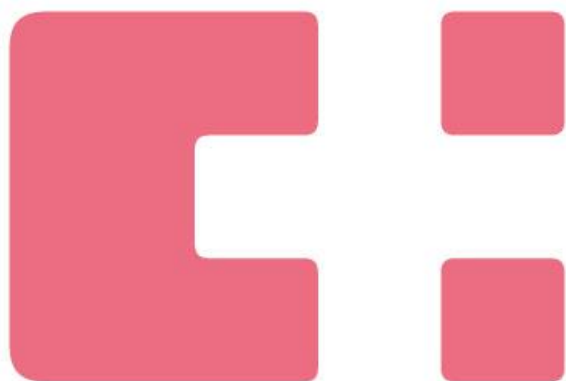


FY03/16 Financial Results Briefing



ココカラファイン

ココロ、カラダ、ゲンキ。

FY03/16 Business Results

3

Earnings Highlights

Consolidated Income Statement (vs. Forecasts
Revised Feb. 26)

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FY03/17 Key Measures

❑ Drugstore Operations

■ Stimulating demand at existing stores

■ Increasing efficiencies

❑ Pharmacy Operations

■ Effects and Countermeasures to Medical
Service Fee Revision

■ Promotion of “Health Support Pharmacy”
and Business Plan

Medium-term Plan

Medium-term Plan

Consolidated Sales & Ordinary Income (Trends
and Plan)

(Reference) Inbound tourist demand · Private
Brand products

FY03/16 Business Results

Earnings solid as progress was made in implementing key measures, earnings forecasts revised upward on Aug and Feb.

【 Drugstore Operations 】

[Key measures]

- ① Net sales get boost from revitalization measures, driven mainly by the renovation of 79 stores
- ② Promotion of sales to inbound tourists
- ③ Progress in improving cost efficiencies, expense ratio reduced

[Others]

- Net sales get boost from summer products and new product introductions (1H)
- Drop in FY03/14 sales following the consumption tax hike, so FY03/15 sales were up YoY (1H)
- Net sales pushed downward due to weak performance in cold-related medications owing to a warm winter (2H)

【 Pharmacy Operations 】

- Pharmacy Operations saw continued solid performance, with contribution from the new hepatitis C medication boosting sales

【 Nursing Care Services 】

- Although profitability was steady for nursing house call services and composite facilities for functional training rehabilitation, both of which serve as an outlet for residential medical care, the effects of revisions to nursing service fees could not be offset

【 Store Openings and Closings 】

- Opened 19 stores and closed 53 stores, for a total store count of 1,307 (including 232 dispensing pharmacies)

Consolidated Income Statement (vs. Forecasts Revised Feb. 26)

(Million yen)

	FY03/16 Plan	FY03/16 Results	vs Plan	vs Plan (%)	Factors
Net sales	370,000 (100.0%)	373,275 (100.0%)	+3,275	100.9	<ul style="list-style-type: none"> ◇ Same-store sales growth Plan +6.6% → Result +7.4% ◇ Sales growth due to rapid change in temperatures <ul style="list-style-type: none"> •February: Growth in cold and allergy-related products •March: Growth in summer products ◇ Increase in inbound tourists from overseas for cherry blossom viewing
Drugstore & Dispensing	336,557	339,646	+3,089	100.9	
Wholesale & other	33,443	33,629	+186	100.6	
Gross profit	95,250 (25.7%)	96,068 (25.7%)	+818	100.9	
SG&A	84,750 (22.9%)	84,949 (22.8%)	+199	100.2	<ul style="list-style-type: none"> ◇ SG&A:+199 •Effects of renovation investment, advance ICT investment, etc.
Operating income	10,500 (2.8%)	11,119 (3.0%)	+619	105.9	
Ordinary income	13,000 (3.5%)	13,461 (3.6%)	+461	103.5	
Net income	6,500 (1.8%)	6,927 (1.9%)	+427	106.6	

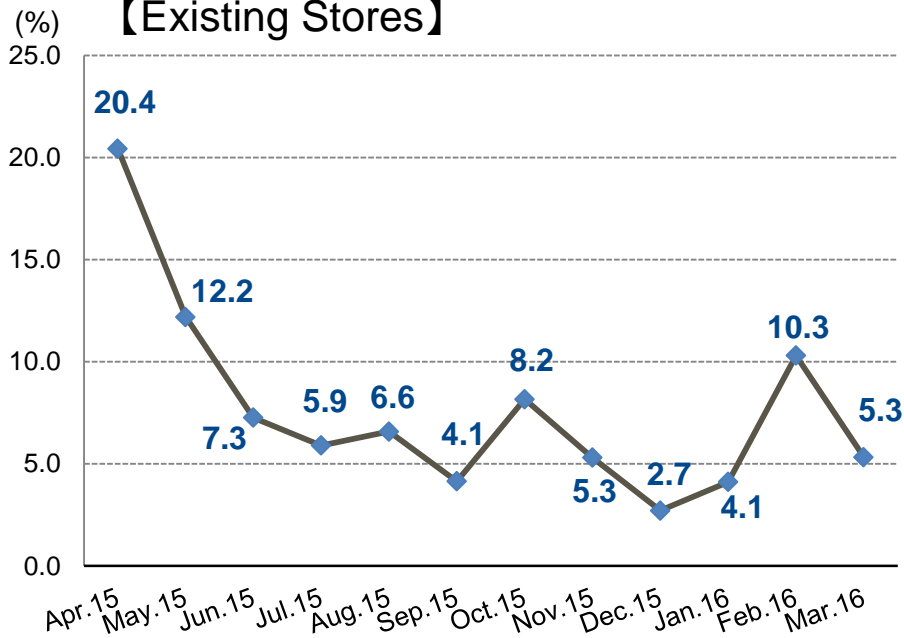
Consolidated Income Statement (YoY)

