Establish optional Nomination Committee
- Establish standards for the selection of outside officers

Please turn to page 34. This is an example of our most recent sustainability initiatives.

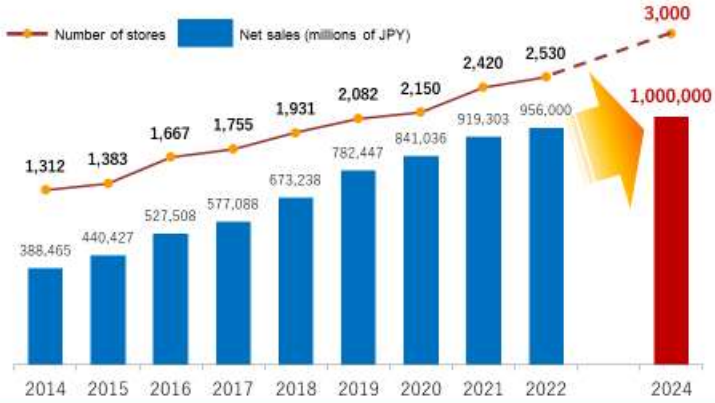
We are reducing CO2 emissions by making our stores more energy efficient. We sell this reduction quota through the J-credit scheme.

In addition, from this fiscal year, we will begin installing solar power generation equipment.

Also, on the right side of this page, in terms of governance, we are planning to shift to a Company with an Audit Committee. We will continue to further enhance our governance system.

Mid-Term Targets

Target for FY5/24 **Stores: 3,000** **Net sales: JPY 1 trillion**



- Pursue specialization and convenience
- Expand stores following the dominant area strategy
- Expand lineup of PB products and enhance product strengths
- Boost Group's organizational strengths and earnings power

Finally, we come to page 35.

We will continue to pursue specialization and convenience, strategic dominance through new store openings, expansion PB products, improvement of product appeal, and the strengthening the Group's organizational capabilities and profitability. This will be our basic strategy to achieve our medium-term target of JPY1 trillion in sales and 3,000 stores in the FY2024.

This concludes my explanation.

Thank you very much.

Question & Answer

Yamazaki: Now, let's move on to the question-and-answer session. Then, please go ahead.

Questioner A: Thank you for your help. Now, I would like to mention 3 points.

The first point is about your forecast for existing stores. In the first half of this fiscal year in particular, you overcame the repercussions of the home-consumption period and secured an increase in revenue. Could you tell me more about this in detail? Please tell us about the evidence for the movement of the number of customers, the average spent per customer, and for what products. This is the first point. Can I ask you one question at a time?

Yamazaki: Yes, please do so. Let us answer.

Tsuruha: Yes, I will respond to your question. Thank you for your question.

Regarding the reactionary decline in the first half, as you mentioned, we expect that coronavirus-related products, such as masks, disinfectants, and hand soaps, will probably experience a reactionary decline by the first half of the year, or the middle of the third quarter.

This negative impact will be offset by cosmetics, which have recovered in demand. Since the cosmetics business has recovered, we expect this to be a positive compared to the previous fiscal year.

For sundry goods, we will continue to implement measures to increase volume, premiumization, and sales per customer. Then there's the dispensing of drugs. Since the dispensing business has recovered, we believe that we will be able to offset for the continued decline in medical supplies related to the coronavirus.

Questioner A: Thank you very much. Regarding my second point, I would like to ask about the gross profit margin.

In the fourth quarter, the profit margin was slightly lower than in the same period of the previous year, but I believe that the profit margin of the operating company TSURUHA increased compared to the same period of the previous year.

Your forecast is based on the assumption that the profit margin will exceed that of the previous year in both the first and second half of the fiscal year. Thus, the profit margin will be lower until the fourth quarter, and then it will reverse from here. Could you tell us about the background of this please?

Tsuruha: Yes. In the fourth quarter, the gross profit margin of TSURUHA is higher than other operating companies, and TSURUHA has the highest ratio of inbound sales among the Group companies. Also, the composition ratio of Shiseido Cosmetics is high. I think the flip side is that things have calmed down a bit, and we have recovered in terms of profit margins compared to other companies. You asked one more thing. What was it again?

