LAST UPDATE【2015/07/02】

Cocokara Fine, Inc. | 3098 |

Research Report by Shared Research Inc.

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Executive summary

Drugstore and prescription dispensing backed by nationwide store network

Cocokara Fine operates two principal businesses: drugstores that sell pharmaceuticals, cosmetics, and daily essentials (non-prescription drugstores), and dispensing pharmacies. The drugstore industry is competitive, but the company is one of the few with a nationwide store network, which it believes is a competitive advantage. (According to the company, it ranked second in store count in FY 2014). Another distinguishing characteristic is the large scale of its Pharmacy segment. (According to the company, it ranks second in the drugstore industry for dispensing fees, and first for the number stores that handle more than 1,000 prescriptions per month.) The company has expanded through multiple mergers. It divides its nationwide stores into four clusters and optimizes its merchandising by market area. Around 70–80% of its customers are women (housewives and businesswomen). Instead of focusing on low prices, it concentrates on convenience and product range.

The drugstore industry may see increased competition. In addition to revisions to the Pharmaceutical Affairs Law, this industry is affected by the same factors as other retail sectors, namely online shopping and growing competition from outside traditional areas of business. Still, the company sees new business opportunities in family pharmacies (dispensing prescriptions not from any particular hospital) and at-home dispensing.

Cocokara Fine plans to pursue demand for self-medication (people taking care of their own health and addressing minor illnesses themselves), an area where drugstores are expected to play a bigger role. Also, in addition to its mainstay Drugstore and Pharmacy segment, in its Nursing Care segment the company offers nursing and home-visit nursing care as part of a broad range of community-focused healthcare services,. The company's strategy to meet evolving market needs through *omotenashi* hospitality—caring for its customers and satisfying their every need.

Performance

The company is working toward the objectives outlined in a medium-term plan announced in September 2010 and stating as its targets for FY03/16 of JPY500bn in sales and JPY20bn in recurring profit. However, the company's forecasts for this year (FY03/16), the final year of that plan, are for sales of JPY360bn (+3.1% YoY) and recurring profit of JPY8.5bn (+29.3%), visibly below its expectations stated some five years ago. We believe this slower than expected performance was due to difficulties with post-merger integration, particularly the integration of sales companies in April 2013), changes in the operating environment, and overoptimistic expectations both for additional acquisitions and new store openings.

Strengths and weaknesses

We believe that the company's strengths are well-developed dispensing pharmacy operations, a nationwide store network, and the rich experience with challenges of post-merger integration. We consider the company's weaknesses are the patchwork of businesses accumulated through M&A, a lack of immediate price attractiveness for the consumer, and relatively lax cost controls. (See the Strengths and weaknesses section for details.)

Key financial data

Income statement (JPYmn)	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Est.
Total sales	**170,116**	**190,957**	**256,681**	**321,954**	**335,886**	**349,337**	**349,164**	**360,000**
YoY	na	12.3%	34.4%	25.4%	4.3%	4.0%	-0.0%	3.1%
Gross profit	46,368	47,385	63,587	79,486	86,494	90,601	88,778	91,800
YoY	na	2.2%	34.2%	25.0%	8.8%	4.7%	-2.0%	3.4%
GPM	27.3%	24.8%	24.8%	24.7%	25.8%	25.9%	25.4%	25.5%
Operating profit	3,836	3,394	6,375	8,579	10,043	7,438	4,369	6,300
YoY	na	-11.5%	87.8%	34.6%	17.1%	-25.9%	-41.3%	44.2%
OPM	2.3%	1.8%	2.5%	2.7%	3.0%	2.1%	1.3%	1.8%
Recurring profit	7,274	7,069	10,395	13,467	13,789	9,495	6,576	8,500
YoY	na	-2.8%	47.1%	29.6%	2.4%	-31.1%	-30.7%	29.3%
RPM	4.3%	3.7%	4.0%	4.2%	4.1%	2.7%	1.9%	2.4%
Net income	**3,915**	**4,169**	**5,911**	**7,920**	**7,855**	**3,598**	**1,658**	**3,400**
YoY	-	-	41.8%	34.0%	-0.8%	-54.2%	-53.9%	105.1%
Net margin	2.3%	2.2%	2.3%	2.5%	2.3%	1.0%	0.5%	0.9%
Per share data								
Number of shares	19,922	19,922	25,472	25,472	25,472	25,472	25,472	-
EPS	197	209	261	312	309	141	65	135
EPS (fully diluted)	-	-	-	-	-	-	-	-
Dividend per share	50	50	58	60	60	60	60	60
Book value per share	2,150	2,310	2,384	2,647	2,886	2,961	2,993	-
Balance sheet (JPYmn)								
Cash and equivalents	10,730	10,187	12,484	24,647	24,217	8,062	6,164	
Total current assets	**44,124**	**43,511**	**66,819**	**85,692**	**88,523**	**77,179**	**78,399**	
Tangible fixed assets, net	18,160	17,937	26,048	26,302	28,621	28,537	25,850	
Other fixed assets	16,034	16,916	26,396	26,523	28,377	30,387	28,604	
Intangible assets	1,362	1,313	2,096	2,397	4,056	3,200	2,757	
Total assets	**79,682**	**79,679**	**121,361**	**140,915**	**149,578**	**139,305**	**135,610**	
Accounts payable	20,374	19,874	36,387	50,492	51,306	37,181	39,056	
Short-term debt	2,300	1,100	6,240	4,200	4,800	7,800	3,900	
Total current liabilities	**29,157**	**26,565**	**53,658**	**67,710**	**70,638**	**57,535**	**54,904**	
Long-term debt	-	-	-	-	-	-	-	
Total fixed liabilities	**7,715**	**7,116**	**7,097**	**5,927**	**5,522**	**6,449**	**5,470**	
Total liabilities	**36,872**	**33,681**	**60,755**	**73,638**	**76,161**	**63,984**	**60,374**	
Net assets	**42,809**	**45,997**	**60,605**	**67,277**	**73,417**	**75,320**	**75,235**	
Interest-bearing debt	2,300	1,100	6,240	4,200	4,800	7,800	3,900	
Cash flow statement (JPYmn)								
Operating cash flow	2,327	4,745	8,140	21,645	10,012	-7,011	7,165	
Investment cash flow	-2,615	-3,001	-4,097	-4,916	-6,222	-8,221	-2,241	
Financing cash flow	277	-2,297	-3,959	-4,553	-4,240	-926	-6,827	
Financial ratios								
ROA	9.4%	8.9%	10.3%	10.3%	9.5%	6.6%	4.8%	
ROE	9.1%	9.4%	11.1%	12.4%	10.7%	4.8%	2.2%	
Equity ratio	53.7%	57.7%	49.9%	47.7%	49.1%	54.1%	55.5%	

Figures may differ from company materials due to differences in rounding methods.
Source: Company data

Recent updates

Highlights

On **July 2, 2015**, Cocokara Fine, Inc. announced monthly sales data for June 2015; please see the monthly trends section for further details.

Trends and outlook

Monthly trends

Monthly sales growth

FY02/13	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Corporate	4.5%	7.2%	2.8%	3.1%	3.8%	5.0%	4.5%	6.2%	3.8%	4.3%	0.3%	6.4%
All stores	4.9%	6.3%	2.1%	4.5%	4.7%	5.8%	3.4%	10.3%	8.8%	6.5%	4.1%	10.9%
Number of customer	2.6%	4.6%	-0.2%	3.1%	3.5%	4.8%	2.9%	9.2%	7.3%	5.2%	1.9%	9.4%
Customer transaction	1.9%	0.1%	1.0%	0.2%	0.2%	0.7%	-0.3%	1.3%	1.8%	0.9%	2.2%	2.1%
Existing stores	0.9%	2.7%	-1.8%	0.6%	0.7%	0.9%	0.5%	0.4%	-0.7%	-2.6%	-4.4%	1.7%
Number of customer	-1.7%	0.9%	-4.2%	-0.9%	-0.5%	-0.3%	-1.2%	-2.0%	-3.4%	-4.6%	-7.5%	-1.1%
Customer transaction	2.7%	0.8%	1.6%	0.8%	0.7%	1.3%	0.4%	1.7%	2.2%	0.8%	2.2%	2.5%

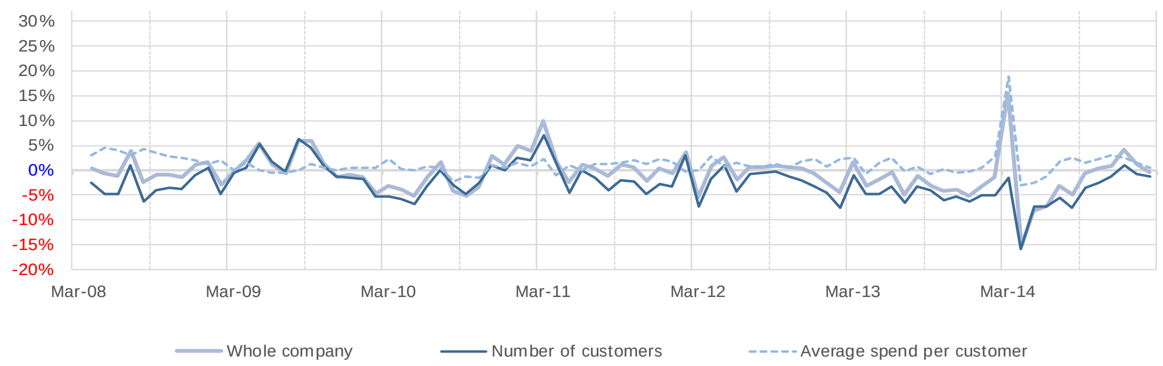
FY02/14	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Corporate	3.1%	4.3%	5.1%	0.1%	4.3%	0.6%	0.8%	-1.4%	-2.0%	-1.2%	1.6%	34.6%
All stores	6.3%	7.2%	9.4%	3.5%	8.1%	4.7%	3.6%	2.8%	2.4%	3.8%	6.7%	24.1%
Number of customer	5.8%	4.9%	7.0%	2.8%	7.0%	4.7%	2.3%	1.8%	0.9%	2.2%	2.9%	6.0%
Customer transaction	-1.1%	1.2%	2.3%	-1.0%	0.4%	-1.1%	-	-	0.7%	0.8%	3.6%	19.5%
Existing stores	-3.1%	-1.9%	-0.5%	-4.9%	-1.2%	-3.2%	-4.2%	-4.0%	-5.1%	-3.1%	-1.4%	15.4%
Number of customer	-4.7%	-4.9%	-3.3%	-6.6%	-3.2%	-4.1%	-6.1%	-5.3%	-6.4%	-5.0%	-5.1%	-1.6%
Customer transaction	-0.8%	1.6%	2.4%	-0.4%	0.8%	-0.8%	0.3%	-0.5%	-0.2%	0.4%	2.7%	18.9%

FY02/15	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Corporate	-6.8%	-3.2%	-1.7%	1.3%	1.2%	6.4%	6.0%	6.6%	8.2%	1.3%	-0.7%	-15.5%
All stores	-10.1%	-2.4%	-1.3%	2.8%	1.2%	5.6%	6.6%	1.5%	4.3%	1.3%	-0.3%	-16.6%
Number of customer	-10.1%	-1.3%	-1.5%	0.2%	-2.1%	2.3%	3.3%	-0.8%	1.0%	-1.1%	-1.7%	-8.2%
Customer transaction	-2.5%	-1.7%	-0.6%	2.8%	3.7%	2.5%	3.3%	2.8%	2.5%	1.7%	0.6%	-12.3%
Existing stores	-15.3%	-8.1%	-7.1%	-3.2%	-5.0%	-0.6%	0.4%	0.8%	4.2%	1.1%	-0.3%	-16.4%
Number of customer	-15.8%	-7.3%	-7.3%	-5.5%	-7.7%	-3.6%	-2.5%	-1.4%	1.0%	-0.9%	-1.4%	-7.8%
Customer transaction	-3.1%	-2.5%	-1.4%	1.7%	2.5%	1.6%	2.2%	2.9%	2.6%	1.6%	0.5%	-12.4%

FY02/16	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Corporate	21.6%	12.8%	-									
All stores	20.2%	11.8%	6.8%									
Number of customer	11.0%	5.0%	0.8%									
Customer transaction	10.3%	7.7%	5.2%									
Existing stores	20.4%	12.2%	7.2%									
Number of customer	11.7%	5.5%	1.5%									
Customer transaction	10.2%	7.6%	5.0%									

Monthly sales trends are updated twice a month (companywide figures release at the end of the month).
Source: Company data

Comparable store sales, customers, spend per customer YoY

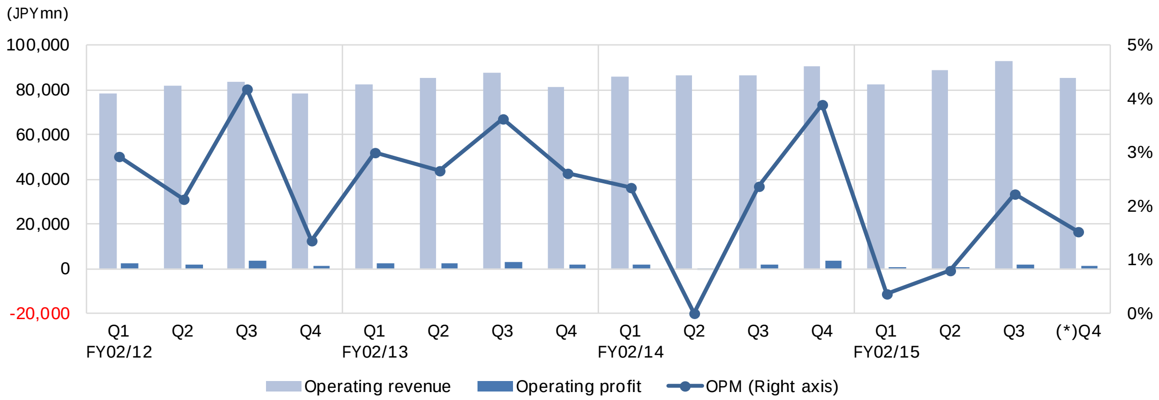


Source: Company data

Quarterly trends and results

Quarterly earnings (JPYmn)	FY03/13				FY03/14				FY03/15			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	82,375	85,031	87,429	81,051	85,831	86,403	86,613	90,490	82,567	88,891	92,673	85,033
YoY	4.8%	3.9%	4.8%	3.8%	4.2%	1.6%	-0.9%	11.6%	-3.8%	2.9%	7.0%	-6.0%
Gross profit	20,651	20,960	22,761	22,122	22,333	21,102	22,795	24,371	21,210	22,059	23,129	22,380
YoY	6.0%	7.7%	9.3%	12.2%	8.1%	0.7%	0.1%	10.2%	-5.0%	4.5%	1.5%	-8.2%
GPM	25.1%	24.6%	26.0%	27.3%	26.0%	24.4%	26.3%	26.9%	25.7%	24.8%	25.0%	26.3%
SG&A expenses	18,175	18,694	19,580	20,002	2,542	375	2,622	3,956	835	1,258	2,631	1,852
YoY	5.7%	5.5%	12.9%	7.2%	-86.0%	-98.0%	-86.6%	-80.2%	-67.2%	235.5%	0.3%	-53.2%
SG&A / Sales	22.1%	22.0%	22.4%	24.7%	3.0%	0.4%	3.0%	4.4%	1.0%	1.4%	2.8%	2.2%
Operating profit	2,476	2,266	3,180	2,121	2,021	-160	2,055	3,522	298	716	2,053	1,302
YoY	8.0%	30.2%	-8.7%	99.5%	-18.4%	-	-35.4%	66.1%	-85.3%	-	-0.1%	-63.0%
OPM	3.0%	2.7%	3.6%	2.6%	2.4%	-	2.4%	3.9%	0.4%	0.8%	2.2%	1.5%
Recurring profit	3,433	3,153	4,121	3,082	2,542	375	2,622	3,956	835	1,258	2,631	1,852
YoY	-0.6%	6.0%	-13.4%	35.1%	-26.0%	-88.1%	-36.4%	28.4%	-67.2%	235.5%	0.3%	-53.2%
RPM	4.2%	3.7%	4.7%	3.8%	3.0%	0.4%	3.0%	4.4%	1.0%	1.4%	2.8%	2.2%
Net income	2,142	1,996	2,463	1,254	1,310	-187	1,815	660	355	605	1,440	-742
YoY	5.1%	21.1%	-16.5%	-2.4%	-38.8%	-	-26.3%	-47.4%	-72.9%	-	-20.7%	-
NPM	2.6%	2.3%	2.8%	1.5%	1.5%	-	2.1%	0.7%	0.4%	0.7%	1.6%	-

Figures may differ from company materials due to differences in rounding methods.
Source: Company data