(Million yen)

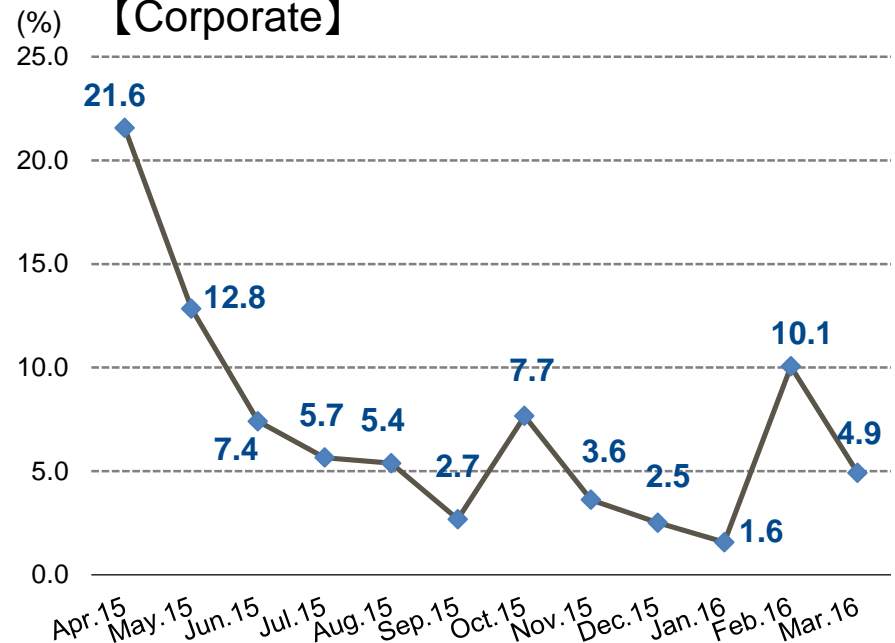
	FY03/15 Results	FY03/16 Results	Change	YoY (%)	Factors influencing YoY changes
Net sales	349,164 (100%)	373,275 (100.0%)	+24,111	106.9	<ul style="list-style-type: none"> ◇ Same-store sales growth: +7.4% <ul style="list-style-type: none"> • Revitalization policy centered on existing store renovation • Sales promotion to inbound tourists • Impact of consumption tax in FY03/14 • Dispensing sales strong, contribution from new hepatitis C medication ◇ Change of Iwasakikohkendo's fiscal year end (from Feb. to Mar.) meant an additional month of its sales booked at the parent ◇ New store openings: 19 Closings: 53
Drugstore & Dispensing	317,969	339,646	+21,677	106.8	
Wholesale & other	31,195	33,629	+2,434	107.8	
Gross profit	88,778 (25.4%)	96,068 (25.7%)	+7,290	108.2	<ul style="list-style-type: none"> ◇ Gross margin: from 25.4% to 25.7% <ul style="list-style-type: none"> • Strong sales of value-added products • Standardization of product line-up and prices
SG&A	84,408 (24.2%)	84,949 (22.8%)	+541	100.6	<ul style="list-style-type: none"> ◇ SG&A: +541 <ul style="list-style-type: none"> • Change of Iwasakikohkendo's fiscal year end from Feb. to Mar. meant an additional month of its costs booked at the parent ◇ SG&A ratio: from 24.2% to 22.8% <ul style="list-style-type: none"> • Improved efficiency in back-office divisions
Operating income	4,369 (1.3%)	11,119 (3.0%)	+6,750	254.4	※ Record high income
Ordinary income	6,576 (1.9%)	13,461 (3.6%)	+6,885	204.7	
Net income	1,658 (0.5%)	6,927 (1.9%)	+5,269	417.7	<ul style="list-style-type: none"> ◇ Extraordinary Losses: ▲781 <ul style="list-style-type: none"> • Lower loss on valuation of shares of subsidiaries and associates ◇ Corporate tax rate: from 61.0% to 40.8%

Monthly Sales Growth Rate

【Existing Stores】



【Corporate】



Existing Stores (Total) Sales: +7.4% Number of Customers: +2.1% Customer Transactions: +4.9%

*Customer count and average spend per customer only include retail results, excluding Pharmacy operations