Questioner A: About the plan.

Yamazaki: Yes, the plan. Do you want me to talk about the increase in the gross profit margin in the plan?

Questioner A: Yes. I would like to know the reason for the reversal of the decline in the consolidated results so far.

Tsuruha: Sure. Let's talk about the factor that will increase the gross profit margin this fiscal year. Again, we are expecting a recovery in cosmetics and prescription drugs.

Also, there are still some group synergies to be generated. The rest is sales promotion. Control of sales promotion. Due to these factors, there is not much of a decline in the gross profit margin compared to last year, and we have made our plan based on the judgment that it is on a recovery trend.

Questioner A: You just mentioned 3 things, but would it be correct to say that the biggest effect is the contribution of cosmetics and dispensing products?

Tsuruha: Yes. You are right. That's what we think.

Questioner A: Thank you very much. The last question is about the ratio of SG&A expenses.

In the case of the subsidiary of TSURUHA, you explained that the shift support system was having an effect, but when you look at the ratio, it doesn't really look like that. I was wondering if you could elaborate a bit on this.

The forecast for this fiscal year is 24.6 on a consolidated basis, which is the highest level in the past. What are your thoughts on the effects of this system for this fiscal year, including why the ratio is increasing so much in the first place?

Murakami: Thank you for your question. I will give you an explanation.

First of all, as for the ratio of SG&A expenses, as I explained in the presentation materials, there was a change in the revenue recognition standard, and I hope you understand that there are a few things associated with this change.

Also, I would like to talk about the evaluation and future of the newly implemented shift control system in the previous fiscal year, which mainly controls labor costs.

In the previous fiscal year, we introduced this system in almost all of our stores, mainly in the TSURUHA chain, and we are aware that the results are starting to show. Therefore, it is our understanding that the increased efficiency in labor cost in the previous fiscal year was also due to the effect of this shift system.

In the current fiscal year, we will gradually introduce this system to other operating companies that are ready to use it, such as Lady Drug Store. In addition, various suggestions for improvement have been made at the field level for TSURUHA, so the Company will evolve based on these suggestions.

In terms of the figures, you may be concerned about the increase in labor costs and other SG&A expenses in this plan. As President Tsuruha explained, the most important factor for this fiscal year was that we opened 110 new stores. The impact of opening a new store, which is slightly more expensive than those opened in the last few years, is very significant.

Plus, when it comes to individual labor costs, compared to the previous fiscal year, this time it will probably be the minimum wage. In comparison to last year, we do have a budget to revise the cost of minimum wages. Was that sufficient?

Questioner A: If it is possible, what is the quantitative effect, in terms of monetary amounts of the number of people, of the shift support system on the TSURUHA subsidiary?

Murakami: There are direct and indirect effects, so it is difficult to quantify everything. If you look at the figures for the previous fiscal year, we are aware that we generated around JPY200 million to JPY300 million.

However, I think we are in a phase this year where we are trying to further expand this level of synergy. We would like to go a little further in terms of numbers. Was that sufficient?

Questioner A: Understood. Thank you very much.

That's all.

Yamazaki: Yes, thank you very much. Sir, please go ahead.

Questioner B: I'm looking forward to hearing from you.

First of all, I would like you to look back at the fourth quarter excluding Drug Eleven.

I had the impression that the top line was more reactive than I expected. The gross profit margin and the dispensing of drugs also have a lot of influence. When I look at the expenses, I think that they could have been a little lower, considering the fact that there was JPY3 billion in special appreciation money last year.

Please tell us how you see the results for the fourth quarter and the full year, excluding Drug Eleven. This is the first question.

Tsuruha: Yes, thank you very much. Now, let me give you the answer.

As for the fourth quarter excluding Drug Eleven, you are right, but basically sales and gross profit were a little lower than the revised budget. To put it bluntly though, we think they were within expectations.