Source: Company data

Cocokara Fine	FY03/13		FY03/14		FY03/15	
(JPYmn)	1H	2H	1H	2H	1H	2H
Medical products	44,401	48,578	48,066	51,189	48,741	51,814
OTC	25,563	27,744	26,599	28,395	26,606	27,981
Prescription	18,838	20,833	21,467	22,794	22,135	23,832
Cosmetics	45,058	44,754	47,470	47,805	45,325	46,167
Health food	4,961	4,979	5,001	5,074	5,020	5,242
Sanitary products	17,166	20,143	18,718	21,336	18,584	21,357
Daily goods	21,732	20,602	23,101	21,772	23,089	21,697
Food	13,807	13,809	14,420	14,140	15,301	15,630
Total of retail	147,147	152,847	156,777	161,314	156,060	161,909
Wholesale	19,394	14,763	14,535	14,815	14,311	14,682
Total Drugstore, Pharmacy segments	166,541	167,610	171,312	176,129	170,371	176,591
Nursing Care segment	865	869	921	974	1,087	1,115
Total	167,406	168,480	172,234	177,103	171,458	177,706
% of retail						
Medical products	30.2%	31.8%	30.7%	31.7%	31.2%	32.0%
OTC	17.4%	18.2%	17.0%	17.6%	17.0%	17.3%
Prescription	12.8%	13.6%	13.7%	14.1%	14.2%	14.7%
Cosmetics	30.6%	29.3%	30.3%	29.6%	29.0%	28.5%
Health food	3.4%	3.3%	3.2%	3.1%	3.2%	3.2%
Sanitary products	11.7%	13.2%	11.9%	13.2%	11.9%	13.2%
Daily goods	14.8%	13.5%	14.7%	13.5%	14.8%	13.4%
Food	9.4%	9.0%	9.2%	8.8%	9.8%	9.7%
Total of retail	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Wholesale	-	-	-	-	-	
Total Drugstore, Pharmacy segments	-	-	-	-	-	
Nursing Care segment	-	-	-	-	-	
Total	-	-	-	-	-	
YoY						
Medical products	-	-	8.3%	5.4%	1.4%	1.2%
OTC	-	-	4.1%	2.3%	0.0%	-1.5%
Prescription	-	-	14.0%	9.4%	3.1%	4.6%
Cosmetics	-	-	5.4%	6.8%	-4.5%	-3.4%
Health food	-	-	0.8%	1.9%	0.4%	3.3%
Sanitary products	-	-	9.0%	5.9%	-0.7%	0.1%
Daily goods	-	-	6.3%	5.7%	-0.1%	-0.3%
Food	-	-	4.4%	2.4%	6.1%	10.5%
Total of retail	-	-	6.5%	5.5%	-0.5%	0.4%
Wholesale	-	-	-25.1%	0.4%	-1.5%	-0.9%
Total Drugstore, Pharmacy segments	-	-	2.9%	5.1%	-0.5%	0.3%
Nursing Care segment	-	-	6.5%	12.1%	18.0%	14.5%
Total	-	-	2.9%	5.1%	-0.5%	0.3%
GPM						
Medical products	39.0%	39.4%	38.0%	39.2%	38.3%	38.7%
OTC	39.7%	41.6%	38.7%	39.9%	38.4%	38.4%
Prescription	38.0%	36.7%	37.2%	38.0%	38.2%	38.8%
Cosmetics	26.7%	27.3%	26.8%	27.6%	26.3%	26.5%
Health food	34.0%	35.2%	34.9%	35.1%	34.1%	34.1%
Sanitary products	26.0%	27.5%	24.7%	28.1%	26.0%	26.7%
Daily goods	19.6%	18.8%	18.4%	19.2%	18.2%	17.6%
Food	12.6%	12.8%	11.3%	11.9%	11.1%	10.7%
Total of retail	28.0%	29.2%	27.6%	29.0%	27.6%	28.0%
Wholesale	1.8%	1.1%	0.9%	1.1%	0.9%	0.9%
Total Drugstore, Pharmacy segments	24.9%	26.7%	25.3%	26.7%	25.3%	25.7%
Nursing Care segment	12.5%	7.5%	6.6%	7.8%	10.5%	12.1%
Total	24.9%	26.7%	25.2%	26.6%	25.2%	25.6%

Note: Dicisions above can only be applied until FY09/12
Source: Company data

Performance in Q4 FY03/15

In Q4 FY03/15 (January–March 2015), sales totaled JPY85.0bn (down 6.0% YoY), operating profit JPY1.3bn (up 1.5%), recurring profit JPY1.9bn (down 53.2%) and net loss JPY742mn. This significant decline in sales and profit was due to a demand surge in the previous year ahead of an increase in the consumption tax rate, as well as JPY406mn in extraordinary loss from a write-down on shares in affiliates.

Performance in Q3 FY03/15

In Q3 FY03/15 (October–December 2014), sales came to JPY92.7bn (up 7.0% YoY), operating profit JPY2.1bn (down 0.1%), recurring profit JPY2.6bn (up 0.3%), and net income JPY1.4bn (down 20.7%). From October 2014, increased profitability at existing stores led to profits, and signs of recovery were imminent. However, a decline in GPM from the strengthening of promotions ahead of the year-end (when demand is highest), and delays in implementing some measures to improve distribution efficiency (Kanto logistics center) caused operating profit to remain essentially unchanged year-on-year.

Performance in 1H FY03/15

In Q2 FY03/15 (July–September 2014), sales were JPY88.9bn (up 2.9% YoY), operating profit JPY716mn (turned profitable), recurring profit JPY1.3bn (up 3.4 times) and net income JPY605mn (turned profitable). A cool summer caused sluggish sales of seasonal items and delays in implementing measures to improve distribution efficiency (the Kanto logistics center) led to increases in distribution costs. This was offset by the addition of Kojido Co., Ltd., a dispensing pharmacy operator, to the consolidated accounts (August 2014) and robust performance from existing dispensing pharmacies, driving increases in sales and earnings.

Performance in Q1 FY03/15

In Q1 FY03/15 (April–June 2014), sales were JPY82.6bn (down 3.8% YoY), operating profit was JPY298mn (down 85.3%), recurring profit was JPY835mn (down 67.2%) and net income was JPY355mn (down 72.9%). Tough comps from a demand surge ahead of the April 2014 consumption tax hike were the primary reason for these decreases. Also, inclement weather led to poor performance in seasonal products. The company believed that the effects of the consumption tax demand backlash that reduced gross profit by around JPY1.8bn would disappear by April or May 2015.

FY03/16 full-year forecasts

FY03/16 forecasts (JPYmn)	FY03/14 Act. 1H	2H	Full-year	FY03/15 Act. 1H	2H	Full-year	FY03/16 forecasts 1H	2H	Full-year
Sales	**172,234**	**177,103**	**349,337**	**171,458**	**177,706**	**349,164**	**181,000**	**179,000**	**360,000**
YoY	2.9%	5.1%	4.0%	-0.5%	0.3%	-0.0%	5.6%	0.7%	3.1%
Gross profit	**43,435**	**47,166**	**90,601**	**43,269**	**45,509**	**88,778**	**46,300**	**45,500**	**91,800**
YoY	4.4%	5.1%	4.7%	-0.4%	-3.5%	-2.0%	7.0%	-0.0%	3.4%
GPM	25.2%	26.6%	25.9%	25.2%	25.6%	25.4%	25.6%	25.4%	25.5%
SG&A	41,573	41,589	83,162	42,255	42,153	84,408	43,300	42,200	85,500
SG&A / sales	24.1%	23.5%	23.8%	24.6%	23.7%	24.2%	23.9%	23.6%	23.8%
Operating profit	**1,861**	**5,577**	**7,438**	**1,014**	**3,355**	**4,369**	**3,000**	**3,300**	**6,300**
YoY	-60.8%	5.2%	-25.9%	-45.5%	-39.8%	-41.3%	195.9%	-1.6%	44.2%
OPM	1.1%	3.1%	2.1%	0.6%	1.9%	1.3%	1.7%	1.8%	1.8%
Recurring profit	**2,917**	**6,578**	**9,495**	**2,093**	**4,483**	**6,576**	**4,000**	**4,500**	**8,500**
YoY	-55.7%	-8.7%	-31.1%	-28.2%	-31.8%	-30.7%	91.1%	0.4%	29.3%
RPM	1.7%	3.7%	2.7%	1.2%	2.5%	1.9%	2.2%	2.5%	2.4%
Net income	**1,123**	**2,475**	**3,598**	**960**	**698**	**1,658**	**2,000**	**1,400**	**3,400**
YoY	-72.9%	-33.4%	-54.2%	-14.5%	-71.8%	-53.9%	108.3%	100.6%	105.1%

Figures may differ from company materials due to differences in rounding methods.
Source: Company data

The company's forecast for FY03/16 calls for sales of JPY360.0bn (+3.1% YoY), operating profit of JPY6.3bn (+44.2%), recurring profit of JPY8.5bn (+29.3%) and net income of JPY3.4bn (+105.0%). Planned capital investment in FY03/16 is JPY6.1bn (+83.2% YoY). In addition to new store openings, this investment is slated to go toward refurbishment of stores and increasing their size. (See the Management strategy section.) The company plans to open 29 stores (including six that will handle prescriptions) and close 30 (including three handling prescriptions).

This sales forecast assumes that the weak YoY performance caused by tough comps seen in FY03/15 (as the demand surged ahead of the consumption tax hike in Q4 of FY03/14) has run its course. The forecast calls for a 2.9% YoY increase in comparable store sales, as well as 2–3% growth in the dispensing business. These forecasts do not include any potential impact from inbound demand, i.e., foreign tourists' "buy in Japan" sprees contributing to sales.

The company assumes a gross profit margin of 25.5%, on par with FY03/15. The operating profit is expected to be boosted mainly by the following:

- Disappearance of the temporary JPY1.8bn negative impact on gross profit of a sales slump (April–May 2014) post the demand spike ahead of the consumption tax increase (in April 2014).
- Disappearance of JPY860mn in temporarily increased logistics costs due to delays in efforts to boost distribution efficiency (the Kanto logistics center). Although the company includes only these factors in its calculations, there are other reasons that profits should increase.

Other minor positive contributing factors:

- A reverse in the temporary drop in consumer sentiment following the consumption tax hike, and poor weather (typhoons, rain, and a cool summer) seen in the previous year.
- A JPY336mn decrease in depreciation and goodwill amortization costs.
- Better buying efficiency due to the introduction of a financial purchasing team (target savings of JPY200mn).

Factors that may hurt operating profit:

- A negative JPY700mn earnings impact from higher distribution-related personnel costs.
- Costs of furnishings and fixtures for new store openings, and existing store upgrades.

As mentioned, the company's forecasts exclude any sales increases due to inbound tourism demand. At the same time, changes in expenses are forecast conservatively, leading Shared Research to conclude that the company forecast for FY03/16 is likely conservative. We believe one reason for this conservatism is the fact that the company revised its forecasts downward twice in FY03/15 and has therefore adopted a conservative stance to avoid repeating this experience.

Historical forecast accuracy

Historical forecast accuracy

(JPYmn)		FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16
Sales	Initial CE	169,000	179,840	205,140	319,100	334,200	359,000	362,000	360,000
	Results	170,116	190,957	256,681	321,954	335,886	349,337	349,164	-
	Initial CE vs. Results	0.7%	6.2%	25.1%	0.9%	0.5%	-2.7%	-3.5%	-
Operating Profit	Initial CE	7,400	3,850	3,770	7,700	9,400	10,000	8,000	6,300
	Results	3,836	3,394	6,375	8,579	10,043	7,438	4,369	-
	Initial CE vs. Results	-48.2%	-11.8%	69.1%	11.4%	6.8%	-25.6%	-45.4%	-
Recurring Profit	Initial CE	9,500	7,410	7,470	11,800	14,900	14,000	10,300	8,500
	Results	7,274	7,069	10,395	13,467	13,789	9,495	6,576	-
	Initial CE vs. Results	-23.4%	-4.6%	39.2%	14.1%	-7.5%	-32.2%	-36.2%	-
Net Profit	Initial CE	5,400	3,930	3,100	6,300	8,800	8,200	4,700	3,400
	Results	3,915	4,169	5,911	7,920	7,855	3,598	1,658	-
	Initial CE vs. Results	-27.5%	6.1%	90.7%	25.7%	-10.7%	-56.1%	-64.7%	-

Figures may differ from company materials due to differences in rounding methods.
Source: Company data

Long-term forecasts

The company is working toward the objectives outlined in a medium-term plan it announced in September 2010. Under the plan, its numerical targets for FY03/16 are sales of JPY500bn and recurring profit of JPY20bn. However, the company's forecasts for this year (FY03/16), the final year of the plan, are for sales of JPY360bn (+3.1% YoY) and recurring profit of JPY8.5bn (+29.3%), lower than its expectations when the plan was formulated some five years ago.

We understand that this underperformance relative to the company's own objectives stems from challenges in post-merger integration, changes in the operating environment, and overly aggressive expectations regarding the new M&A and new store sales contribution. At a recent results briefing the President Tsukamoto said that he hopes the company exceeds the record recurring profit of JPY13.8bn reached in FY03/13 by FY03/19, although this is not an official target.

The company has high overhead costs compared to its competitors in the industry, and sees that it has at least 1% room for improvement for its overhead-to-sales ratio. It recognizes the need to shrink its overhead costs in the medium-term, and is working toward that goal.

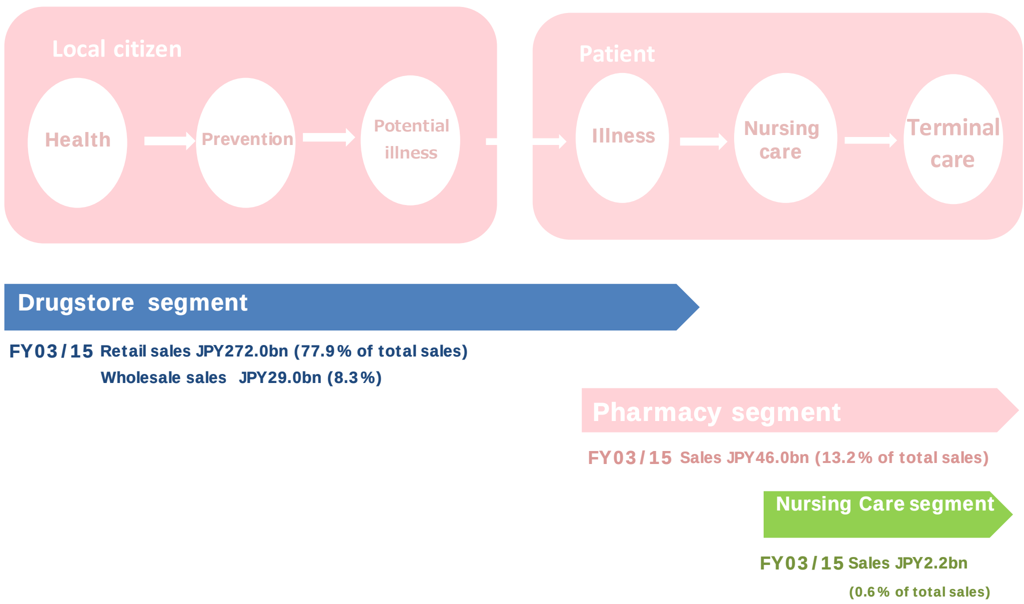
Business

Business description

Drugstore and prescription dispensing backed by nationwide store network

The company has two principal businesses: the operation of stores that sell pharmaceuticals, cosmetics, daily essentials and other items, and the management of dispensing pharmacies. The drugstore industry is competitive (501 companies at end FY 2013), but Cocokara Fine is one of only a few with a store network covering most of Japan. (According to the company, it ranked second in number of stores as of end March 2015, at 1,341 stores). The company also operates stores in all but six of Japan's 47 prefectures (as of end March 2015). Another distinguishing characteristic is the large scale of its Pharmacy (dispensing prescription drugs) segment. (According to the company, it ranks second in the drugstore industry for dispensing fees, and first in the number of stores that handle more than 1,000 prescriptions per month.) Because its nationwide development has resulted in weak per-store sales, on a sales basis the company is seventh in the drugstore industry (according to the company). Around 70–80% of its customers are women, notably housewives and businesswomen.

Although Drugstore and Pharmacy is its core segment, the company also has a Nursing Care segment offering home-visit nursing care as part of a broad range of community-focused healthcare services. It plans to meet changing needs through its service-oriented strategy. It goes beyond simple retail sales to provide total health support services to communities (its customers).



Source: Company data

It positions service orientation (see the Management strategy section) as a competitive strategy, which it will pursue to differentiate itself. Specifically, the company is focusing on a presentation-style service, in which it offers customers counseling and provides information regarding health and beauty care. By offering convenience and increasing satisfaction, it aims to forge long-term relationships with its customers, ensure their loyalty, and encourage ongoing purchases.

Drugstores

According to the Ministry of International Affairs and Communications' standard Japanese industry classifications, a drugstore is "a place of business conducting retail sales of health and beauty products, centered on pharmaceuticals and cosmetics, as well as household items, processed foods and other convenience products in a self-service format." Drugstores must meet four criteria, including (1) having a self-service format (50% or more of all stores), (2) handling pharmaceuticals, cosmetics, hygiene products and daily-use items, (3) sales of pharmaceuticals/cosmetics accounting for 30% or more of total sales, and (4) handling five or more product categories, including pharmaceuticals and cosmetics.

Drugstores typically focus on health and beauty care, and offer a lineup of daily items, processed foods and such. They tend to be conveniently located and feature one-stop shopping, highlighting access and ease of finding products. Under Japan's Pharmaceutical Affairs Law, a license is needed to operate a drugstore, either as a pharmacy (if also dispensing prescription drugs) or as a retailer.