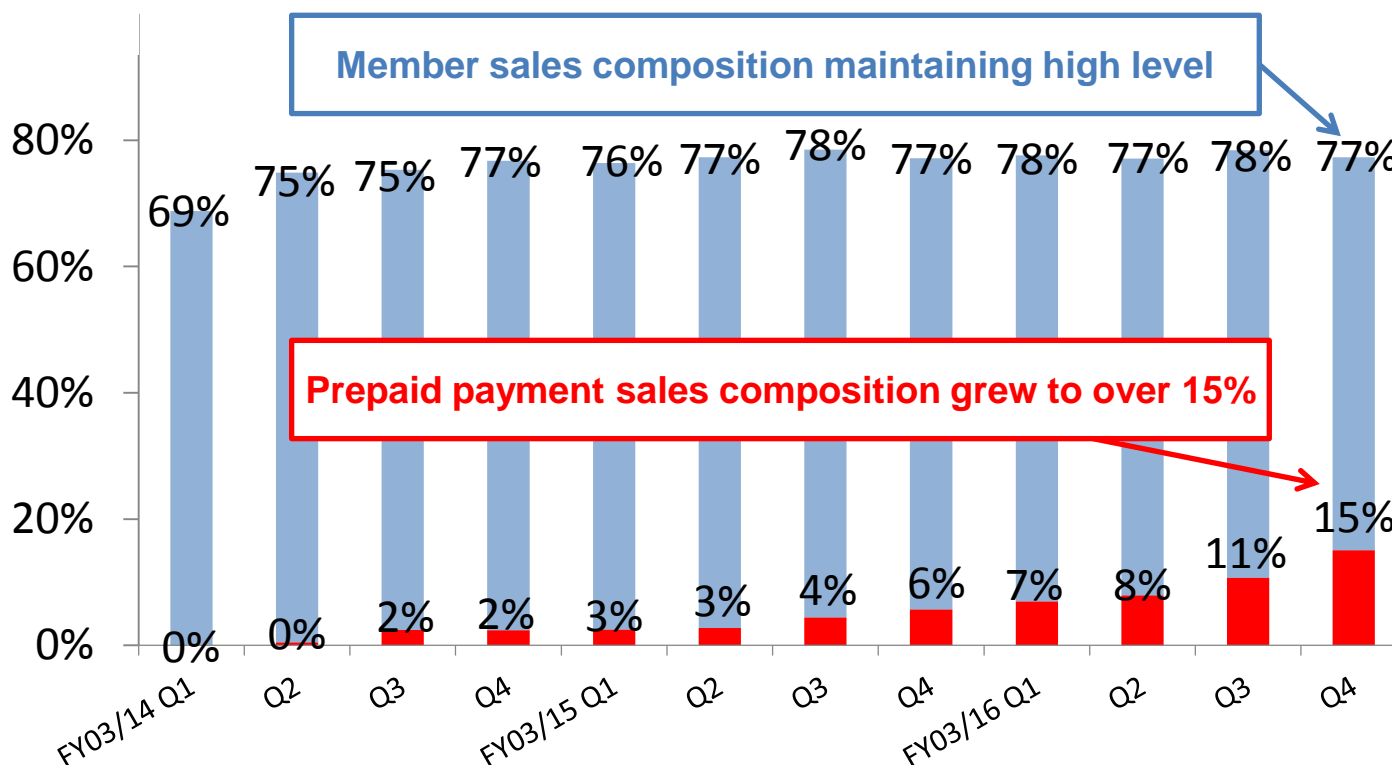
Existing Stores

- Full Year: Renovation and revitalization of existing stores, Promotion of sales to inbound tourists
- Apr.-May: Impact of consumption tax hike in FY03/14, Introduction of summer goods and new products
- June onward: New hepatitis C medication contributed to earnings
- Dec.-Jan.: Weak performance from winter products, primarily cold medicines
- Feb.: Days of operation longer due to leap year

Corporate

- Apr.: Change of fiscal year end for Iwasakikohkendo (from Feb. to Mar.) meant an additional month of its earnings was booked at the parent

Sales composition of retail sales (trend)



Apr.2013

Integrated with membership card and introduced cocokara club card

Sep.2013

Began VISA prepaid function

- Number of active members* remains over 7mn members

- Prepaid payment sales Composition grew to over 15%

*Active members... The number of card members who made purchases within the previous year