However, as you just pointed out, it's the expenses. This one, as I explained earlier, is a write-off of this inventory. After all, the coronavirus caused a write-off of excess inventory of disinfectants and masks. This is the part that affected us a lot more than we had originally anticipated.

Then there's the expenses for cashless payments. As you mentioned, I have the impression that the expenses in this area have increased more than planned. Yes.

Questioner B: I understand. In this context, I think there were a lot of questions earlier about the next fiscal year.

Once again, I have the impression that the growth in expenses will be much higher this fiscal year than the growth in sales.

I'm wondering if it will really amount to this much through the net increase in store openings alone. What should I think about this?

Is this really the only factor? As mentioned earlier, you are going to increase the number of dispensaries, you we will have to hire more pharmacists. Is there anything else I should be thinking about in terms of expenses?

Tsuruha: Yes, you're right. As you just said, it's about store openings and labor costs. Special one-time expenses planned for the current fiscal year are not included at this time.

Questioner B: I'm looking at page 22.

In terms of the full year, the expenses in the first half of the year were recorded before the change in revenue standard, so the first half of the year grew by about 12%, but in the second half of the year, the growth was about 5%. What are some of the factors that cause such bumps?

Murakami: This is a response from Murakami.

Drug Eleven's consolidation period is the biggest. So, in the previous fiscal year, we consolidated the results in the form of 3, 3, 5.5, which means 3 months in the first half and the rest in the second half. So, it was 8.5 months, and that is the biggest difference.

Questioner B: Oh, I see.

Last, I would like to talk about the dispensing department, which was also introduced in this slide. You would like to increase the number of annexes. I think you probably want to increase the number of suburban types.

Also, let me know about the progress on hiring pharmacists, and please confirm my understanding that for this 4Q, the provisional gross profit is based on the drug price, and that its return will be included in this new period.

Tsuruha: I will answer you.

In terms of hiring pharmacists, we have been hiring steadily for the past few years. Therefore, compared to the past, the shortage of pharmacists is no longer a detrimental factor that prevents us from opening new stores.

However, there are regional characteristics, which on the one hand enables us to hire people in the Tokyo metropolitan area and other urban areas to some extent.

However, when it comes to allocating them to rural areas, we need to make some adjustments. We simply need to recruit enough people to open new stores.

The other thing to remember is that the return of the provisional gross profit due to the drug price revision will be included in this fiscal year.

That's all.

Questioner B: I understand. Thank you.

Yamazaki: Yes, thank you very much. Next, please continue.

Questioner C: Yes, I'm looking forward to hearing from you.

I want to confirm 3 major points. The first point is the usual simple question: What is the operating margin by region?

Yamazaki: I will tell you about the operating profit margin by region.

First, the figures are by region for TSURUHA, excluding new stores.

The Hokkaido region was 7.6 in the previous fiscal year of FY2020, and 8.3 in the FY2021.

The Tohoku region was 5.7 in the FY2020 and 6.1 in the FY2021.

The Kanto region was 5.8 in the FY2020 and 6.1 in the FY2021.

The Chubu and Kansai regions were minus 1.1 in the FY2020 and minus 5.3 in the FY2021.

As for other operating income figures by company, please refer to the supplementary materials. Was that sufficient?

Questioner C: Yes, thank you very much.

The second point may be a little bit of a difficult question.

As you just explained, you have been more aggressive in opening new stores this fiscal year, and you are also doing a lot of renovations, so in many ways I feel that the entire Group is entering a phase where it is investing for growth. First, I would like to know about the background of this.

On the other hand, I understand that you are also working on improving efficiency at the same time, and that the basic idea of your management team is that if initiatives such as the previously explained digital strategy are supported, you can pursue a larger scale for the entire Group.

As you explained earlier, there is a background to the growth strategy of accelerating store openings and renovations, and the progress of the digital strategy that underpins it.

I think it will take another year or 2 for the core system to be completed, but I would like to know what you think about the progress in that area. I'm looking forward to hearing from you.