Dispensing pharmacies

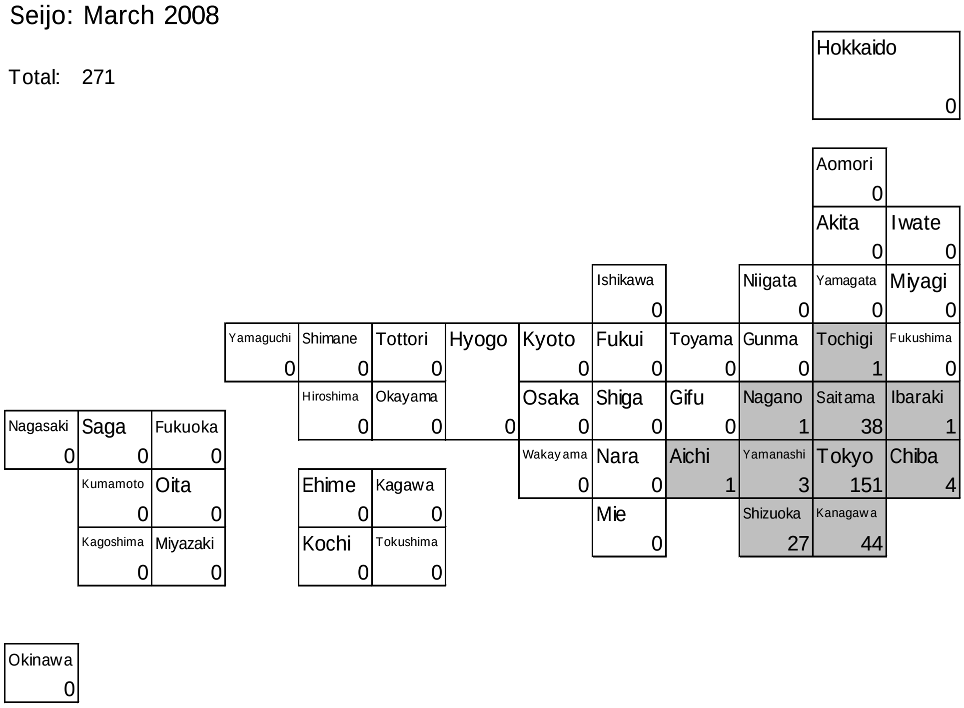
Also according to the Ministry of International Affairs and Communications' Japanese standard industry classifications, a dispensing pharmacy is primarily for the dispensing and sales of pharmaceuticals based on a physician's prescription. Businesses whose economic activity comprises the sale of pharmaceuticals are classified as "retailers."

Store count of Cocokara Fine's three main stores pre-merger

Cocokara Fine current store count

Seijo: March 2008

Total: 271



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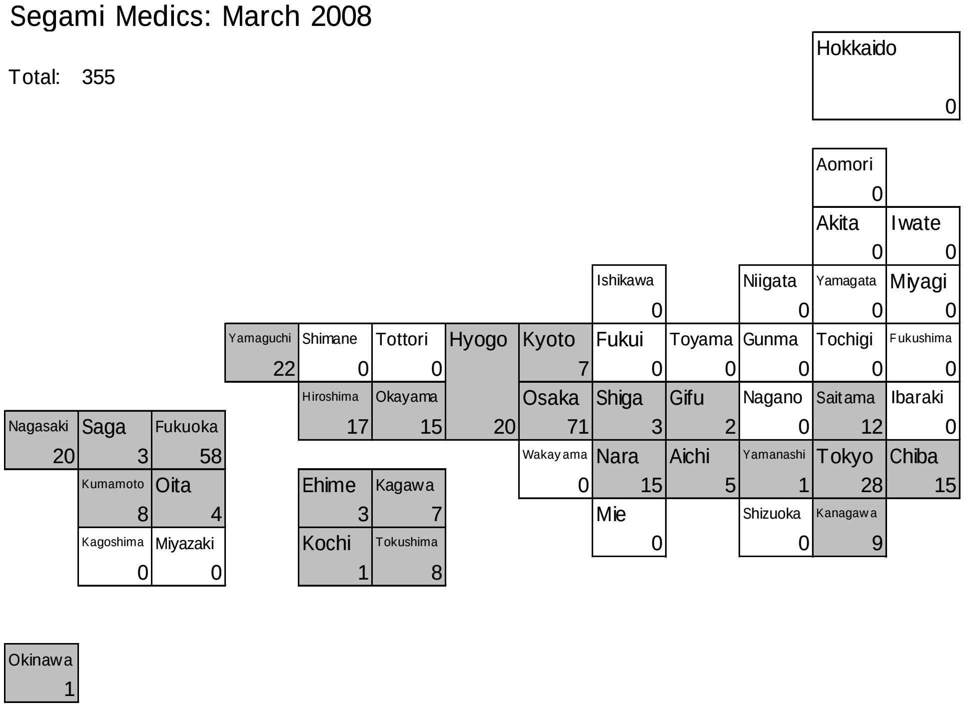
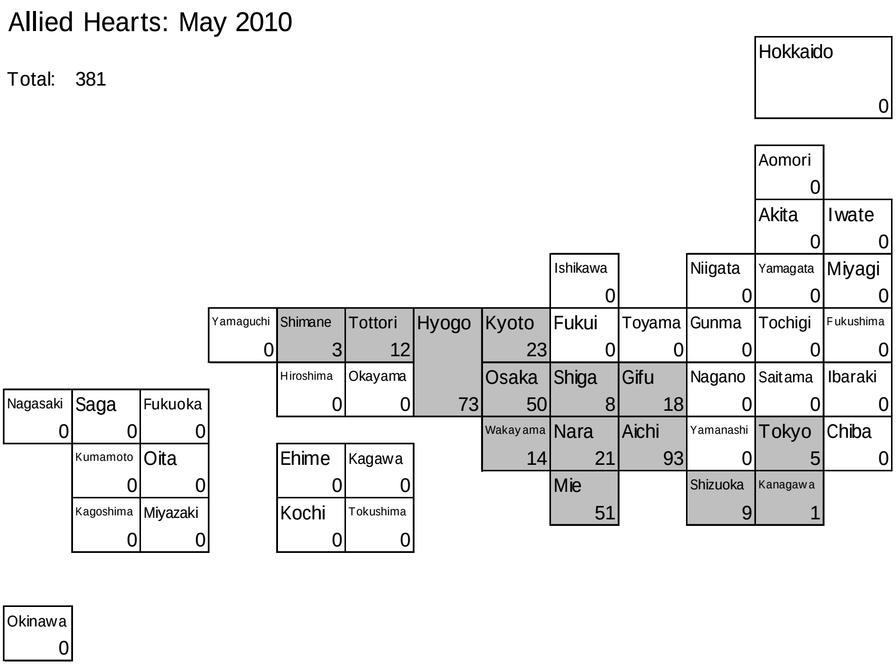
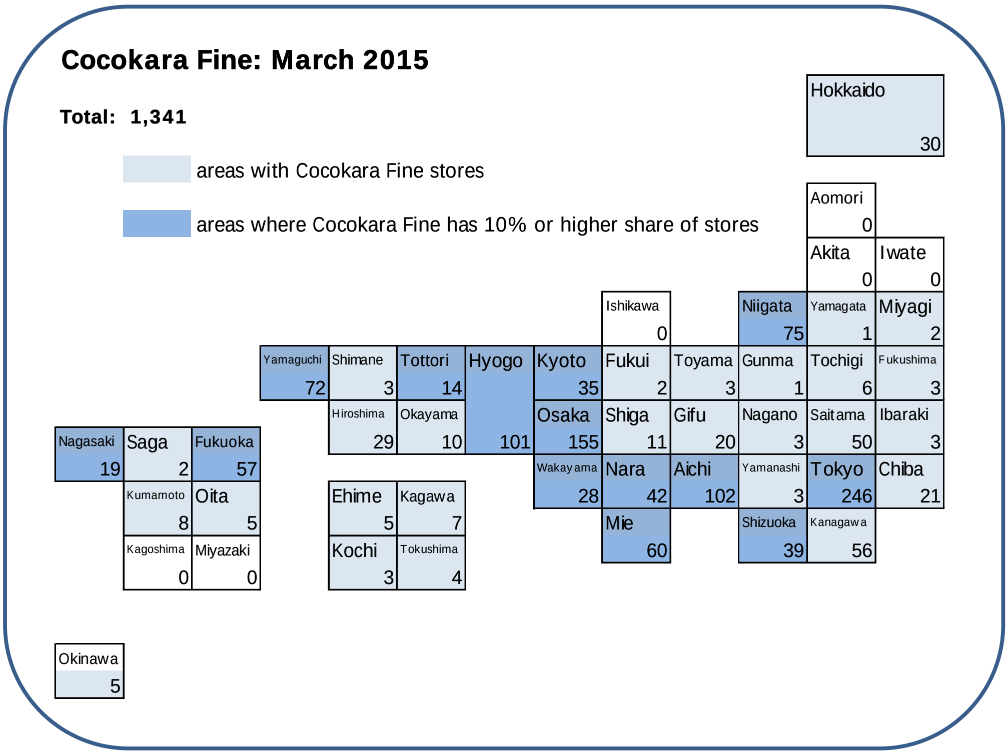
Segami Medics: March 2008

Total: 355







Source: Company data; respective company data

In April 2008, Seijo Co., Ltd. and Segami Medics Co., Ltd., both mid-sized drugstore operators in the Kanto region, underwent a management merger and established the company through the transfer of shares. Thereafter, the company merged with and made into subsidiaries Allied Hearts Holdings Co., Ltd. (October 2010), Suzuran Co., Ltd. (October 2011), Kodama Co., Ltd. (November 2012), Iwasakikoukendou Co., Ltd. (November 2013). Rather than the case of a single, overwhelmingly powerful company swallowing up others, it has grown through mergers with other companies operating on the same scale. This approach is distinctive because it has allowed the company to benefit from the expertise of each of its constituents.

In the mainstay Drugstore business, Cocokara Fine's network covers most of Japan. The reason is that it has built its business through nationwide mergers with drugstore groups particularly strong in specific regions—by amalgamating Seijo (Kanto), Segami (Kansai-focused), Zip Drug (Tokai), Lifort (Hyogo), Suzuran (Hokkaido), KODAMA (Shinetsu), and the Kusuri Iwasaki chain (Yamaguchi). In April 2013, the company integrated six sales subsidiaries in order to focus the sales functions of its core Drugstore and Pharmacy segment. The company divides its store network into four clusters to optimize merchandising in each market area.

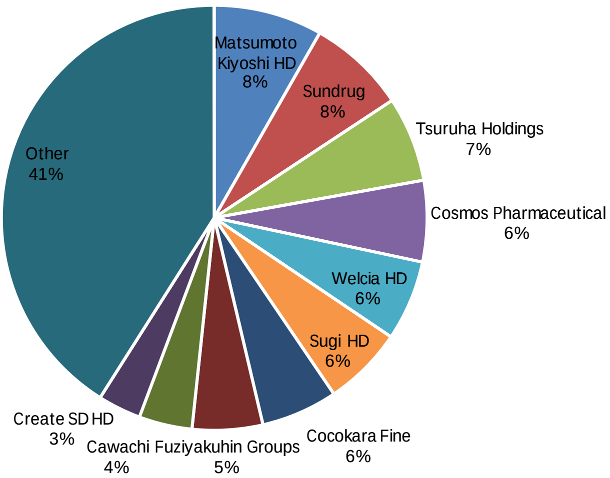
Like one of its predecessors, Segami Medics, since the beginning operations in its Pharmacy segment the company has made a policy of making sure this business is competitive with specialty pharmacy chains, maintaining its focus on dispensing prescriptions.

Competitive position in the drugstore/ prescription industries

In the drugstore industry, competitors include Matsumoto Kiyoshi Holdings Co., Ltd. (TSE1: 3088), Sundrug Co., Ltd. (TSE1: 9989), Tsuruha Holdings, Inc. (TSE1: 3391), Cosmos Pharmaceutical Corporation (TSE1: 3349), Sugi Holdings Co., Ltd. (TSE1: 7649) and Welcia Holdings Co., Ltd. (TSE1: 3141).

Chains specializing in prescriptions include Ain Pharmaciez Inc. (TSE1: 9627), Sogo Medical Co., Ltd. (TSE1: 4775), Nihon Chouzai Co., Ltd. (TSE1: 3341), Qol Co., Ltd. (TSE1: 3034), Medical System Network Co., Ltd. (TSE1: 4350), Pharmarise Holdings Corporation (TSE1: 2796) and Aisei Pharmacy Co., Ltd. (TSE1: 3170).

Listed drugstores' market share (top ten companies of FY 2013



Source: Company data, Japan drugstore industry statistics

Drugstore rankings (FY2013)

Store count			Dispensing fee (drugstore industry)			Dispensing fee (including specialty chains)		
Rank	Company name	Store count	Rank	Company name	JPYbn	Rank	Company name	JPYbn
1	Matsumoto Kiyoshi HD	1,486	1	Sugi HD	49.9	1	Ain Pharmaciez	148.3
2	Cocokara Fine	1,352	2	Cocokara Fine	44.2	2	Nihon Chouzai	143.6
3	Tsuruha HD	1,312	3	Tsuruha HD	37.3	3	Kraft	118.7
4	Sundrug	937	4	Welcia HD	36.4	4	Kyousoumirai Group	85.6
5	Sugi HD	915	5	Matsumoto Kiyoshi HD	30.3	5	Qol	80.8
6	Welcia HD	874	6	CFS Corporation	16.8	6	Sogo Medical	71
7	Cosmos Pharmaceutical	577	7	Tomod's	16.2	7	Pharma HD	59.5
8	Create SD HD	444	8	Kokumin	12.6	8	Sugi HD	49.9
9	Kirindo	327	9	Kusuri no Aoki	11.9	9	Aisei	46.7
10	CFS Corporation	308	10	Sugiyama drugs	11.5	10	Cocokara Fine	44.2

Source: Company data

Cocokara Fine industry position (2013)

- Sixth (by sales) in the drugstore industry, third–seventh place frequently switch

  First: Matsumoto Kiyoshi (JPY495.3bn)

  Second: Sundrug (JPY447.8bn)

- Second in the drugstore industry, by store count

  First: Matsumoto Kiyoshi (1,486 stores)

  Second: Cocokara Fine (1,352 stores)

- Second among pharmacies within drugstores (first and second change position frequently)

  First: Sugi (JPY49.9bn)

  Second: Cocokara Fine (JPY44.2bn)

- Tenth in dispensing fees (including specialized dispensing prescription chains); announced a business tie-up with fifth-ranked Qol Co., Ltd. in July 2014

Business segments

Its business segments are divided into two segments: Drugstore and Pharmacy, and Nursing Care Services. In FY03/15, Drugstore and Pharmacy generated sales of JPY347.0bn (99.4% of total sales), and Nursing Care Services delivered JPY2.2bn (0.6%). The company's Drugstore and Pharmacy segment divides further into three categories: non-prescription retail, prescription dispensing operations, and wholesale operations. Sales in non-prescription retail were JPY272.0bn (77.9%), in prescription dispensing JPY46.0bn (13.2%) and in wholesale operations JPY29.0bn (8.3%).

By segment, operating profit in FY03/15 for the Drugstore and Pharmacy segment was JPY4.4bn (down 42.0% YoY, 100.9% of the total), and Nursing Care Services had an operating loss of JPY39mn.

Earnings by segment (JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14 Old segments	FY03/14 New segments	FY03/15
Total sales	**190,957**	**256,681**	**321,954**	**335,886**	**349,337**	**394,337**	**349,164**
Drugstore and Pharmacy	189,972	255,504	320,672	334,151	347,441	347,441	346,962
Drugstore and Pharmacy (old segmentation)	164,580	222,848	282,755	299,994	318,091	na	na
Wholesale	25,392	32,656	37,917	34,157	29,350	na	na
Nursing Care	984	1,175	1,281	1,734	1,895	1,895	2,202
Total segment profit	**4,904**	**7,912**	**10,138**	**11,798**	**9,622**	**7,390**	**4,351**
Drugstore and Pharmacy	5,025	8,056	10,257	11,946	9,799	7,574	4,391
Drugstore and Pharmacy (old segmentation)	4,764	7,742	9,831	11,548	9,478	na	na
Wholesale	261	314	426	398	321	na	na
Nursing Care	-121	-143	-119	-148	-178	-183	-39
Adjustments	-1,510	-1,537	-1,558	-1,767	-2,231	-	-
Eliminations	-	-	-	12	48	48	18
Consolidated operating profit	3,394	6,375	8,579	10,043	7,438	7,438	4,369
Total segment assets	**66,668**	**115,903**	**121,333**	**131,677**	**136,431**	**136,431**	**132,502**
Drugstore and Pharmacy	65,799	115,079	120,207	128,646	134,145	134,145	130,264
Drugstore and Pharmacy (old segmentation)	61,766	108,753	113,475	123,922	129,478	na	na
Wholesale	4,033	6,326	6,732	4,724	4,667	na	na
Nursing Care	868	823	1,124	3,030	2,285	2,285	2,238
Total assets	13,010	5,457	19,582	18,575	2,878	2,878	3,109
Eliminations	-	-	-	-674	-4	-4	-2
Total consolidated assets	79,679	121,361	140,915	149,578	139,305	139,305	135,610
Segment profit margins	**2.6%**	**3.1%**	**3.1%**	**3.5%**	**2.8%**	**1.9%**	**1.2%**
Drugstore and Pharmacy	2.6%	3.1%	3.1%	3.5%	2.8%	1.9%	1.2%
Drugstore and Pharmacy (old segmentation)	2.9%	3.5%	3.5%	3.8%	3.0%	na	na
Wholesale	1.0%	1.0%	1.1%	1.2%	1.1%	na	na
Nursing Care	nm	nm	nm	nm	nm	nm	nm
Segment return on assets	**7.4%**	**6.8%**	**8.4%**	**9.0%**	**7.1%**	**5.4%**	**3.3%**
Drugstore and Pharmacy	7.6%	7.0%	8.5%	9.3%	7.3%	5.6%	3.4%
Drugstore and Pharmacy (old segmentation)	7.7%	7.1%	8.7%	9.3%	7.3%	na	na
Wholesale	6.5%	5.0%	6.3%	8.4%	6.9%	na	na
Nursing Care	nm	nm	nm	nm	nm	nm	nm