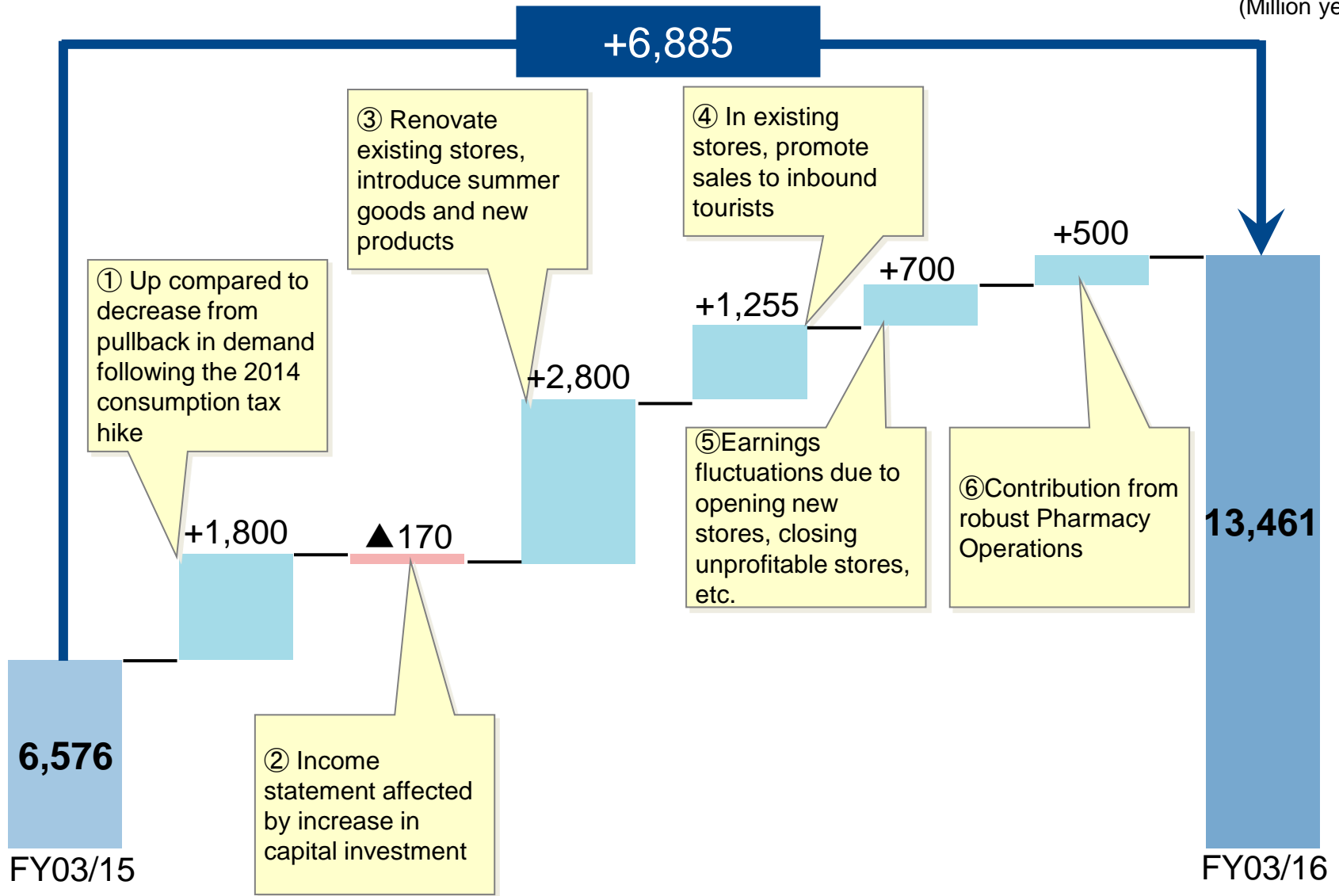
Breakdown of Sales by Product Category

	FY03/15			FY03/16		
	Million yen	Share (%)	YoY (%)	Millions yen	Share (%)	YoY (%)
Pharmaceuticals	100,555	31.6	101.3	105,975	31.2	105.4
Dispensing	45,967	14.4	103.9	50,228	14.8	109.3
Beauty Products	91,492	28.8	96.0	99,286	29.2	108.5
Health Foods	10,262	3.2	101.9	11,431	3.4	111.4
Sanitary Goods	39,941	12.6	99.7	42,329	12.5	106.0
Convenience Goods	44,786	14.1	99.8	46,329	13.6	103.4
Foods	30,931	9.7	108.3	34,294	10.1	110.9
Stores Total	317,969	100.0	99.9	339,646	100.0	106.8
Wholesale	28,993	–	98.8	31,388	–	108.3
Subtotal	346,962	–	99.9	371,034	–	106.9
Long-term Care	2,202	–	116.2	2,243	–	101.9
Inter-segment Eliminations	▲0	–	–	▲2	–	–
Total	349,164	–	99.9	373,275	–	106.9

- (Pharmaceuticals) Robust sales of hay fever related products and high value-added eye drops and lotions
- (Dispensing) New hepatitis C medication contributed to earnings
- (Beauty Products) Robust sales of new products
- (Health Foods) Favorable owing to hit products such as smoothies, etc.
- (Foods) Strengthened functions via store renovations and layout changes, etc.

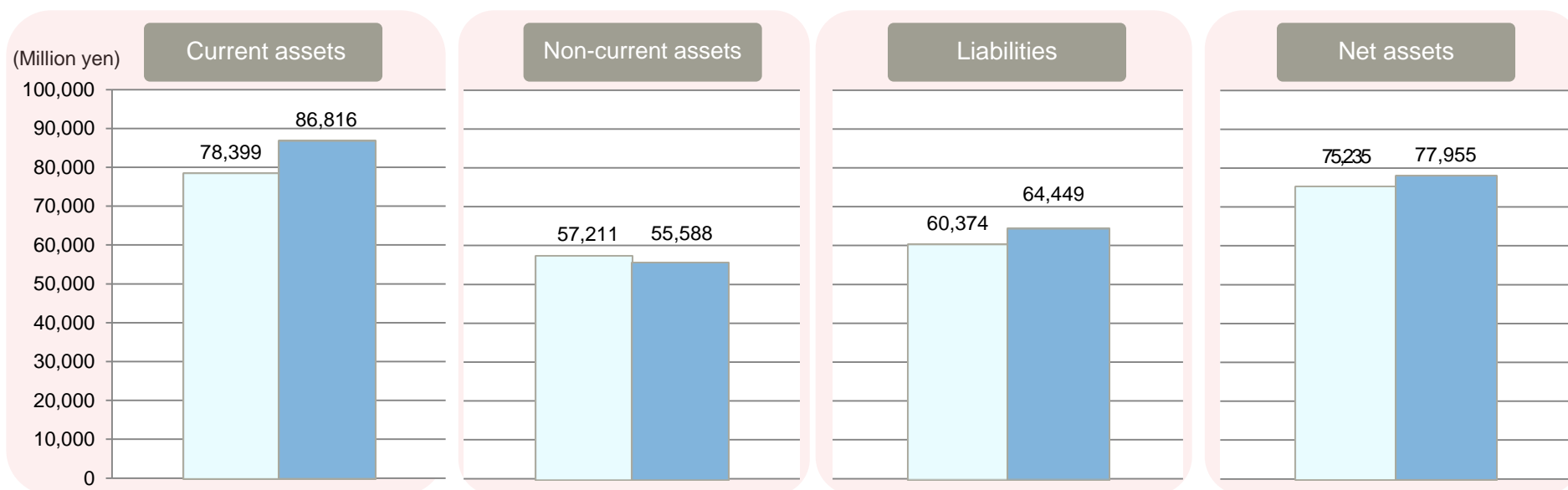
Factors impacting income (YoY / Ordinary Income Basis)