Tsuruha: Thank you very much. Yes, well, we will be opening 158 stores this fiscal year, with a net increase of 110 stores, which is unprecedented in the past.

The reason for this is, of course, a combination of opening new stores against competitors, which is where our Group has always been strong. Hokkaido is one, and Tohoku is another. Then there are the Chugoku and Shikoku regions, where each of the operating companies have a high market share. Then there is the northern Kanto region, where competition is just getting fierce.

We need to open more stores in these areas to gain market share. The retail industry is a competition for market share. The basic idea is to increase our market share by opening new stores here.

In terms of the relationship with digital technology, the TSURUHA Group has the largest number of stores among Japanese drugstores, so of course we can collect a wide range of data on customers and connect it to 1-to-1.

In the future, we will be able to take advantage of the large number of stores scattered all over the country, such as cooperation with EC, store delivery, and delivery from stores. We are envisioning a future where we can properly relate store pickups and other things with DX.

That's all.

Questioner C: Thank you very much. If you have any comments on the management system, or rather the management side of things, Mr. Murakami, please let me know.

Murakami: Sure. Now, I would like to add a few things.

We will accelerate the opening of new stores in accordance with the general strategy that the President just mentioned. In line with this, we need to use digital technology more and more from the customer's perspective.

In addition, I would like to talk about the digital strategy to improve the efficiency of the back-office staff, such as myself, and the stores.

For example, as I mentioned earlier today, by digitizing the cosmetics ledger. We used to do this in paper form, but by converting this to digital, we can greatly increase the time efficiency of our beauty professionals at the store level. I think we'll be working on these things in parallel.

We will also work to increase sales and gross profit, and control SG&A expenses digitally.

That is all.

Questioner C: Thank you very much. The third and final point is about governance. Now that you presented it, I would like to know a little more about its background.

You announced the transition to a company with an audit committee and the criteria for appointing outside directors, and I think you announced them in great detail. I believe that you have set up one more voluntary nominating committee around here.

What is the background to this, and how did the current management team discuss and choose this type of system? I would like to know the content of this discussion. I'm looking forward to hearing from you.

Tsuruha: Yes, thank you very much. Yes, it is. There has been some talk about the transition to a company with an Audit Committee.

In order to improve our governance system, we have discussed within the Company that we need to make a transition, and we are planning to make this change. The final decision will be made at the shareholders' meeting, though.

By doing so, the directors will have a supervisory function. Furthermore, the future separation of supervisory members and Executive Officers will enable a speedier, more responsive management system driven by the latter. This is what we are trying to achieve in the first place. We are now in the process of setting up the governance system to achieve this.

Murakami: I would like to add one more point.

As the President just mentioned, we have heard various valuable opinions about the revision of the Corporate Governance Code, including from institutional investors.

Essentially, we are in the process of accelerating our reforms a bit because we believe that doing so will lead to our company's growth.

Another point is that the TSE will be reorganized next year, and we will build a system to meet the level of governance required for this new environment.

That is all.

Questioner C: Thank you very much.

Yamazaki: Yes, thank you very much.

I'm sorry. We are running out of time, so this will be the last question.

Questioner D: Thank you very much. I am always very grateful for your help. Please make 3 additional points.

The first point is about expenses, which has been mentioned in a previous question. If you look at the results of the previous fiscal year compared to your company's plan, personnel expenses, sales promotion expenses, and land rent were all well below the plan, and only “other” expenses were up by about JPY2.5 billion.

Here, cashless support, restoration of stores, self-consumption, and donations are included. Is that correct?

Also, in the forecast, the Other category is expected to grow by 109 again, even though it grew considerably in the previous fiscal year. Is this due to the impact of the cashless system?

I would like to ask you to focus on the Other category. That is the first question about expenses.

Murakami: I will give an explanation.

The reason why the Other category experienced an increase was that during this fiscal year, there was that the cashless business grew a little faster than we had expected.

We also provide masks to employees as a coronavirus countermeasure, and disinfectants for customers to wash their hands.