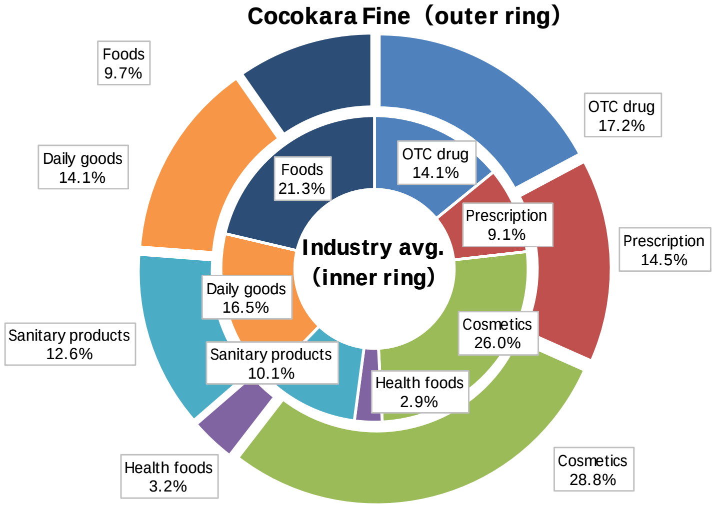
Note: Segment asset turnover is calculated by dividing segment profit by segment assets.
Source: Company data

Drugstore and Pharmacy segment

FY03/15 sales by product in drugstore retail operations (including prescription)

- Pharmaceuticals (total of OTC pharmaceuticals and prescription): JPY100.6bn (31.6% of retail sales, +1.3% YoY)
- Cosmetics: JPY46.0bn (28.8%, -4.0%)
- Health foods: JPY10.3bn (3.2%, ＋1.9%)
- Sanitary products: JYP44.8bn (12.6%, -0.3%)
- Daily essentials: JYP44.8bn (14.1%, -0.2%)
- Foods: JPY30.9bn (9.7%, +8.3%)

Share of sales by product category



Note: The industry average and Cocokara Fine's product categories are not necessarily the same. Cosmetics in the industry include beuty care and healthcare products in addition to cosmetics. Sanitary products in the industry include products for nursing care, babies, and households.
Source: Company data, drugstore management statistics

Breakdown of FY03/15 gross profit margin

- Pharmaceuticals: 38.5%
- Health foods: 34.1%
- Cosmetics: 26.4%
- Sanitary products: 26.4%
- Daily essentials: 17.9%
- Foods: 10.9%

Looking at drugstore retail operations (including prescription) chronologically, sales grew steadily (15.0% annual growth) from JPY158.2bn in FY03/09 to JPY318.1bn in FY03/14, mainly due to an increase in the number of stores. Over the same period, the number of stores grew 16.1% annually, from 640 to 1,352. However, these sales dipped in FY03/15, to JPY318.0bn. At end FY03/15, the number of stores was down by 11 YoY, to 1,341, due to a scrap-and-build strategy. See the following table for sales by store from FY03/09–FY03/15.

Cocokara Fine sales productivity

	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15
Consolidated sales (JPYmn)	170,116	190,957	256,681	321,954	335,886	349,337	349,164
Drugstore and Pharmacy segment sales* (JPYmn)	158,183	164,580	222,848	282,755	299,994	318,091	317,969
Average sales floor area (mid-year, sqm)	205,453	213,233	316,357	425,480	466,452	528,744	554,704
Sales floor area (year-end, sqm)	210,757	215,709	417,004	433,957	498,947	558,540	550,867
Sales per sqm (JPY'000)	769.9	771.8	704.4	664.6	642.4	600.4	629.5
Employees (average)	5,121	5,438	7,135	8,827	9,700	10,995	na
Sales per employee (JPY'000)	33,219	35,115	35,975	36,474	34,627	31,772	na
Store count	640	661	1,084	1,130	1,261	1,352	1,341
Sales per store (JPYmn)	247.2	249.0	205.6	250.2	237.9	235.3	237.1
GPM (%)	27.3%	24.8%	24.8%	24.7%	25.8%	25.9%	25.4%
Inventory turnover (times)	6.0	7.0	7.2	6.9	6.5	6.2	5.8
Gross profit to inventory ratio(%)	162.2%	173.5%	177.2%	171.4%	167.6%	161.4%	147.7%

Note: Employees include partime and temporary workers (eight hours/day)
*Excluding online sales
Source: Company data

Sales and GPM by product category

Cocokara Fine	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15
Sales (JPYmn)							
Medical products	50,927	52,160	69,663	87,895	92,979	99,255	100,555
OTC	33,521	32,811	42,652	51,509	53,307	54,994	54,587
Prescription	17,406	19,319	27,011	36,386	39,671	44,261	45,967
Cosmetics	51,620	52,114	65,550	85,744	89,812	95,275	91,492
Health food	7,300	7,478	9,259	9,522	9,940	10,075	10,262
Sanitary products	na	na	na	34,344	37,309	40,054	39,941
Daily goods	26,908	28,616	42,038	39,773	42,334	44,873	44,786
Food	na	na	na	na	27,616	28,560	30,931
Total of retail	21,425	24,211	36,335	25,477	-	-	-
Wholesale	158,183	164,580	222,848	282,755	299,994	318,091	317,969
Total Drugstore, Pharmacy segments	na	na	na	na	34,157	29,350	28,993
Nursing Care segment	158,183	164,580	222,848	282,755	334,151	347,441	346,962
Total	11,932	26,377	33,832	39,199	1,734	1,895	2,202
Other products	170,116	190,957	256,681	321,954	335,886	349,337	349,164
% of retail							
Medical products	32.2%	31.7%	31.3%	31.1%	31.0%	31.2%	31.6%
OTC	21.2%	19.9%	19.1%	18.2%	17.8%	17.3%	17.2%
Prescription	11.0%	11.7%	12.1%	12.9%	13.2%	13.9%	14.5%
Cosmetics	32.6%	31.7%	29.4%	30.3%	29.9%	30.0%	28.8%
Health food	4.6%	4.5%	4.2%	3.4%	3.3%	3.2%	3.2%
Sanitary products	na	na	na	12.1%	12.4%	12.6%	12.6%
Daily goods	17.0%	17.4%	18.9%	14.1%	14.1%	14.1%	14.1%
Food	na	na	na	na	9.2%	9.0%	9.7%
Total of retail	13.5%	14.7%	16.3%	9.0%	-	-	-
Wholesale	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total Drugstore, Pharmacy segments	-	-	-	-	-	-	-
Nursing Care segment	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-
Other products	-	-	-	-	-	-	-
YoY (%)							
Medical products	na	2.4%	33.6%	26.2%	5.8%	6.7%	1.3%
OTC	na	-2.1%	30.0%	20.8%	3.5%	3.2%	-0.7%
Prescription	na	11.0%	39.8%	34.7%	9.0%	11.6%	3.9%
Cosmetics	na	1.0%	25.8%	30.8%	4.7%	6.1%	-4.0%
Health food	na	2.4%	23.8%	2.8%	4.4%	1.4%	1.9%
Sanitary products	na	na	na	na	8.6%	7.4%	-0.3%
Daily goods	na	6.3%	46.9%	-5.4%	6.4%	6.0%	-0.2%
Food	na	na	na	na	na	3.4%	8.3%
Total of retail	na	13.0%	50.1%	-29.9%	-	-	-
Wholesale	na	4.0%	35.4%	26.9%	6.1%	6.0%	0.0%
Total Drugstore, Pharmacy segments	na	na	na	na			-1.2%
Nursing Care segment	na	4.0%	35.4%	26.9%	18.2%	4.0%	-0.1%
Total	na	121.1%	28.3%	15.9%	-95.6%	9.3%	16.2%
Other products	na	12.3%	34.4%	25.4%	4.3%	4.0%	0.0%
Gross profit margin (%)							
Medical products	38.5%	37.5%	37.5%	38.1%	39.2%	38.6%	38.5%
OTC	39.0%	37.5%	37.6%	38.8%	40.7%	39.3%	38.4%
Prescription	37.8%	37.6%	37.4%	37.1%	37.3%	37.6%	38.5%
Cosmetics	28.3%	28.0%	26.1%	26.6%	27.0%	27.2%	26.4%
Health food	27.0%	26.9%	30.4%	34.4%	34.6%	35.0%	34.1%
Sanitary products	0.0%	0.0%	0.0%	25.8%	26.8%	26.5%	26.4%
Daily goods	21.9%	21.5%	21.0%	18.7%	19.2%	18.8%	17.9%
Food	0.0%	0.0%	0.0%	0.0%	12.7%	11.6%	10.9%
Total of retail	18.1%	18.6%	22.5%	12.4%	-	-	-
Wholesale	29.1%	28.5%	28.3%	27.9%	28.6%	28.3%	27.8%
Total Drugstore, Pharmacy segments	na	na	na	na	1.5%	1.0%	0.9%
Nursing Care segment	0.0%	0.0%	0.0%	0.0%	25.8%	26.0%	25.5%
Total	0.0%	0.0%	0.0%	0.0%	10.0%	7.2%	11.3%
Other products	27.3%	24.8%	24.8%	24.7%	25.8%	25.9%	25.4%

Note: Prior to FY03/12, the Nursing Care segment included wholesales (not in the Drugstore/Pharmacy segments).
Source: Company data

2012 Statistics				Drugstore industry					Cocokara Fine store count		
	Population ①	Population over 65 ②	Aging rate ②/①	Store count	Population per store	Annual sales per store (JPYmn)	Annual sales per employee (JPYmn)	Amount sold per sqm (JPY'000)	End FY03/12	(share) (%)	End FY03/15
All Japan	128,373,879	30,968,259	24.1%	14,326	8,961	254.4	22.2	588.8	1,130	7.9%	1,341
Hokkaido	5,465,451	1,431,915	26.2%	635	8,607	249.4	23.0	506.7	24	3.8%	30
Aomori	1,372,010	369,774	27.0%	99	13,859	174.5	19.7	310.1	0	0.0%	0
Iwate	1,314,180	367,325	28.0%	159	8,265	287.1	23.0	419.3	0	0.0%	0
Miyagi	2,318,692	538,321	23.2%	279	8,311	268.0	22.2	437.2	0	0.0%	2
Akita	1,076,205	329,912	30.7%	87	12,370	259.6	22.9	375.8	0	0.0%	0
Yamagata	1,155,942	327,564	28.3%	153	7,555	259.6	23.8	389.2	0	0.0%	1
Fukushima	1,980,259	513,560	25.9%	241	8,217	287.5	25.2	475.3	0	0.0%	3
Ibaraki	2,997,072	712,145	23.8%	352	8,514	366.7	20.8	501.2	1	0.3%	3
Tochigi	2,010,934	468,381	23.3%	212	9,486	397.6	31.0	578.2	6	2.8%	6
Gunma	2,023,382	501,715	24.8%	216	9,368	295.7	27.3	481.9	1	0.5%	1
Saitama	7,272,304	1,602,692	22.0%	788	9,229	296.9	17.7	627.8	46	5.8%	50
Chiba	6,240,455	1,425,541	22.8%	584	10,686	306.8	19.9	658.6	21	3.6%	21
Tokyo	13,142,640	2,783,083	21.2%	1,640	8,014	282.2	23.0	1,116.2	222	13.5%	246
Kanagawa	9,083,643	1,964,504	21.6%	987	9,203	324.0	25.6	873.4	58	5.9%	56
Niigata	2,361,133	644,314	27.3%	310	7,617	231.1	22.1	418.6	0	0.0%	75
Toyama	1,094,827	302,144	27.6%	179	6,116	216.0	16.4	348.6	0	0.0%	3
Ishikawa	1,163,089	293,433	25.2%	200	5,815	264.5	17.7	443.7	0	0.0%	0
Fukui	810,552	206,865	25.5%	119	6,811	341.2	24.9	423.1	0	0.0%	2
Yamanashi	863,917	221,829	25.7%	136	6,352	247.9	20.0	488.0	2	1.5%	3
Nagano	2,165,604	592,539	27.4%	267	8,111	246.9	22.9	503.3	2	0.7%	3
Gifu	2,102,879	530,401	25.2%	314	6,697	237.7	22.4	408.1	20	6.4%	20
Shizuoka	3,809,470	948,455	24.9%	382	9,972	356.3	26.3	582.4	38	9.9%	39
Aichi	7,462,800	1,610,922	21.6%	882	8,461	272.3	21.3	623.1	103	11.7%	102
Mie	1,871,619	471,658	25.2%	184	10,172	181.9	20.8	539.6	56	30.4%	60
Shiga	1,419,426	308,822	21.8%	129	11,003	294.4	19.7	525.4	10	7.8%	11
Kyoto	2,587,129	649,164	25.1%	315	8,213	213.8	22.4	599.0	33	10.5%	35
Osaka	8,873,698	2,089,869	23.6%	1,022	8,683	234.1	23.2	810.1	144	14.1%	155
Hyogo	5,660,302	1,364,171	24.1%	608	9,310	215.4	22.1	580.3	99	16.3%	101
Nara	1,405,453	359,044	25.5%	133	10,567	181.7	20.7	597.0	37	27.8%	42
Wakayama	1,016,563	284,089	27.9%	62	16,396	65.0	15.2	505.9	22	35.5%	28
Tottori	588,508	159,231	27.1%	45	13,078	249.8	25.4	447.8	13	28.9%	14
Shimane	713,134	213,829	30.0%	72	9,905	209.2	23.7	557.1	3	4.2%	3
Okayama	1,946,083	510,124	26.2%	222	8,766	208.0	20.7	441.2	13	5.9%	10
Hiroshima	2,873,603	722,034	25.1%	276	10,412	173.4	23.5	487.7	20	7.2%	29
Yamaguchi	1,447,499	423,087	29.2%	139	10,414	168.9	24.8	396.5	23	16.5%	72
Tokushima	785,001	217,889	27.8%	96	8,177	214.4	22.0	461.2	7	7.3%	4
Kagawa	1,010,707	269,430	26.7%	108	9,358	193.0	21.9	354.6	8	7.4%	7
Ehime	1,440,117	397,608	27.6%	178	8,091	231.3	24.1	446.5	4	2.2%	5
Kochi	755,994	226,337	29.9%	72	10,500	254.2	25.5	490.7	3	4.2%	3
Fukuoka	5,105,427	1,184,307	23.2%	486	10,505	188.9	21.0	579.4	55	11.3%	57
Saga	853,341	214,048	25.1%	87	9,809	79.5	16.2	434.8	2	2.3%	2
Nagasaki	1,427,133	383,689	26.9%	116	12,303	142.6	22.7	555.4	17	14.7%	19
Kumamoto	1,825,361	481,665	26.4%	195	9,361	107.5	18.4	424.6	8	4.1%	8
Oita	1,199,401	330,863	27.6%	97	12,365	122.7	19.8	401.6	5	5.2%	5
Miyazaki	1,141,559	304,776	26.7%	98	11,649	88.8	17.9	308.3	0	0.0%	0
Kagoshima	1,701,387	460,642	27.1%	207	8,219	141.0	20.0	465.4	0	0.0%	0
Okinawa	1,437,994	253,898	17.7%	158	9,101	133.2	20.7	615.5	4	2.5%	5

Source: "2012 demographic survey," Ministry of Health, Labour and Welfare; "2012 Economic Census," Ministry of Economy, Trade and Industry; company materials

By referring to the number of drugstores by prefecture as listed in the Ministry of Economy, Trade and Industry's 2012 Economic Census for Business Activity against the company's number of stores as of March 31, 2012, we calculated the following.

Market share by store count

- 30% or more: Mie, Wakayama

- 20–30%: Niigata (stores at end FY03/15), Nara, Tottori
- 10–20%: Shizuoka, Kyoto, Fukuoka, Aichi, Tokyo, Osaka, Nagasaki, Hyogo, Yamaguchi

Based on drugstore industry analysis tables by prefecture, we conclude the following:

- The company's share of stores is 10% or more in the major prefectures of Tokyo, Osaka, and Aichi. (As the data Shared Research used for the analysis is from the 2012 Economic Census data, the range differs slightly from the company's figures, described below, in several prefectures.)
- The company is strong in major metropolitan centers where the per-store population is low (market areas are narrow).
- The company is weaker in Hokkaido, Tohoku, Kanto outside the major urban areas, San'in and south-central Kyushu.
- The company is weaker in regions with a high percentage of the population aged 65 or older.

The company analyzes its own store network as follows (with newer data than Shared Research's data from the Economic Census):

- Its store network is nationwide, ranging from Hokkaido in the north to Kyushu and Okinawa in the south, rare in the drugstore industry.
- The number of stores is 1,341, ranking it second in the drugstore industry.
- It ranks second in dispensing fees.
- Numerous stores in major urban areas: its share of stores in Tokyo is second. It ranks second in Osaka and third in Nagoya.

Regions where Cocokara Fine has strong presence

End of July 2014	Store count		Sales floor	
	Share	Rank	Share	Rank
Yamaguchi	46%	1	33%	1
Wakayama	36%	1	26%	2
Mie	32%	1	29%	2
Nara	30%	1	28%	1
Tottori	29%	2	23%	2
Niigata	25%	1	17%	3
Osaka	19%	2	15%	3
Hyogo	18%	2	14%	2
Nagasaki	14%	4	14%	4
Kyoto	13%	3	10%	4
Aichi	12%	3	11%	3
Tokyo	11%	2	11%	2
Shizuoka	9%	5	6%	4
Fukuoka	9%	5	6%	6
Hiroshima	9%	9	7%	5

Note: 1H includes Iwasaki Kendo.
Source: Company data, SR inc. research

Drugstores typically attract customers with low-priced foods and daily essentials (tissues, detergent, etc.), leading them to buy higher priced, profitable products like pharmaceuticals, health foods, and cosmetics, thereby boosting overall profitability.