(Million yen)



Consolidated Balance Sheet

□ End Mar. 2015 ■ End Mar. 2016



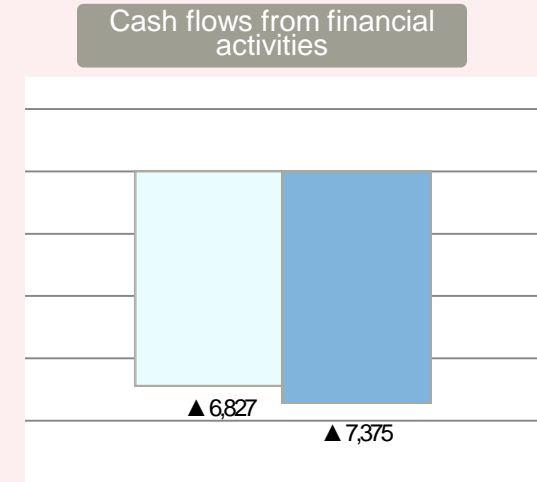
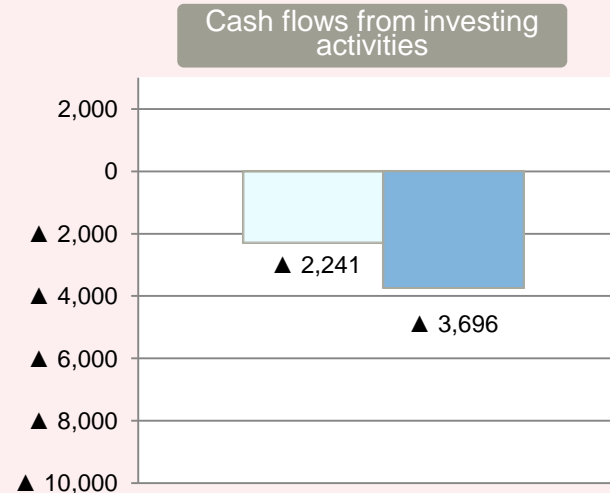
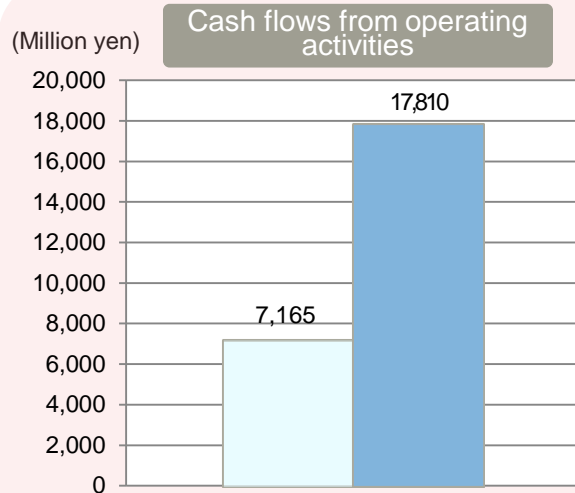
Comparison with end March 2015

(Million yen)

Current Assets		Non-current assets		Liabilities		Net assets	
Current Assets		Non-current assets		Liabilities		Net assets	
+8,417		▲1,623		+4,074		+2,719	
Cash and Equivalents	+6,738	Property, plant and equipment	+149	Current liabilities	+3,444	Treasury stock	▲2,601
Accounts receivable--trade	+2,889	Intangible fixed assets	▲445	Non-current liabilities	+630	Retained earnings	+5,438
Inventories	▲1,116	Investments and other assets	▲1,327				

Consolidated Cash Flow Statement

■ FY03/15 ■ FY03/16



Situation in FY03/16

(Million yen)

Cash flows from operating activities

Income before income taxes and minority interests	11,705
Decrease (increase) in notes and accounts receivable-trade	▲2,889
Decrease (increase) in inventories	1,115
Income taxes paid	▲1,684

Cash flows from investing activities

Purchase of property, plant and equipment	▲3,306
Purchase of intangible fixed assets	▲371

Cash flows from financial activities

Increase (decrease) in short-term borrowings	▲3,000
Purchase of treasury stock	▲2,601

Net increase (decrease) in cash and cash equivalents

6,738

FY03/17 Outlook

Store Openings and Closings (Actual and Planned)

	Beginning of period	FY03/16 Results				FY03/17 Full-year Plan			
		Open	Close	Store format change	End of period	Open	Close	Store format change	End of period
cocokara fine	1,341	+19	▲53	-	1,307	+29	▲28	-	1,308
Bases that dispense	234	+4	▲6	-	232	+8	-	-	240
cocokarafine Healthcare	1,283	+19	▲53	-	1,249	+27	▲28	-	1,248
Drugstore	1,161	+16	▲51	▲6	1,120	+21	▲28	-	1,113
Standalone dispensaries	122	+3	▲2	+6	129	+6	-	-	135
IWASAKI KOHKENDO	58	-	-	-	58	+2	-	-	60