For us, these are now listed as consumables in our accounts. Things as these. Especially coronavirus countermeasures.

In the next fiscal year, we expect that the pandemic will continue until the first half of the fiscal year, so we expect that this trend will continue.

In addition, we expect that cashless transactions will probably grow to a certain level.

Going back a little bit, the difference between the last fiscal year and this fiscal year is in the donations. We received over JPY200 million in donations in the previous fiscal year, but for this fiscal year, we are budgeting for almost no donations, rather than the same level as the previous fiscal year.

That is the current state. Was that sufficient?

Questioner D: Just to confirm, there was an increase compared to the plan, about JPY2.5billion, but how much was through cashless? About half?

Does self-consumption come in next in terms of impact? Please give me an image.

Murakami: Well, in terms of the financial impact, it would be the following: Cashless, then self-consumption, then restoration.

Questioner D: So that's the order.

Murakami: Then there's the disposals. The ratio of food products is also increasing, so that part of the increase was a little higher than expected.

Questioner D: Yes, I understand. Thank you.

The second point is also about a simple confirmation.

In the area of renovation of existing stores, I believe you are introducing fresh food and produce. In the previous explanation, you said that the growth rate would be different by about 5%.

That being the effect on existing stores. Is there still this impact of growth of about 105 in the first year? Is it safe to assume that this will no longer be the case in the second year? Can you tell us a little bit about the renovation part?

Murakami: We still can't tell you about the second year.

Tsuruha: That's right. Well, it should grow by about 105%. By adding fresh produce to 1 store, the average monthly sales of fresh meat and fruits and vegetables would be about JPY1 million, and the sales of accompanying daily deliveries and processed foods would increase by about JPY1.1 million to JPY1.2 million.

And since the overall number of customers will increase, which explains the calculation.

As for the second year, I don't have the figures at hand right now, so I will have to look into it and give you an answer.

Questioner D: I understand. Thank you.

For the third and final point, I would like to comment on the active store openings.

Not only your company, but all the major drugstores in the industry are aggressively opening new stores, including your company, especially Welcia Holdings, Sugi Holdings, and Kusuri No Aoki Holdings.

In light of this situation, do you think that you will be able to secure properties that are sufficiently profitable as you actively open new stores? I am a little worried about the profitability, so that is one concern.

Also, you mentioned that you are going to strengthen your position through dominant areas, but I think this will have an impact on the existing stores in terms of cannibalization or competition among themselves.

How do you think about that? Please give us some additional information about the impact of new openings.

Tsuruha: Yes, you're right. As you pointed out, there is a lot of competition to open new drugstores.

Of course, as you pointed out, anyone can open a store, so of course the most important condition is that the store must be profitable.

As the number of competitors increases, the business area will naturally become smaller and smaller. Well, as we have said many times, the store format is designed for small business areas. A format that creates repeat customers. This was the basis for opening the stores.

As I mentioned earlier, the opening of new stores, including the provision of fresh foods, will be accompanied by the aim to increase visits from repeat customers.

Of course, in terms of store development we will work hard to find a good location to keep up with the competition. I would like to promise you that we will not open a store just for the sake of numbers.

Also, regarding the impact of our dominant strategy on existing stores, I think I've always said this: The dominant will cause the existing stores to have lower numbers to some extent, and it is what it is. However, we are opening new stores based on the indicator of whether or not operating income will be positive in the area.

Of course, nearby stores will be affected somewhat, but we will continue to open new stores based on our judgment of whether the area as a whole is profitable. These are the answers to your questions.

Questioner D: Yes, I understand. Thank you very much.

Yamazaki: Yes, thank you very much.

The time has passed, so we will conclude the question-and-answer session here.

After this webinar, you will be asked to fill out a questionnaire about today's session. We would like to use your opinions as a reference for the future, and would appreciate your cooperation.

This concludes the financial results briefing for the FY2021 of TSURUHA HOLDINGS INC.

Thank you very much.

All: Thank you very much.

[END]

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