Standard formats by cluster

The company classifies its shops into four types: urban drugstores, drugstores in shopping streets, drugstores in residential areas, and community drugstores. The company optimizes its standard formats for each cluster by opening new stores and closing others.

Urban drugstores: 154 at end FY03/14; 152 at end FY03/15 (11.3% of total)

The company positions its urban drugstores, a small percentage of total stores, as information providers. These stores target younger customers (20s–40s) commuting to school or work and with limited shopping time. Their main target is businesswomen who spend a big chunk of their income on high-priced cosmetics and beauty products.

Customers tend to spend higher amounts per item at urban drugstores than in other clusters (on average, JPY500 or more). Conversely, they tend to buy fewer items (two or three, on average), and fewer of these customers (about half) have a "Cocokara club card" (explained later). This cluster accounts for the highest percentage of cosmetics sales.

	Urban	Commercial	Residential	Suburban
End FY03/15 store count (comp.)	152 (11.3%)	353 (26.3%)	429 (32.7%)	217 (16.2%)
Floor area (sqm)		Small About 165-264	Medium About 330-660	Large About 660 and over
Business area Radius		Minimum 500sqm	Small 1Km	Wide 2Km
Product composition (● : specialty、▲: focus area)	Medicine 21%	Medicine 22% ●	Medicine 19%	Medicine 17%
	Health food 4%	Health food 4%	Health food 4%	Health food 3%
	Sanitary products 10%	Sanitary products 14%	Sanitary products 16% ●	Sanitary products 14%
	Cosmetics 50% ●	Cosmetics 35% ●	Cosmetics 31%	Cosmetics 25% ▲
	Daily goods 9% ▲	Daily goods 19%	Daily goods 20% ●	Daily goods 19%
	Food 6% ▲	Food 6% ▲	Food 10%	Food 23% ●
Customer base	Businesspeople, students	Homemakers, businesswomen, seniors	Homemakers, families, seniors	Homemakers, families, seniors
Age	20s-40s	30s-40s Under 50	30s-60s	30s-40s Under 50-60
Regular customers	Businesswomen who want some luxury	Homemakers who want to save time and more convenience	Homemakers who buy for families	Customers with cars
	･Cosmetics share of sales: high ･Shopping for oneself	･Desired products available as needed ･Solution to problems of each season	･Shopping finished quickly	･Weekdays: shopping for the family ･Weekends: shopping with the family
Employee ratio	Low about 50%	about 60%	about 70%	High about 80%
Price per product (Avg.)	High JPY500＋α	Mid-JPY400	Less than JPY400	Low JPY300 and above
Items purchased (Avg.)	Low About 2.5	Less than 3	About 4	High 5 and up
Store image	Informative	Quick, specialty store	Specialty store providing solutions, close and convenient	One-stop shopping store for living necessities
Mainstay products	･Beauty products (Skincare, makeup)	･Necessities ･Seasonal goods	･Daily goods (kitchen, clothing) ･Food (bread, milk)	･All food (inc. planned products) ･Daily goods（inc. household, clothing)
Details	･Fun trendy space ･Early incorporation of seasonal and new products ･Space to test out products	･Enhancement of health and beautycare ･Community-based promotions ･Attract passing customers	･Specializing in and providing health and beautycare ･Enhanced functions (an assortment of products needed every day), roduct lineup of food with specific functions ･Easy-to-find products	･Product lineup for one-stop shopping ･Expand food ･A range of seasonal household goods and clothing ･Zoning to guide customers to the back of stores

Source: Company data

In its urban drugstores, it concentrates on staying at the forefront of trends through early offerings of seasonal and new products. The strongest product category for these stores is beauty products such as skin care and make-up.

Drugstores in shopping streets: 359 at end FY03/14; 353 at end FY03/15 (26.3% of total)

The company's image for stores in this cluster is quick and specialized. The target customer base centers on people in their 30s–40s and includes homemakers, businesswomen, and seniors. These stores target customers who are focused on quick and convenient shopping. Homemakers are the principal customer group within this target category, and this cluster seeks to offer the products they want in the quantities they need, and to alleviate the difficulties of seasonal shopping. These stores characteristically serve a small market area, with a 500sqm radius. Areas are also small to encourage seniors to walk in to shop. Selling areas are around 165–265sqm.

With regard to customer purchasing characteristics, these stores rank second behind urban drugstores in unit price per item, at around JPY400. They are also next-lowest from urban stores in number of items purchased (average of less than three) and card membership ratio (mid-60%). They rank top in percentage purchases of pharmaceuticals (22%).

The company is working to expand its health and beauty care offerings and encourage sales of seasonal products. The company conducts community-focused sales promotions, configures the stores to encourage pass-by trade and provides compact selling areas. Mainstay product categories are everyday and seasonal products.

Drugstores in residential areas: 446 at end FY03/14; 439 at end FY03/15 (32.7% of total)
The company's model for drugstores in residential areas is one of lifestyle specialty stores. This cluster accounts for the company's highest percentage of stores. Drugstores in residential areas target a broad customer base: homemakers in their 30s–60s, families, and seniors. Within this group, the main target is homemakers shopping for their families, who typically want to finish shopping quickly. Accordingly, these shops concentrate on addressing the issues homemakers face, and on being nearby and convenient. Their target market area is within a radius of 1km. Selling areas are 330–660sqm, and the stores typically have 15–20 parking places.

As to purchasing characteristics, customers at drugstores in residential areas are behind community drugstores in unit price per product (less than JPY400). They are next-highest in items purchased (around four) and membership percentage (mid-70%). Sanitary products and daily items constitute a high percentage of sales.

The forte of these stores lies in their lineup of everyday products. In addition to expanding health and beauty items, at drugstores in residential areas the company aims to lift sales of household items. It is focusing on everyday goods (kitchen items, clothing detergent) and foods (bread, milk).

Community drugstores: 220 at end FY03/14; 217 at end FY03/15 (16.2% of the total)
Community drugstores aim to be one-stop shops to meet customers' lifestyle product needs. Their target customer base centers on people in their 30s and 40s who drive to the stores, and includes homemakers, families, and seniors. Shopping for family items tends to be focused on weekdays, with weekend and holiday shopping targeting families who shop together. These stores have a broad market area, within a radius of 2km. Selling areas are large, at 660sqm or more. These shops have around 50 parking spaces.

For community drugstores, purchasing characteristics tend toward low unit prices (over JPY300), but a high number of items purchased (five more, on average), and a high percentage of card membership (around 80%). Food sales make up a high percentage of the total.

In addition to foods (delivered daily), the company is augmenting these stores' household product lineups such as seasonal household items and clothing to increase focus on one-stop shopping. Community drugstores are zoned to draw customers into the store interior. Principal product categories are general food products (including non-essentials) and everyday goods (including cleaning items and clothing).

The company has adopted this cluster-specific approach to optimize merchandizing. According to the company, while GPM is highest at urban clusters, followed by commercial, residential, and suburban clusters, the SG&A-to sales ratio also follows that order, meaning OPM does not differ significantly between clusters. As of June, 2015, large urban clusters did especially well, due in part to inbound tourism.

Store composition: End FY03/15		Urban		Commercial		Residential		Suburban		Specialty pharmaceutical		Iwasakikoukendou	
	Total		Comp.		Comp.		Comp.		Comp.		Comp.		Comp.
Whole Country	1,341	152	11.3%	353	26.3%	439	32.7%	217	16.2%	122	9.1%	58	4.3%
Hokkaido	30	4	13.3%	6	20.0%	5	16.7%	1	3.3%	14	46.7%		
Aomori													
Iwate													
Miyagi	2					1	50.0%	1	50.0%				
Akita	0												
Yamagata	1							1	100.0%				
Fukushima	3					2	66.7%	1	33.3%				
Hokkaido/Tohoku	36	4	11.1%	6	16.7%	8	22.2%	4	11.1%	14	38.9%		
Tokyo	246	48	19.5%	149	60.6%	15	6.1%	2	0.8%	32	13.0%		
Kanagawa	56	9	16.1%	29	51.8%	15	26.8%	3	5.4%	0			
Saitama	50	4	8.0%	15	30.0%	17	34.0%	11	22.0%	3	6.0%		
Chiba	21	5	23.8%	9	42.9%	4	19.0%	1	4.8%	2	9.5%		
Ibaraki	3	0	0	1	33.3%	1	33.3%	1	33.3%				
Tochigi	6	0	0	1	16.7%	4	66.7%	1	16.7%				
Gunma	1	0	0	0	0.0%	1	100.0%	0	0				
Yamagata	3	0	0	1	33.3%	2	66.7%	0	0				
Niigata	75	3	4.0%	13	17.3%	43	57.3%	15	20.0%	1	1.3%		
Nagano	3	0	0	0	0	2	66.7%	1	33.3%	0			
Kanyo/Koshinetsu	464	69	14.9%	218	47.0%	104	22.4%	35	7.5%	38	8.2%		
Gifu	20	1	5.0%	2	10.0%	6	30.0%	9	45.0%	2	10.0%		
Aichi	102	3	2.9%	4	3.9%	40	39.2%	37	36.3%	18	17.6%		
Shizuoka	39			2	5.1%	10	25.6%	27	69.2%	0	0.0%		
Mie	60					43	71.7%	13	21.7%	4	6.7%		
Toyama	3					0	0	3	100.0%				
Fukui	2					1	50.0%	1	50.0%				
Ishikawa	0												
Tokai/Hokuriku	226	4	1.8%	8	3.5%	100	44.2%	90	39.8%	24	10.6%		
Osaka	155	19	12.3%	38	24.5%	72	46.5%	5	3.2%	21	13.5%		
kyoto	35	7	20.0%	7	20.0%	17	48.6%	3	8.6%	1	2.9%		
hyogo	101	11	10.9%	20	19.8%	52	51.5%	10	9.9%	8	7.9%		
Nara	42	3	7.1%	9	21.4%	18	42.9%	10	23.8%	2	4.8%		
Shiga	11	2	18.2%	0	0	8	72.7%	1	9.1%	0	0.0%		
和歌山県	28	0	0	0	0	11	39.3%	17	60.7%	0	0.0%		
Kansai	372	42	11.3%	74	19.9%	178	47.8%	46	12.4%	32	8.6%		
Okayama	10	2	20.0%	4	40.0%	1	10.0%	1	10.0%	2	20.0%		
Hito	29	5	17.2%	2	6.9%	10	34.5%	4	13.8%	1	3.4%	7	24.1%
Yamaguchi	72	1	1.4%	5	6.9%	4	5.6%	7	9.7%	4	5.6%	51	70.8%
Tottori	14					2	14.3%	12	85.7%				
Shimane	3							3	100.0%				
Chugoku	128	8	6.3%	11	8.6%	17	13.3%	27	21.1%	7	5.5%	58	45.3%
Tokushima	4	0	0	0	0	2	50.0%	2	50.0%				
Kagawa	7	2	28.6%	2	28.6%	1	14.3%	2	28.6%				
Ehime	5	2	40.0%	1	20.0%	2	40.0%	0	0.0%				
Kochi	3	2	66.7%	0	0	0	0	1	33.3%				
Shikoku	19	6	31.6%	3	15.8%	5	26.3%	5	26.3%				
Fukuoka	57	11	19.3%	19	33.3%	15	26.3%	6	10.5%	6	10.5%		
Saga	2	1	50.0%	0	0.0%	1	50.0%	0	0.0%	0	0.0%		
Nagasaki	19	5	26.3%	5	26.3%	6	31.6%	3	15.8%	0	0.0%		
Kumamoto	8	1	12.5%	4	50.0%	2	25.0%	0	0.0%	1	12.5%		
Oita	5	1	20.0%	2	40.0%	1	20.0%	1	20.0%	0	0.0%		
Miyazaki	0				0.0%	0	0.0%						
Kagoshima	0				0.0%	0	0.0%						
Okinawa	5			3	60.0%	2	40.0%						
Kyusyu/Okinawa	96	19	19.8%	33	34.4%	27	28.1%	10	10.4%	7	7.3%	0	-

Source: Company data

Domestic store openings, conversions

	FY03/13 Stores (Year-end)	FY03/14 Stores (Year-end)	Openings	Closures	Format conversions	FY03/15 Stores (Year-end)	Openings	Closures	Format conversions	FY03/16 Stores (Year-end)	Openings	Closures	Format conversions
Drugstore total	1,161	1,241	112	-27	-5	1,219	14	-35	-1	1,211	25	-29	-4
Cocokara Fine	1,079	1,179	50	-27	-5	1,161	14	-31	-1	1,152	24	-29	-4
Kodama	82	-	-	-	-	-	-	-	-	-	-	-	-
Iwasakikouken-do	-	62	62	-	-	58	-	-4	-	59	1	-	-
(Pharmacies)	121	116	-	-5	-	112	1	-4	1	108	na	na	na
Specialty pharmacies	100	111	8	-2	5	122	11	-1	1	129	4	-1	4
Total	1,261	1,352	120	-29	-	1,341	25	-36	-	1,340	29	-30	-
(Total prescription transactions)	221	227	8	-7	5	234	12	-5	-	237	6	-3	-

Source: Company data

Private-brand products

The company has focused on the development of private-brand (PB) products, based on feedback from customers (see Management strategy section). The company's percentage of PB product sales is rising steadily:

- FY03/11: 8.5%
- FY03/12: 9.0%
- FY03/13: 9.3%
- FY03/14: 10.0%
- FY03/15: 10.4%

Cocokara club card

Cocokara club card is a prepaid card with point accumulation. The number of card members who made purchases within the previous year declined from 7.6mn at end FY03/14 to 7.4mn at end FY03/15. The number of loyal customers has also decreased slightly, from 1.19mn in FY03/15 to 1.17mn. It is likely that a pullback in demand due to the consumption tax hike, as well as poor weather, which temporarily affected sales, also pushed down member count. Instead of focusing on the number of members, it will focus more on more promotional efforts, such as reconsidering what to offer members. Customers who produce their card at checkout accumulate between one and five points for every JPY100 of shopping. (The points ratio increases, based on annual shopping amounts, with the increased ratio applied the following month. Certain days have also been set as "five-point days.") Differences from competitors' loyalty cards are fourfold and central to the company's customer strategy: a "community circle," a family-based system, Cocokara Fine communications, and e-commerce links.

Service orientation based on customer feedback

Cocokara Fine is the only company in its industry to have a call center for customers staffed by some 11 people. This center fields about 30,000 customer communications each year in the form of e-mails, telephone calls, and postcards, and shares the customer feedback it receives with headquarters. A weekly meeting is held to discuss responses, to resolve issues and enhance service.

Home-delivery service for seniors

Around 400 stores provide a home-delivery service for seniors.

Retail operations (excluding prescription dispensing)

In FY03/15, non-prescription retail sales were JPY272.0bn (down 0.7% YoY), accounting for 85.5% of retail sales from the Drugstore and Pharmacy segments.

Prescription dispensing operations

Prescription dispensing operations generated sales of JPY46.0bn in FY03/15 (+3.9% YoY), comprising 14.5% of retail sales of the Drugstore and Pharmacy segment.

Cocokara Fine is distinctive in having drugstores with dispensing operations (ranking second in the industry for dispensing operations-within-drugstore sales). According to the company, 178 stores handle more than 1,000 prescriptions per month (end-FY03/15), which is the top for the industry. Of its 234 dispensing stores (122 specialized pharmacies, 112 in combination with drugstores), 100 serve as at-home dispensing locations (up 49% YoY).

Both the number of stores handling prescriptions and unit prescription amounts have increased over time, steadily driving up sales in prescription operations. These sales grew 17.6% per year from FY03/09 to FY03/15, rising from JPY17.4bn to JPY46.0bn. Over this period, the number of stores handling prescriptions expanded by 13.1% annually, rising from 112 to 234. Also, the number of prescriptions handled rose from 2.6mn to 5.1mn, expanding at 12.1% annually. Unit prescription amounts increased from JPY6,805 to JPY9,064, for an annual increase of 7.9%.

Cocokara Fine	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15
Pharmacy sales (JPYmn)	17,406	19,319	27,011	36,386	39,671	44,261	45,967
Retail sales (%)	11.0%	11.7%	12.1%	12.9%	13.2%	13.9%	14.5%
Prescriptions ('000)	2,557	2,654	3,542	4,445	4,741	4,975	5,071
Prescription price (JPY)	6,805	7,277	7,626	8,185	8,367	8,896	9,065
Stores handling prescriptions	112	117	209	217	221	227	234
Pharmacy sales per stores (JPYmn)	157	168	165	174	181	197	199
Stores with over 1,000 prescriptions a month	85	93	152	162	166	175	178

Source: Company materials

The Japanese government has introduced policies to promote the expansion of family pharmacies, which account for 48% of the company's total dispensing locations. Meanwhile, revisions in FY 2014 (See the Market and value chain section for details) have prompted a decline in medical treatment fees, reducing the number of large-scale pharmacies near hospitals. The company has only 10 large-scale pharmacies near hospitals—four pharmacies with a concentration of more than 70% handling more than 4,000 prescriptions per month, and six with concentrations of more than 90% handling more than 2,500 prescriptions per month).