	FY03/16 Results	FY03/17 Full-year Plan
Capital investment	5,776	6,800
Total cash flow	10,830	12,553
Net income	6,927	8,500
Depreciation	3,518	3,769
Amortization of goodwill	385	284

	2H (Apr.-Sep.)				
	FY03/16 Results		FY03/17 Forecast		
	Million yen	% of net sales	Million yen	% of net sales	YoY (%)
Net sales	186,798	100.0	193,000	100.0	103.3
Drugstore & Dispensing	170,154	91.1	175,300	90.8	103.0
Wholesale & other	16,644	8.9	17,700	9.2	106.3
Gross profit	47,949	25.7	49,630	25.7	103.5
SG&A	42,587	22.8	43,560	22.6	102.3
Operating income	5,362	2.9	6,070	3.1	113.2
Ordinary income	6,570	3.5	7,190	3.7	109.4
Net income	3,790	2.0	4,200	2.2	110.8

Full-Year				
FY03/16 Results		FY03/17 Forecast		
Million yen	% of net sales	Million yen	% of net sales	YoY (%)
373,275	100.0	386,000	100.0	103.4
339,646	91.0	350,800	90.9	103.3
33,629	9.0	35,200	9.1	104.7
96,068	25.7	99,500	25.8	103.6
84,949	22.8	86,900	22.5	102.3
11,119	3.0	12,600	3.3	113.3
13,461	3.6	14,800	3.8	109.9
6,927	1.9	8,500	2.2	122.7

Management Strategy

FY03/17 Key Measures

❏ Drugstore Operations

- Stimulating demand at existing stores
 - creating new customers through use of digital platforms and improving satisfaction of existing customers
 - revitalization of existing stores through renovations
- Increasing efficiencies
 - improving efficiency of store operations by utilizing the latest mobile devices

❏ Pharmacy Operations

- Effects and Countermeasures to Medical Service Fee Revision
- Promotion of “Health Support Pharmacy” and Business Plan

Creating new customers through use of digital platforms and improving satisfaction of existing customers

Communication platform

Maintain and improve customer touch points

Website

Oct.2016

Integrating customer websites

- Store customer website
- E-commerce website
- Card member website, etc.

Apps

Oct.2016

Linking with store systems



- Product information viewing function
- Inventory information viewing function

Stores

Products

cocokara club card

Coupons

SNS

FAQ

.....

cocokara club card

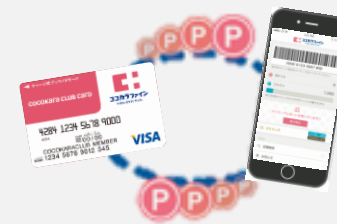
① Strengthen new member acquisition

Goal: Acquire 1.2mn members per year, including electronic members

Apps

Jun.2016

Begin app with point card function



② Improve prepaid sales promotions

Goal: Comprise 15% or more of annual sales



Prepaid function

Invigorating existing stores through renovations

Horizontally expand prototype stores by cluster

Urban drugstores ／154stores

Expand range of beauty care products, creating sales floors incorporating trends



Drugstores in shopping streets ／331stores

Expanding storefront promotions, strengthening promotion of seasonal products



Drugstores in residential areas ／423stores

Product line-up that satisfies uses and functions, including expanding home care products and foods



Community drugstores ／212 stores

Product line-up that allows one-stop shopping, including foods



(as of Mar. 31,2016)

Accelerating store renovations

	FY03/16 result		FY03/17 plan
Number of renovated stores (including sign changes and small renovations)	118stores	▶	165stores
(Of which, over JPY5mn)	79stores		100stores

improving efficiency of store operations by utilizing the latest mobile devices

~FY 03/13

System integration

~FY 03/15

Unification of store management

~FY 03/16

Optimization

Introduction of mobile devices for store operations

- Price adjustment via the **POS**
- Use of a **PC** in the store office for product searches and viewing sale histories
- Use of a **PDA** on the sales floor for ordering

Jun.2016
Device
unification



New “Aoi” system
First letters of All Output Input

Optimize personnel expenses

Secure customer facetime

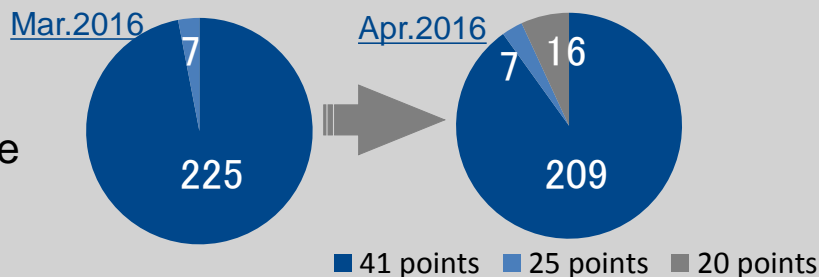
Reduce product shortages

Effects and Countermeasures to Medical Service Fee Revision

(Figures in parentheses are the number of applicable stores)

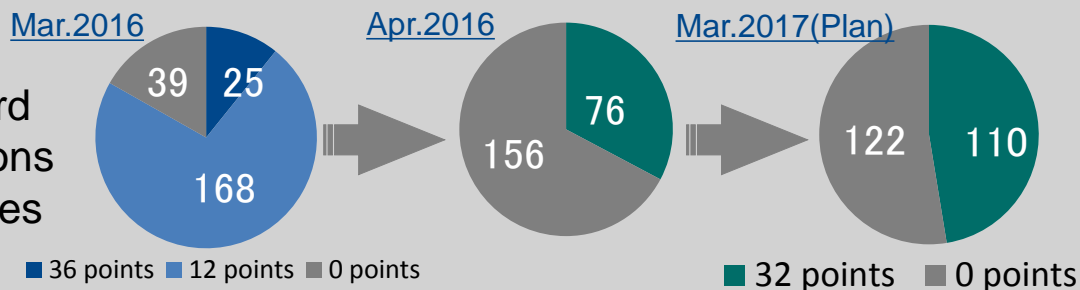
Effect 1 Basic dispensing fee

Changes in conditions to cause premiums at some stores to decline



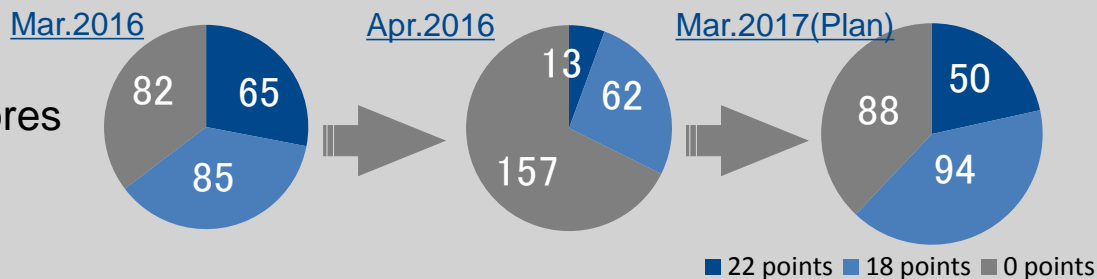
Effect 2 Premiums for standard dispensing

Unification of premiums for standard dispensing and changes in conditions to cause number of applicable stores to decline



Effect 3 Premiums for generics dispensing systems

Decline in number of applicable stores due to changes in calculation conditions



Effect 4 Drug price revisions

Decline in drug price margins

Promote pharmacies that support health

By mainly fostering “family pharmacies,” continue to streamline and optimize operations

1) Enriching self-health management functions via implementation of health monitoring stations and health consultation meetings, etc., including advice on self-medication and improving overall quality of life

2) Expansion of house call dispensing and cooperation with nursing

House call dispensing stores

FY03/16 **137** stores

FY03/17 (Plan)

200 stores

3) Fostering specialized pharmacists and dedicated staff that can support dementia, diabetes, and cancer patients

4) Expanding product sale functions in dispensing pharmacies

FY03/16 Product sales

123% YoY

FY03/17 (Plan)

130% YoY

Business Plan

	FY03/16	FY03/17(Plan)
Dispensing Fees	JPY 50.2 bn	JPY 50.3 bn

	FY03/16	FY03/17(Plan)
Total number of facilities	232 stores	240 stores

Medium-term Plan

Medium-term plan through FY03/20.

FY03/16

Net sales	JPY373.2bn
Ordinary income (Ratio to net sales)	JPY13.4bn (3.6%)
ROA (Ordinary income)	9.7%
ROE (Net income)	9.0%

FY03/20

Net sales JPY420bn

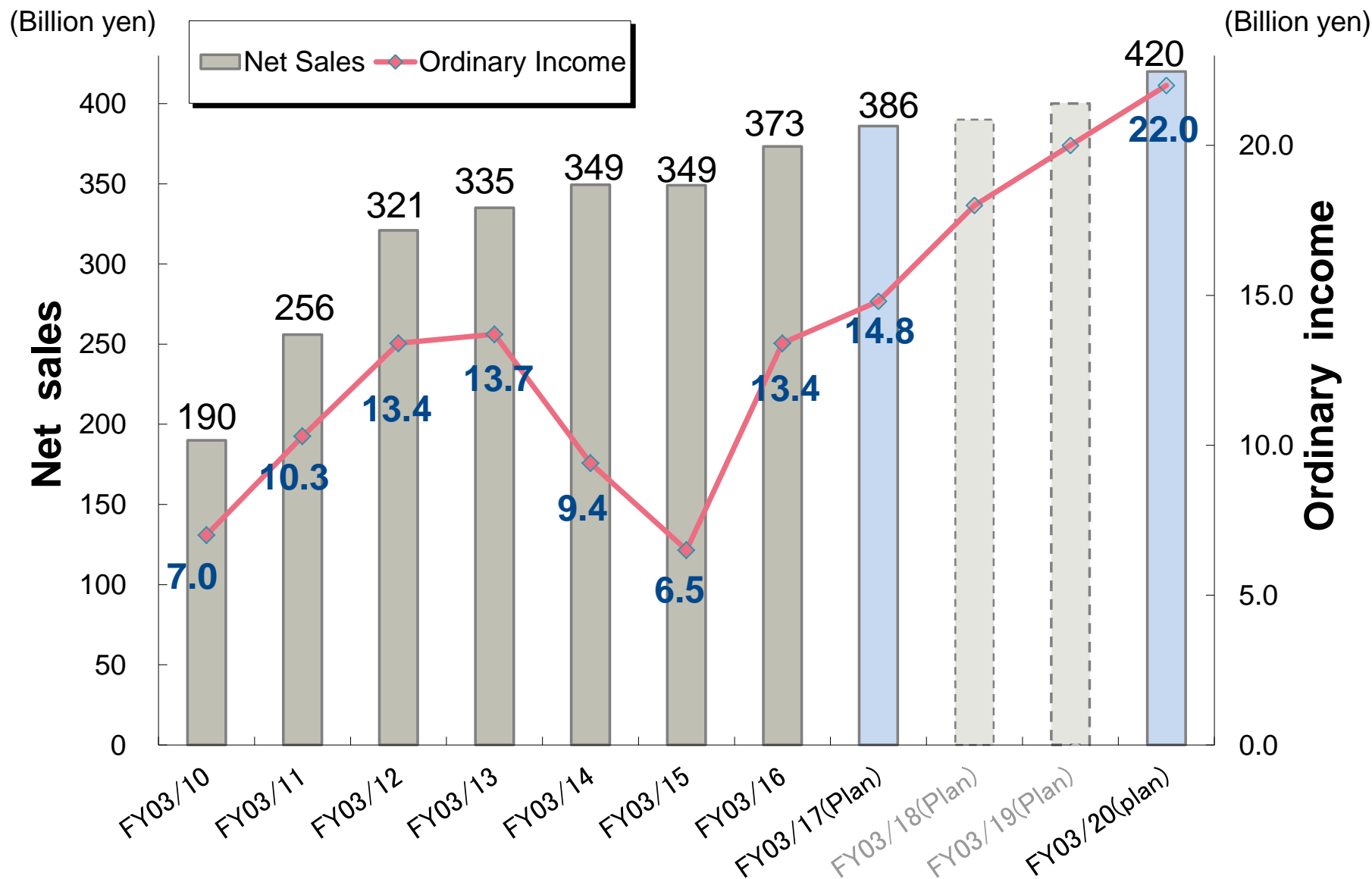
Ordinary income
(Ratio to net sales) JPY22bn(5.2%)