The company employs more than 7,000 specialists, including pharmacists and registered salespeople (see Market and value chain section for an explanation of pharmaceutical regulations), nationally registered dieticians, nurses, care managers, certified care workers, occupational therapists, and physiotherapists. Leveraging the strengths of its service orientation centering on these specialists, plus its industry-leading dispensing capabilities, the company is focusing on the dispensing business, to operate community-based family pharmacies.

Most patients who receive in-home treatment undergo drug therapy, so the company believes pharmacists will play a growing role in in-home treatment. Accordingly, it is promoting an initiative to create a therapeutic healthcare network in which pharmacists collaborate with physicians and nurses.

Cocokara Fine		FY03/11			FY03/12			FY03/13			FY03/14	
Drugstore and Pharmacy	Stores	Sales	Sales per store	Stores	Sales	Sales per store	Stores	Sales	Sales per store	Stores	Sales	Sales per store
Total retail sales		(JPYmn)	(JPYmn)		(JPYmn)	(JPYmn)		(JPYmn)	(JPYmn)		(JPYmn)	(JPYmn)
Nationwide	1,084	222,848	205.6	1,130	282,755	250.2	1,261	299,994	237.9	1,352	318,091	235.3
Hokkaido				24	2,626	109.4	25	5,007	200.3	31	6,403	206.5
Miyagi							2	148	74.0	2	412	206.0
Yamagata										1	188	188.0
Fukushima							3	280	93.3	3	575	191.7
Hokkaido/Tohoku				24	2,626	109.4	30	5,435	181.2	37	7,578	204.8
Tokyo	217	56,669	261.1	222	60,406	272.1	236	63,424	268.7	241	64,822	269.0
Kannagawa	58	15,447	266.3	58	16,174	278.9	58	16,333	281.6	58	16,711	288.1
Saitama	48	11,082	230.9	46	10,797	234.7	54	11,984	221.9	53	12,263	231.4
Chiba	20	6,160	308.0	21	6,379	303.8	20	6,100	305.0	21	6,017	286.5
Ibaraki	2	459	229.5	1	334	334.0	3	280	93.3	3	426	142.0
Tochigi	6	945	157.5	6	1,007	167.8	6	1,006	167.7	6	946	157.7
Gunnma	1	167	167.0	1	198	198.0	1	213	213.0	1	208	208.0
Yamanashi	2	440	220.0	2	387	193.5	2	370	185.0	3	463	154.3
Niigata							77	6,904	89.7	76	14,737	193.9
Nagano	2	407	203.5	2	394	197.0	3	473	157.7	3	559	186.3
Kanto/Koshinetsu	356	91,776	257.8	359	96,076	267.6	460	107,087	232.8	465	117,152	251.9
Gifu	20	2,741	137.1	20	5,098	254.9	21	4859	231.4	21	4,645	221.2
Aichi	101	14,106	139.7	103	27,000	262.1	106	27167	256.3	105	26,673	254.0
Shizuoka	37	8,039	217.3	38	9,270	243.9	39	9676	248.1	40	9,388	234.7
Mie	50	6,070	121.4	56	12,842	229.3	57	13791	241.9	58	13,933	240.2
Toyama										3	190	63.3
Fukui							1	34	34.0	2	137	68.5
Tokai/Hokuriku	208	30,956	148.8	217	54,210	249.8	224	55,527	247.9	229	54,966	240.0
Osaka	141	32,321	229.2	144	40,294	279.8	151	41,039	271.8	155	42,178	272.1
Kyoto	31	5,849	188.7	33	7,951	240.9	35	8,089	231.1	34	8,313	244.5
Hyogo	98	14,523	148.2	99	24,026	242.7	99	24,354	246.0	102	25,082	245.9
Nara	38	6,817	179.4	37	10,476	283.1	37	10,410	281.4	42	10,403	247.7
Shiga	10	1,252	125.2	10	1,985	198.5	10	2,063	206.3	11	2,175	197.7
Wakayama	18	2,113	117.4	22	5,047	229.4	26	5,982	230.1	27	6,491	240.4
Kansai	336	62,875	187.1	345	89,779	260.2	358	91,937	256.8	371	94,642	255.1
Okayama	14	2,205	157.5	13	2,299	176.8	12	2,343	195.3	11	2,251	204.6
Hiroshima	19	5,217	274.6	20	5,456	272.8	21	5,620	267.6	29	5,944	205.0
Yamaguti	24	3,451	143.8	23	3,386	147.2	23	3,298	143.4	78	6,705	86.0
Tottori	13	2,014	154.9	13	3,999	307.6	14	3,848	274.9	14	3,564	254.6
Shimane	3	300	100.0	3	605	201.7	3	583	194.3	3	549	183.0
Chugoku	73	13,187	180.6	72	15,745	218.7	73	15,692	215.0	135	19,013	140.8
Tokushima	7	1,415	202.1	7	1,348	192.6	7	1,214	173.4	4	1,003	250.8
Kagawa	8	1,549	193.6	8	1,464	183.0	7	1,314	187.7	7	1,200	171.4
Ehime	3	931	310.3	4	995	248.8	4	985	246.3	5	1,033	206.6
Kochi	3	695	231.7	3	806	268.7	3	809	269.7	3	829	276.3
Shikoku	21	4,590	218.6	22	4,613	209.7	21	4,322	205.8	19	4,065	213.9
Fukuoka	53	10,714	202.2	55	11,021	200.4	58	11,455	197.5	58	11,542	199.0
Saga	2	307	153.5	2	314	157.0	2	303	151.5	2	282	141.0
Nagasaki	19	5,410	284.7	17	5,238	308.1	18	5,109	283.8	19	5,116	269.3
Kumamoto	8	1,424	178.0	8	1,448	181.0	7	1,390	198.6	7	1,304	186.3
Oita	5	1,110	222.0	5	1,049	209.8	5	1,019	203.8	5	1,017	203.4
Okinawa	3	482	160.7	4	620	155.0	5	697	139.4	5	781	156.2
Kyusyu/Okinawa	90	19,447	216.1	91	19,690	216.4	95	19,973	210.2	96	20,042	208.8
Internet sales	-	na	-	-	na	-	-	na	-	-	612	-

Note: Regional divisions are based on Cocokara Fine's store count by format
Source: Company data

Cocokara Fine Drugstore and Pharmacy Total retail	FY03/11 Stores	FY03/11 Sales (JPYmn)	FY03/11 Sales per store (JPYmn)	FY03/12 Stores	FY03/12 Sales (JPYmn)	FY03/12 Sales per store (JPYmn)	FY03/13 Stores	FY03/13 Sales (JPYmn)	FY03/13 Sales per store (JPYmn)	FY03/14 Stores	FY03/14 Sales (JPYmn)	FY03/14 Sales per store (JPYmn)
Nationwide	64.0%	35.4%	-17.4%	4.2%	26.9%	21.7%	11.6%	6.1%	-4.9%	7.2%	6.0%	-1.1%
Hokkaido				-	-	-	4.2%	90.7%	83.0%	24.0%	27.9%	3.1%
Miyagi							-	-	-	0.0%	178.4%	178.4%
Yamagata										-	-	-
Fukushima							-	-	-	0.0%	105.4%	105.4%
Hokkaido/Tohoku				-	-	-	25.0%	107.0%	65.6%	23.3%	39.4%	13.1%
Tokyo	18.6%	12.3%	-5.3%	2.3%	6.6%	4.2%	6.3%	5.0%	-1.2%	2.1%	2.2%	0.1%
Kanagawa	7.4%	11.2%	3.5%	0.0%	4.7%	4.7%	0.0%	1.0%	1.0%	0.0%	2.3%	2.3%
Saitama	-2.0%	-0.5%	1.6%	-4.2%	-2.6%	1.7%	17.4%	11.0%	-5.4%	-1.9%	2.3%	4.3%
Chiba	-4.8%	-1.2%	3.8%	5.0%	3.6%	-1.4%	-4.8%	-4.4%	0.4%	5.0%	-1.4%	-6.1%
Ibaraki	-33.3%	-17.1%	24.3%	-50.0%	-27.2%	45.5%	200.0%	-16.2%	-72.1%	0.0%	52.1%	52.1%
Tochigi	0.0%	33.7%	33.7%	0.0%	6.6%	6.6%	0.0%	-0.1%	-0.1%	0.0%	-6.0%	-6.0%
Gunma	0.0%	15.2%	15.2%	0.0%	18.6%	18.6%	0.0%	7.6%	7.6%	0.0%	-2.3%	-2.3%
Yamanashi	-33.3%	-24.9%	12.6%	0.0%	-12.0%	-12.0%	0.0%	-4.4%	-4.4%	50.0%	25.1%	-16.6%
Niigata							-	-	-	-1.3%	113.5%	116.3%
Nagano	10.0%	3.8%	3.8%	0.0%	-3.2%	-3.2%	50.0%	20.1%	-20.0%	0.0%	18.2%	18.2%
Kanto/Koshinetsu	10.6%	9.1%	-1.3%	0.8%	4.7%	3.8%	28.1%	11.5%	-13.0%	1.1%	9.4%	8.2%
Gifu	566.7%	502.4%	-9.6%	0.0%	86.0%	86.0%	5.0%	-4.7%	-9.2%	0.0%	-4.4%	-4.4%
Aichi	1162.5%	854.4%	-24.4%	2.0%	91.4%	87.7%	2.9%	0.6%	-2.2%	-0.9%	-1.8%	-0.9%
Shizuoka	42.3%	21.5%	-14.7%	2.7%	15.3%	12.3%	2.6%	4.4%	1.7%	2.6%	-3.0%	-5.4%
Mie				12.0%	111.6%	88.9%	1.8%	7.4%	5.5%	1.8%	1.0%	-0.7%
Toyama										-	-	-
Fukui							-	-	-	100.0%	302.9%	101.5%
Tokai/Hokuriku	462.2%	262.0%	-35.6%	4.3%	75.1%	67.9%	3.2%	2.4%	-0.8%	2.2%	-1.0%	-3.2%
Osaka	74.1%	35.3%	-100.0%	2.1%	24.7%	22.1%	4.9%	1.8%	-2.9%	2.6%	2.8%	0.1%
Kyoto	244.4%	69.5%	-50.8%	6.5%	35.9%	27.7%	6.1%	1.7%	-4.1%	-2.9%	2.8%	5.8%
Hyogo	345.5%	159.0%	-41.9%	1.0%	65.4%	63.8%	0.0%	1.4%	1.4%	3.0%	3.0%	0.0%
Nara	137.5%	110.7%	-11.3%	-2.6%	53.7%	57.8%	0.0%	-0.6%	-0.6%	13.5%	-0.1%	-12.0%
Shiga	150.0%	105.6%	-17.8%	0.0%	58.5%	58.5%	0.0%	3.9%	3.9%	10.0%	5.4%	-4.2%
Wakayama	-	-	-	22.2%	138.9%	95.4%	18.2%	18.5%	0.3%	3.8%	8.5%	4.5%
Kansai	154.5%	70.9%	-32.9%	2.7%	42.8%	39.1%	3.8%	2.4%	-1.3%	3.6%	2.9%	-0.7%
Okayama	7.7%	-0.3%	-7.4%	-7.1%	4.3%	12.3%	-7.7%	1.9%	10.4%	-8.3%	-3.9%	4.8%
Hiroshima	0.0%	2.1%	2.1%	5.3%	4.6%	-0.6%	5.0%	3.0%	-1.9%	38.1%	5.8%	-23.4%
Yamaguchi	-4.0%	-4.4%	-0.4%	-4.2%	-1.9%	2.4%	0.0%	-2.6%	-2.6%	239.1%	103.3%	-40.1%
Tottori	-	-	-	0.0%	98.6%	98.6%	7.7%	-3.8%	-10.6%	0.0%	-7.4%	-7.4%
Shimane	-	-	-	0.0%	101.7%	101.7%	0.0%	-3.6%	-3.6%	0.0%	-5.8%	-5.8%
Chugoku	28.1%	20.6%	-5.8%	-1.4%	19.4%	21.1%	1.4%	-0.3%	-1.7%	84.9%	21.2%	-34.5%
Tokushima	0.0%	-0.6%	-0.6%	0.0%	-4.7%	-4.7%	0.0%	-9.9%	-9.9%	-42.9%	-17.4%	44.6%
Kagawa	0.0%	0.4%	0.4%	0.0%	-5.5%	-5.5%	-12.5%	-10.2%	2.6%	0.0%	-8.7%	-8.7%
Ehime	0.0%	-8.6%	-8.6%	33.3%	6.9%	-19.8%	0.0%	-1.0%	-1.0%	25.0%	4.9%	-16.1%
Kochi	50.0%	11.0%	-26.0%	0.0%	16.0%	16.0%	0.0%	0.4%	0.4%	0.0%	2.5%	2.5%
Shikoku	5.0%	-0.5%	-5.2%	4.8%	0.5%	-4.1%	-4.5%	-6.3%	-1.8%	-9.5%	-5.9%	4.0%
Fukuoka	-1.9%	0.6%	2.5%	3.8%	2.9%	-0.9%	5.5%	3.9%	-1.4%	0.0%	0.8%	0.8%
Saga	0.0%	36.4%	36.4%	0.0%	2.3%	2.3%	0.0%	-3.5%	-3.5%	0.0%	-6.9%	-6.9%
Nagasaki	-5.0%	-6.0%	-1.0%	-10.5%	-3.2%	8.2%	5.9%	-2.5%	-7.9%	5.6%	0.1%	-5.1%
Kumamoto	-11.1%	-1.7%	10.6%	0.0%	1.7%	1.7%	-12.5%	-4.0%	9.7%	0.0%	-6.2%	-6.2%
Oita	0.0%	-0.5%	-0.5%	0.0%	-5.5%	-5.5%	0.0%	-2.9%	-2.9%	0.0%	-0.2%	-0.2%
Okinawa	0.0%	20.2%	0.0%	33.3%	28.6%	-3.5%	25.0%	12.4%	-10.1%	0.0%	12.1%	12.1%
Kyushyu/Okinawa	-3.2%	-0.8%	2.5%	1.1%	1.2%	0.1%	4.4%	1.4%	-2.8%	1.1%	0.3%	-0.7%
Internet sales total	-	na	-	-	na	-	-	na	-	-	79.0%	-

Note: Regional divisions are based on Cocokara Fine's store count by format
Source: Company data

Wholesale operations, nursing care services, overseas operations

In FY03/15, wholesale operations posted sales of JPY29.0bn (down 1.2% YoY, accounting for 8.3% of total sales), and nursing care services generated JPY2.2bn (up 16.2%, 0.6% of total sales).

Wholesale operations

As an individual category, sales from overseas operations have been shrinking over time, from JPY34.2bn in FY03/13 (10.2% of total sales) to JPY29.4bn (8.4%) in FY03/14 and JPY29.0bn (8.3%) in FY03/15. These operations contribute only slightly to overall profits, however, as they have a gross profit margin of around 1%.

Nursing care services

Sales from nursing care services are growing, up from JPY1.7bn (0.52% of total sales) in FY03/13 to JPY1.9bn (0.54%) in FY03/14 and JPY2.2bn (0.63%) in FY03/15. Also, nursing care services had a gross profit margin of 11.3% in FY03/15. Although generating a slight loss on an operating basis, existing businesses are turning profitable, and revenue and profits at new facilities are rising.

Although its scale in nursing care services is small, it has some of the elements required to build a community healthcare network. The company is introducing its “Sayama Model” health network bases on a trial basis. In March 2013, it established “Aozora,” a 95-apartment block of serviced residences for the elderly in Sayama, Saitama. In addition to functioning as a nursing care facility, this “Sayama Model” provides retail services via a Cocokara Fine drugstore, as well as dispensing services, and liaises with visiting nursing care services. The facility also communicates with other medical institutions nearby, promoting the creation of a health network model. It believes it can use this model, even if it involves tie-ups with companies in other sectors.

Overseas operations

In 2012, it established Shanghai Cocokarafine Inc. as a wholly owned investment (a non-consolidated subsidiary) with the aim of retailing and wholesaling health and beauty care products in Shanghai. The company has also established a joint venture in China with ITOCHU Corporation (TSE1: 8001), Alfresa Holdings Corporation (TSE1: 2784), and Liaoning Chengda Co., Ltd. (operating about 900 pharmacies in the region), that operates three shops (two in Shanghai and one in Dalian). It also conducts wholesale operations in Thailand, Vietnam, and Russia.

Principal group companies (at March 31, 2015, % owned in parentheses)

The company has six consolidated subsidiaries: Cocokarafine Healthcare Inc. (100%), Finecare Inc. (100%), Cocokarafine OEC Co., Ltd. (100%), Iwasakikokendo Co., Ltd. (100%), Cocokarafine associe Co., Ltd. (100%) and Cocokarafine soleil, Inc. (100%). The company also has two non-consolidated subsidiaries, CocokaraFine Co., Ltd. (100%) and Shanghai Cocokarafine Inc. (100%), with no equity-method affiliates.

Management strategy

Medium-term plan (through March 2016)

In September 2010, the company announced a medium-term plan ending in FY03/16. (See Long-term forecasts section.)

Policies:

- Strengthen earnings capacity of drugstore and dispensing business
- Improve group management structure and system integration
- Work more closely with community healthcare providers through at-home dispensing services and nursing care services
- Expand into new business domains
- Develop new businesses in the rapid growth markets of East Asia

To strengthen its revenue base, the company integrated its sales subsidiaries in April 2013. At the same time, the company pushed to standardized store operations and improve the efficiency of several departments, including admin. In November 2013, it converted Iwasakikokendo Co., Ltd. to a subsidiary, bringing the number of stores to 1,352 at end FY03/14. Following a scrap-and-build policy in FY03/15, the total number of stores dipped to 1,341 as of March 31, 2015. The company is pursuing further economies of scale by expanding its industry-leading store network.

Next medium-term plan

The company is formulating its next medium-term plan as of June 2015. A higher level of service orientation at the group's stores is key. Over the medium term, it intends to increase the percentage of drugstores that also have dispensing operations, and augment convenience by reinforcing food products. Personalized needs are becoming more pronounced, with more people living alone and a growing trend toward individual lifestyles even within the family. The company plans to meet these needs through its personal care and self-medication offerings, its health/beauty product lineup which it will enhance with vitamins, minerals, and its general products. It intends to entrench itself more deeply in the health and beauty sector by providing product advice. Meanwhile, the company will continue with its store scrap-and-build policy. It aims to provide total support for the health of citizens, with five keywords: medicine, food, housing, beauty, clothing, and exercise.

External factors affecting growth strategies

The company sees the following changes in its external environment affecting its growth strategies. (See the Market and value chain section for details.)

- Institutional reforms (the separation of drug prescription and dispensation functions, as well as locations; growth of nursing care insurance) and the relaxing of regulations (including the Pharmaceutical Affairs Act)
- Rapidly aging population
- Growing demand centering on illness prevention, less intensive or invasive treatments, and health maintenance, with an increasing emphasis on self-medication
- Ongoing industry restructuring, with more expected, as companies from other industries enter the industry

Management strategy for FY03/16

Management strategy for FY03/16:

- Invigoration of existing stores
- Private-brand products
- Dispensing
- Efficiency
- Brand cultivation

Invigoration of existing stores

The company breaks down its strategy of invigorating existing stores into three categories: standardization of store operations, store refurbishment, and inbound trade.

> Inbound trade refers to business targeting foreign visitors to Japan, as compared with Japanese visitors overseas, which constitute outbound trade. In 2003, the Japanese government launched a "Visit Japan" campaign aimed at increasing foreign visitors. This policy, plus the weakening of the yen, prompted an increase in foreign visitors. According to a study by the Japan Tourism Agency, spending by foreign visitors has broken new ground in each of the five quarters since January–March 2014, reaching JPY706.6bn in the January–March 2015 quarter, representing year-on-year growth of 64.4%. For January–March 2015, per-capita spending by foreign visitors was JPY171,028 (up 14.4% YoY).

To standardize store operations, the company will distinguish between its regional and central office control functions. Around 20% of products handled will be supplied regionally, with the central office sourcing the remaining 80%. It will enhance efforts to attract customers in individual regions through regionally tailored merchandising, leveraging its 46 regional buyers who operate in seven regions throughout the country. Foods will become a stronger focus for drugstores in residential areas and community drugstores. The central office will oversee purchasing of the more than 1,000 items common to all stores, unifying their prices nationwide. By controlling selling prices, the company looks to improve its gross profit margin.

Next, the company will accelerate its pace of store refurbishment. It will augment its departments handling store refurbishment and increase the number of stores being refurbished from 40 in FY03/15 to 70 in FY03/16. Meanwhile, it will pursue horizontal development of prototype stores. It will focus on relocations with the aim to increase store scale.

It also intends to respond more vigorously to inbound trade, as stores encouraging this trade typically enjoy a 20% jump in revenues. As of October 2014, 11 of its stores were equipped to cater for inbound trade; by March 31, 2015, this figure had increased to 52 (40 urban drugstores, 11 drugstores in shopping streets, 1 community drugstore). The number has steadily increased since then, to 82 at end-April and 99 at end-May. The company plans to continue this trend, raising the figure to 114 stores by end-June and 127 by end-July 2015.

Private-brand product strategy

CocokaraFine Next is charged with planning and producing all private-brand (PB) products, which the company aims to strengthen—both for high-value-added and general PB products. In the former category, the company is clarifying its target customers and product concepts (cosmetics and beauty supplements for women aged 20–50, "locomo"* and other senior-oriented items) and will accelerate development.** For general PB products, it will develop products with potential sales volume of over 10,000 units per day, such as mineral water and tissues, as well as cultivate limited items. The ratio of PB product sales has been growing steadily (8.5% in FY03/11, 9.0% in FY03/12, 9.3% in FY03/13, 10.0% in

FY03/14, 10.4% in FY03/15). The company aims to move quickly toward its target figure of 15% PB products.

*"Locomo" products are those associated with the health of parts of the body used in everyday movements: muscles, bones, joints, cartilage, vertebrae.
**Within high-value-added PB products, the DEARPERFECT lineup of sunscreen products has been well-received. Although the sales volume of high-value-added PB products is only around half that of national-brand items, profit margins are substantially higher.

Dispensing strategy

The company's dispensing strategy is twofold: increase business scale and further improve quality, and concentrate on community-focused family pharmacies.

To increase scale and improve quality, the company will create stores in locations that offer safety and peace of mind, and that can process 1,000 prescriptions per month. To achieve this, the company will use a common prescription dispensing backbone system for all stores, standardize operations, and invest heavily in automated packaging and other robotics and automation equipment to boost efficiency.

In its initiative toward community-focused community pharmacies, the company aims to step up local dispensing pharmacies where customers feel comfortable dropping by (even without prescriptions), and further promote generic pharmaceuticals. As of March 31, 2014, 67 locations offered at-home dispensing services. One year later, that figure had risen to 100, and further expansion is planned. The company's pharmacies stock OTC pharmaceuticals and supplements as well as prescription drugs, so it aims to encourage customers to visit for these products as well. The company also intends to increase the product sales function at dispensing pharmacies selling products for prevention and potential illnesses (sales up 21% YoY in FY03/15, further 20% growth targeted for FY03/16). It aims to increase its sales of generic pharmaceuticals from 54.5% in FY03/15 to 65.0% in FY03/16. It is also promoting an awareness of drug notebooks and providing health information.

Efficiency strategy

The efficiency strategy has two parts: curtailing overhead costs and improving operational quality by launching new departments.

To curtail overhead costs, in April 2015 the company reorganized its five divisions into two, accelerating decision-making and boosting efficiencies. It also transferred 25 people formerly in back-office departments (11 in general affairs, 14 in training) to sales-related departments (19 to store invigoration teams and 6 to sales and other areas).

Under the heading of improving operational quality by launching new departments, the company established a corporate quality department and a purchasing team within the finance department. In addition to quality control, optimization of distribution and ordering process efficiencies, the corporate quality department is promoting the standardization of store operations. The department's efforts should produce results in the financial statements and contribute to more intangible companywide quality improvements in areas such as community participation and corporate governance. The new purchasing team will seek out volume discounts, looking to reduce costs by JPY100mn in its first year.

Brand cultivation strategy

The company is trying to raise awareness of the brand and build brand loyalty in two ways:

- Increasing the number of stores using the brand (166 stores as of March 31, 2014; 323 as of March 31, 2015; target of 500 by March 2016).

- Using the Cocokara Fine brand on new PB products, such as tissue paper and mineral water.

One effort to adopt the Cocokara Fine brand at its shops is to conduct a high-density brand development campaign in the Tokyo metropolitan area by transitioning all stores in areas served by the Odakyu and Keio railway lines at the same time. For some time, the company has been making steady management improvements based on customer input. In February 2015 it introduced an internal certification system for cash register operators as part of its focus on staff training.

Corporate slogan: "Omotenashi No. 1"

The corporate slogan is "Omotenashi No. 1," meaning that the company aims to be a leader in service-oriented business. The company sees service orientation as important for differentiating itself from the numerous other players in the drugstore industry.

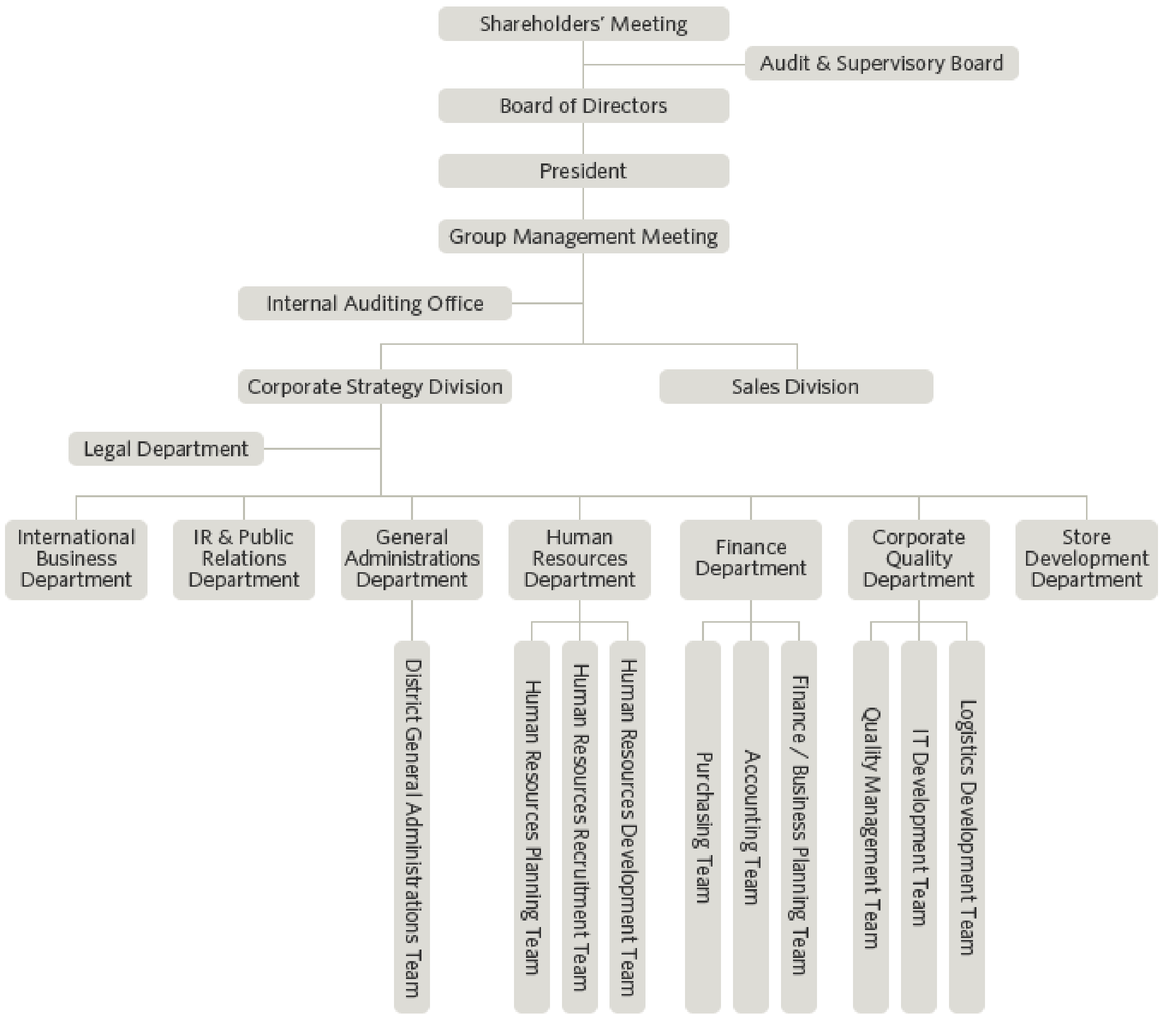
"Omotenashi No. 1":

- Provide customers with convenient products and services at appropriate price and quality, in the right quantities and when needed (basic service).
- Respond fully to customers' desires and preferences by proposing and offering products and services they may not be aware of (service-oriented presentation).

Structural reorganization

In April 2015, it reorganized its internal structures to improve speed and efficiency and clarify the roles and responsibilities of each operation and the headquarters organization. The company reorganized its five departments into two divisions—sales and management strategy—with the sales division's scope of responsibility extending throughout the group. The management strategy division will provide support throughout the organization, giving the structure needed to maximize synergies from previous business combinations.

Organizational chart



Source: Company data

Internal marketing

The company is undertaking a number of measures to boost employee satisfaction. By doing so, the company believes it can create a virtuous cycle where years of service increase, and skills and expertise accumulate internally, improving customer service and leading to greater customer satisfaction.

The company employs some 15,000 full-time, part-time, and temporary workers (end FY03/15, full-time employees hit 5,625, with 5,260 eight-hour-equivalent part-time and temporary workers). The company offers various working styles to staff, such as offering shorter working hours to parents raising children.

The company regularly conducts employee satisfaction surveys to encourage dialog with and elicit opinions from its 15,000 employees. The survey covers working environment, the content of daily operations and opinions about organizational management. Survey results have resulted in improvements in the working environment and increased efficiencies. The company's employee regulations clearly define harassment behavior. It educates employees on this front and has in place a system to handle any harassment with strict impartiality. To maximize individual employees' skills, the company has put in place a personnel evaluation system designed to ensure fair evaluations by taking self-appraisal as the starting point. This method allows employees to identify their own successes, strengths, and issues, encouraging evaluations that are transparent and fair.

It also has in place a unique system of rewards aimed at boosting employee morale. For example, customer approbation leads to employees being granted awards. The company considers its commendation system a successful example of service-oriented presentation, and has rolled out the program across all stores.

Other measures aligned with its service orientation include the expansion of education and training systems to respond to customer needs. This training includes lessons and the study of work manuals covering sales of pharmaceuticals and cosmetics, sales skills training, and training and support for personnel becoming registered salespeople and earning other certifications.

The company encourages customer feedback through the customer consultation center and a line of reporting that goes directly to the president. Supervisors[1] and mystery shoppers[2] conduct store checks from a customer perspective, verifying improvements and enhancing initiatives.

1. Supervisor: a person in charge of supervising and managing store operations from a customer perspective.
2. Mystery shopper: an investigator who uses a store while posing as a general consumer to evaluate customer service levels and the in-store environment.

Profitability analysis

SG&A expenses breakdown (JPYmn)	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.
SG&A expenses	57,211	70,906	76,451	83,162	84,408
Advertising	2,143	2,674	2,933	2,719	2,800
Directors' bonuses	414	453	475	417	333
Personnel	27,325	34,670	37,575	41,513	42,546
Rents	14,779	18,132	19,454	20,568	21,512
Depreciation	2,536	3,233	3,541	3,882	3,455
Other	10,014	11,744	12,473	14,063	13,762
YoY	30.1%	23.9%	7.8%	8.8%	1.5%
Advertising	6.9%	24.8%	9.7%	-7.3%	3.0%
Directors' bonuses	35.7%	9.4%	4.9%	-12.2%	-20.1%
Personnel	33.7%	26.9%	8.4%	10.5%	2.5%
Rents	29.5%	22.7%	7.3%	5.7%	4.6%
Depreciation	27.9%	27.5%	9.5%	9.6%	-11.0%
Other	27.5%	17.3%	6.2%	12.7%	-2.1%
% of sales	22.3%	22.0%	22.8%	23.8%	24.2%
Advertising	0.8%	0.8%	0.9%	0.8%	0.8%
Directors' bonuses	0.2%	0.1%	0.1%	0.1%	0.1%
Personnel	10.6%	10.8%	11.2%	11.9%	12.2%
Rents	5.8%	5.6%	5.8%	5.9%	6.2%
Depreciation	1.0%	1.0%	1.1%	1.1%	1.0%
Other	3.9%	3.6%	3.7%	4.0%	3.9%

Source: Company data

Profitability is slightly below the average for the top seven companies in the drugstore industry in terms of GPM, OPM, RPM, and ratio of gross profit to inventory. In FY 2013 (FY03/14 for Cocokara Fine) the company's GPM was 25.9% (seven-company average: 26.1%). Likewise, OPM was 2.1% (4.7%), RPM was 2.7% (5.1%), and the ratio of gross profit to inventory 161.4% (175.0%).

Note, wholesale operations (with low GPM) are included in the company's sales. (If the company did not sell wholesale, or if gross profit from wholesales were subtracted from total gross profit, than the company's FY03/14 GPM would be 28.2%, which is above the industry average.) Revenue from rebates on order processing fees and information services fees is also relatively higher than the industry average. The FY03/14 ratio of net non-operating profit (non-operating profit minus non-operating costs) to sales was 0.6%, compared to the industry average of 0.4%.

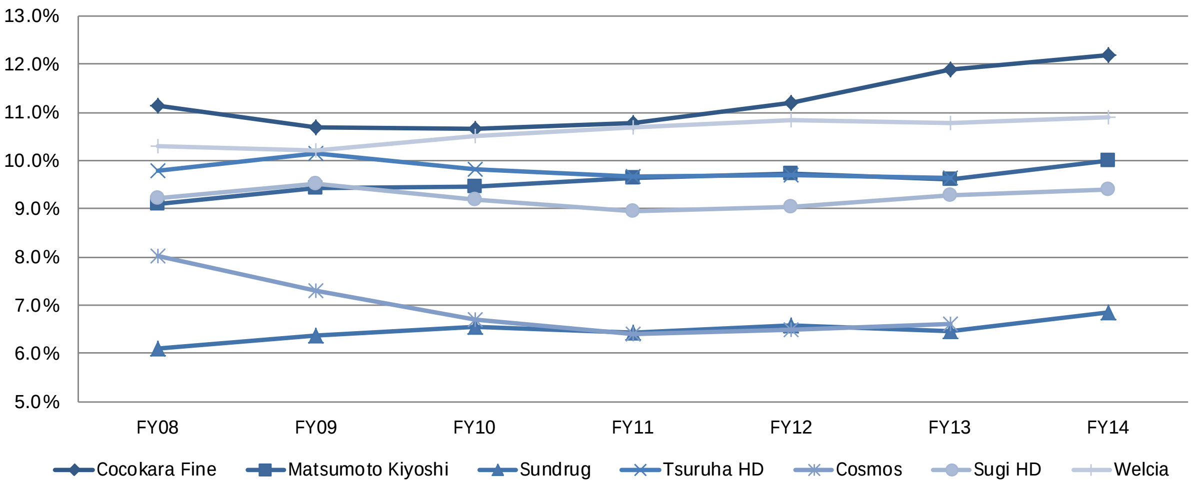
Operating profit margin worsened by 1.7pp between FY03/13 (when the company generated recurring profit of JPY13.8bn, its highest level to date) and FY03/15. Behind this decrease was a 0.4pp decline in gross profit margin and a 1.4pp worsening in the SG&A ratio (numbers do not add up to 1.7pp due to rounding). Factors behind the rising SG&A costs were a 1.0pp increase in personnel expense as a percentage of sales and a 0.4pp rise in rental expenses as a percentage of sales.