Numerical management targets

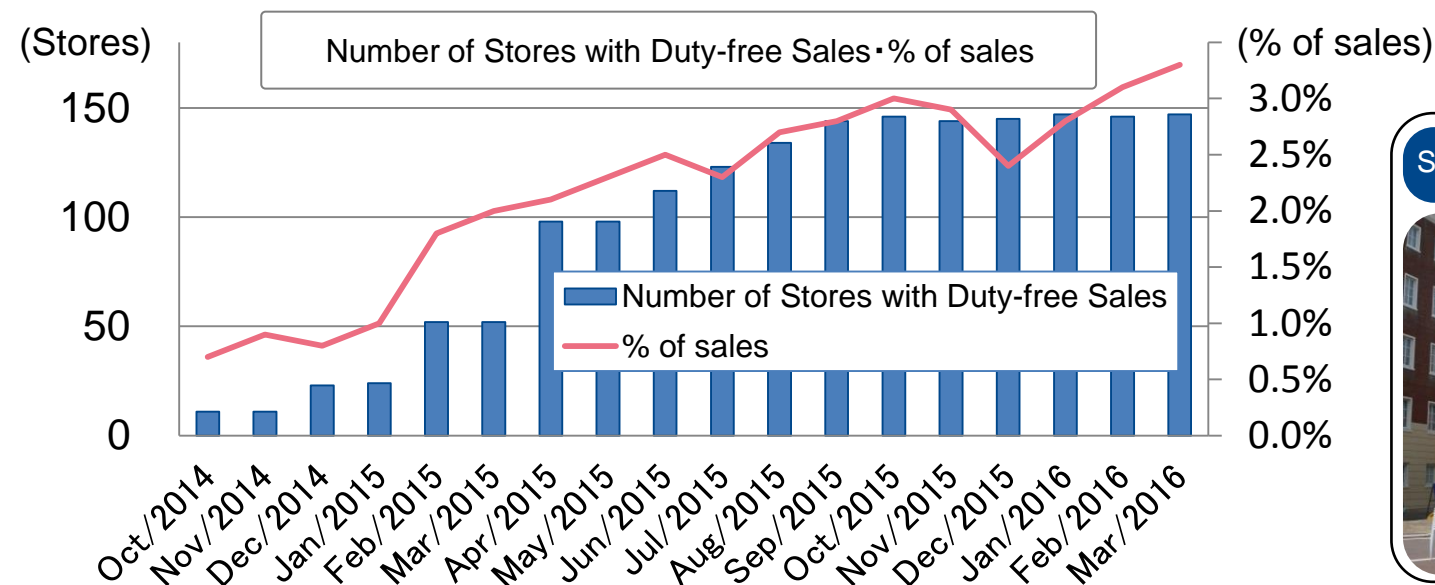
ROA (Ordinary income) 10% or higher

ROE (Net income) 10% or higher

Consolidated Sales & Ordinary Income (Trends and Plan)



Responding to inbound tourist demand



Stores catering to inbound tourists



Private Brand Strategy

PB composition growth stalled due to effects of inbound tourists and weak sales of cold medicines owing to warm winter, etc.

FY03/15 sales ratio of PB products

10.4 %

FY03/16 sales ratio of PB products

9.9 %

DEARPERFECT

FY03/16: Hit product selling more than 80,000 units

Surfactant-free sunscreen that utilizes patented technology from Kanagawa University(JPY1,850/ex. tax New products introduced in Mar.2015)



Cocokara Fine Inc.

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