This suggests that increases in such management resources as personnel and stores through acquisitions have not led efficiently to sales growth. The April 2013 merger of sales companies has led to some confusion in operations and logistics (Kanto). The company can enhance profitability via efficient merchandising, realizing the effects of the sales company merger, and transferring personnel from the back-office to sales.

Profit Margins (JPYmn)	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.
Gross Profit	46,368	47,385	63,587	79,486	86,494	90,601	88,778
GPM	27.3%	24.8%	24.8%	24.7%	25.8%	25.9%	25.4%
Operating Profit	3,836	3,394	6,375	8,579	10,043	7,438	4,369
OPM	2.3%	1.8%	2.5%	2.7%	3.0%	2.1%	1.3%
Recurring Profit	7,274	7,069	10,395	13,467	13,789	9,495	6,576
RPM	4.3%	3.7%	4.0%	4.2%	4.1%	2.7%	1.9%
EBITDA	4,874	4,353	8,071	11,004	13,784	12,150	8,490
EBITDA Margin	2.9%	2.3%	3.1%	3.4%	4.1%	3.5%	2.4%
Net Profit Margin	2.3%	2.2%	2.3%	2.5%	2.3%	1.0%	0.5%
Financial Ratios							
ROA	9.4%	8.9%	10.3%	10.3%	9.5%	6.6%	4.8%
ROE	9.1%	9.4%	11.1%	12.4%	10.7%	4.8%	2.2%
Total Asset Turnover	213.5%	239.7%	255.4%	245.5%	231.3%	241.9%	254.0%
Inventory Turnover	595.1%	699.1%	715.2%	694.3%	650.9%	622.4%	580.8%
Days in Inventory	61	52	51	53	56	59	63
Working Capital (JPYmn)	7,907	8,118	9,745	-511	1,596	20,248	22,237
Current Ratio	151.3%	163.8%	124.5%	126.6%	125.3%	134.1%	142.8%
Quick Ratio	76.9%	83.6%	58.7%	70.8%	65.5%	56.7%	53.8%
OCF / Current Liabilities	3.4%	9.5%	19.4%	39.9%	14.8%	-9.9%	12.5%
Net Debt / Equity	19.7%	19.8%	10.3%	30.4%	26.4%	0.3%	3.0%
OCF / Total Liabilities	6.3%	14.1%	13.4%	29.4%	13.1%	-11.0%	11.9%
Cash Cycle (days)	17	16	12	2	-4	10	25
Changes in Working Capital	7,907	211	1,627	-10,256	2,107	18,652	1,989

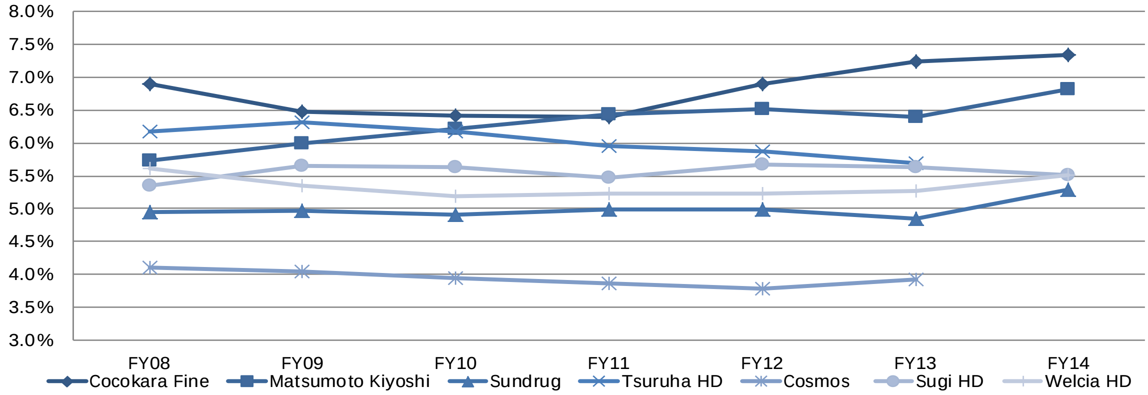
Figures may differ from company materials due to differences in rounding methods.
Source: Company data

Personnel expenses-to-sales ration



Source: Materials from each company

Store costs-to-sales ratio



Note: Store costs are rents and depreciation.
Source: Materials from each company

Comparison with comeptitors

	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Cocokara Fine Inc. (3098)							
Sales (JPYmn)	170,116	190,957	256,681	321,954	335,886	349,337	349,164
CoGS	72.7%	75.2%	75.2%	75.3%	74.2%	74.1%	74.6%
GPM	27.3%	24.8%	24.8%	24.7%	25.8%	25.9%	25.4%
SG&A	25.0%	23.0%	22.3%	22.0%	22.8%	23.8%	24.2%
OPM	2.3%	1.8%	2.5%	2.7%	3.0%	2.1%	1.3%
RPM	4.3%	3.7%	4.0%	4.2%	4.1%	2.7%	1.9%
Inventory Turnover (days)	6.0	7.0	7.2	6.9	6.5	6.2	5.8
Gross profit-to-inventory	162.2%	173.5%	177.2%	171.4%	167.6%	161.4%	147.7%
Matusumoto Kiyoshi Holdings Co., Ltd. (3088)							
Sales	392,268	393,007	428,184	434,597	456,311	495,385	485,512
CoGS	72.8%	72.6%	72.2%	71.8%	71.5%	71.2%	71.1%
GPM	27.2%	27.4%	27.8%	28.2%	28.6%	28.8%	28.9%
SG&A	23.0%	23.6%	24.2%	24.0%	24.2%	24.3%	25.2%
OPM	4.2%	3.8%	3.6%	4.2%	4.3%	4.5%	3.6%
RPM	4.6%	4.3%	4.1%	4.5%	4.7%	4.9%	4.1%
Inventory Turnover	6.3	5.5	5.3	5.3	5.5	5.8	5.4
Gross profit-to-inventory	170.2%	151.0%	148.7%	149.4%	156.8%	167.2%	156.5%
Sundrug Co., Ltd. (9989)							
Sales	232,532	284,112	360,655	386,836	407,401	447,819	445,818
CoGS	76.4%	76.8%	77.3%	76.8%	76.3%	76.4%	75.7%
GPM	23.6%	23.2%	22.7%	23.2%	23.7%	23.6%	24.3%
SG&A	17.2%	17.5%	17.3%	17.5%	17.6%	17.4%	18.5%
OPM	6.4%	5.6%	5.3%	5.8%	6.1%	6.3%	5.8%
RPM	6.5%	5.8%	5.5%	5.9%	6.2%	6.4%	5.9%
Inventory Turnover	8.2	7.0	6.8	6.6	6.3	6.8	6.3
Gross profit-to-inventory	192.1%	161.5%	155.2%	153.2%	148.7%	160.7%	153.2%
Tsuruha Holding, Inc. (3391)							
Sales	251,863	279,763	299,579	320,969	343,019	388,465	
CoGS	72.8%	72.4%	72.1%	71.7%	71.6%	71.8%	
GPM	27.2%	27.6%	27.9%	28.3%	28.4%	28.2%	
SG&A	23.0%	23.2%	22.7%	22.3%	21.9%	22.0%	
OPM	4.2%	4.4%	5.3%	5.9%	6.4%	6.2%	
RPM	4.5%	4.6%	5.5%	6.2%	6.9%	6.5%	
Inventory Turnover	5.8	5.7	5.8	5.9	5.8	5.4	
Gross profit-to-inventory	158.5%	156.8%	161.2%	167.8%	163.6%	153.7%	
Cosmos Pharmaceuacal Corporation (3349)							
Sales	177,756	205,387	237,174	279,021	329,313	371,825	
CoGS	79.7%	80.5%	80.8%	81.0%	81.2%	81.0%	
GPM	20.3%	19.5%	19.2%	19.0%	18.8%	19.0%	
SG&A	17.2%	15.7%	15.0%	14.2%	14.0%	14.5%	
OPM	3.1%	3.8%	4.2%	4.8%	4.7%	4.5%	
RPM	3.5%	4.3%	4.7%	5.2%	5.1%	4.9%	
Inventory Turnover	8.6	9.3	9.8	10.3	10.3	10.2	
Gross profit-to-inventory	174.8%	180.5%	188.8%	195.8%	194.1%	194.5%	
Sugi Holding Co., Ltd. (7649)							
Sales	272,197	293,511	304,730	327,267	343,613	365,200	383,644
CoGS	73.8%	74.0%	73.5%	73.2%	72.7%	72.4%	72.5%
GPM	26.2%	26.0%	26.5%	26.8%	27.3%	27.6%	27.5%
SG&A	21.8%	22.5%	22.3%	21.6%	21.9%	22.1%	22.1%
OPM	4.4%	3.5%	4.2%	5.3%	5.4%	5.5%	5.4%
RPM	5.0%	4.2%	4.9%	5.9%	6.6%	6.0%	5.7%
Inventory Turnover	6.5	6.4	6.4	6.7	6.5	6.4	6.3
Gross profit-to-inventory	171.4%	167.0%	169.0%	179.5%	178.4%	175.6%	172.3%
Welcia Holdings Co., Ltd. (3141)							
Sales	198,928	238,752	270,816	293,378	334,393	360,797	
CoGS	71.3%	71.4%	70.7%	70.5%	70.4%	70.2%	
GPM	28.7%	28.6%	29.3%	29.5%	29.6%	29.8%	
SG&A	26.0%	25.4%	25.2%	25.6%	25.9%	25.8%	
OPM	2.8%	3.2%	4.0%	3.9%	3.8%	3.9%	
RPM	3.0%	3.4%	4.2%	4.2%	4.1%	4.1%	
Inventory Turnover	6.5	7.2	7.1	7.2	7.5	7.1	
Gross profit-to-inventory	185.6%	204.8%	207.5%	211.1%	221.8%	211.8%	
Average							
Sales	206,257	229,389	308,260	337,717	364,277	396,975	416,035
CoGS	63.8%	64.4%	74.6%	74.3%	74.0%	73.9%	73.5%
GPM	21.9%	21.3%	25.4%	25.7%	26.0%	26.1%	26.5%
SG&A	18.6%	18.3%	21.3%	21.0%	21.2%	21.4%	22.5%
OPM	3.3%	3.1%	4.2%	4.6%	4.8%	4.7%	4.0%
RPM	4.5%	4.3%	4.7%	5.2%	5.4%	5.1%	4.4%
Inventory Turnover	6.0	6.0	6.9	7.0	6.9	6.9	5.9
Gross profit-to-inventory	150.9%	148.3%	172.5%	175.4%	175.9%	175.0%	157.4%

Note: FY2014 is the average for all four companies
Source: Company data

Strengths and weaknesses

Strengths

- **The Pharmacy segment:** One of Cocokara Fine's strengths lies in its drugstores with dispensing pharmacies (Pharmacy segment is second in the drugstore industry in sales). The Japanese government is reforming the social security system in an effort to alleviate its financial predicament, which stems largely from growing medical costs for the country's universal healthcare system and rapidly aging population. Accordingly, the government is seeking to lower healthcare expenditures. One way is by shifting medical treatment from a model under which all healthcare is provided at hospitals, to a community system where medical and nursing care services are provided through a local network. At the same time, to encourage a shift from pharmacies near hospitals to local pharmacies, fees are being cut for pharmacies near hospitals, while being increased for community pharmacies, based on their degree of contribution. Approximately half of Cocokara Fine's pharmacies are community pharmacies that should benefit from the shift. Shared Research believes the company has ample scope to benefit from the government's efforts to curtail healthcare spending.
- **Nationwide store network:** The company has in place a network of 1,341 stores across 41 of Japan's 47 prefectures as of end-FY03/15, making it second in the drugstore industry. As the drugstore industry continues to grow, market areas are expected to narrow and emphasis on economies of scale to grow. As a result, M&A are likely to increase as companies seek to go beyond their existing categories of business. A large scale of operation (number of stores) is a major competitive advantage. Meanwhile, nationwide stores should serve as bases for promoting community-focused healthcare, encouraged by both the public and private sectors.
- **Experience with challenges of post-merger integration:** Cocokara Fine has experienced the upheaval that resulted from the April 2013 integration of its six sales subsidiaries gained by merging multiple companies. As organic growth at existing stores is limited, M&A among drugstore operators will likely continue driving growth. Cocokara Fine has much experience in this area, and can leverage this to be an effective industry consolidator. It can also use the positive business components of each of its predecessor companies.

Weaknesses

- **A patchwork of businesses sewn together by expansion through multiple mergers:** The company's establishment dates back to the March 2008 management merger and transfer of shares by Segami Medics and Seijo, and the company has undergone repeated mergers since that time. Given the community-focused nature of the business, it relatively hard to "blend" the personnel into a uniform mix as frequent personnel transfers are likely to be difficult. Shared Research believes it will take some time for the company's new corporate philosophy, standards of conduct, and culture to filter down through all of its full-time, part-time and temporary workers at stores throughout Japan.
- **No immediate price attractiveness for consumer.** Of the three value components of a typical drugstore—specialization, convenience, and low prices—the company is pursuing the first two, without competing on price with its more aggressive rivals. Instead of discounting, it hopes for "warm hospitality" to be its competitive weapon. Still, it will probably take time to convince customers to accept somewhat higher prices in exchange for better, more individualized service. Should customers see price and not service as the ultimate value, the entire strategy might be thrown into disarray.
- **Relatively lax cost controls.** The company's approach is to emphasize hospitality and to not cut staff after buying businesses. This leads to chronically high cost of operations compared to rivals. The company's ratio of labor

cost-to-sales, and store-related expenses (rent + depreciation)-to-sales has consistently been the highest among major drugstore chains (from FY03/09 to FY03/15, as described in the Profitability analysis section). In this model, the key driver is Cocokara Fine's ability to transfer its perceived added value onto higher selling prices, and see if customers accept it.

Market and value chain

Drugstore industry

The main sources of macro data on the drugstore industry are the Ministry of Economy, Trade and Industry (METI)'s Economic Census, and the Japan Association of Chain Drug Stores (JACDS)'s industry statistics. Below, we have used the METI data to analyze population in commercial areas across the country, industry sales efficiency and other metrics, and Cocokara Fine's market share by store count. We have used the JACDS data for analyzing long-term industry trends. Differences between the METI and JACDS data may be due to differences in the scope and methods of the two sources.

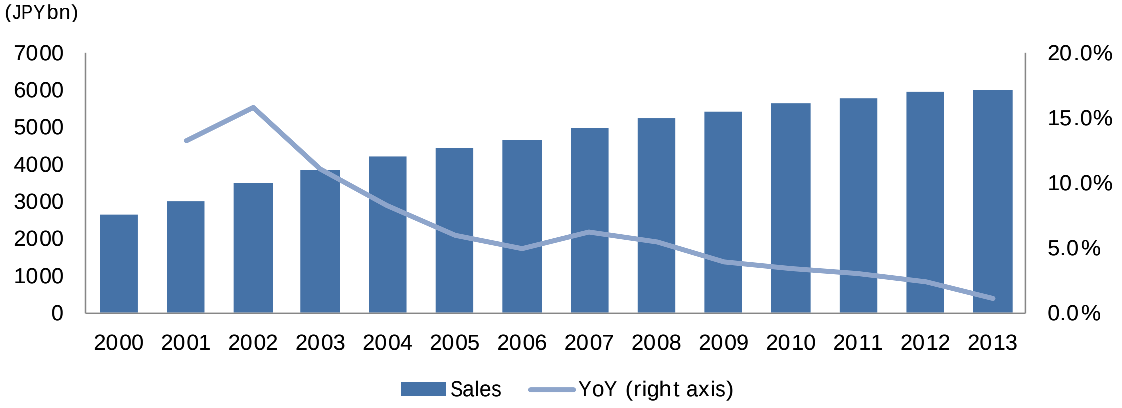
According to METI data released in February 2014, retail sales in the domestic drugstore industry totaled JPY3.6tn in 2012, equivalent to 3.3% of total domestic retail sales (JPY110tn). Retailers of drugs and toiletries—i.e., drugstores and pharmacies—generated retail sales of JPY8.5tn, or 7.8% of the total. In the census for 2007, drugstores made up JPY3.0tn (2.2%) of total retail sales (JPY134tn), while retailers of drugs and toiletries made up JPY8.5tn (6.3%) of the total. Drugstores and pharmacies' share of total retail sales is rising.

Survey (2012)				Sales productivity (amount of annual sales)			Previous survey (2007) dif.		
	Total annual sales (JPYmn)	% of total	Store count	per office (JPYmn)	per employee (JPY'000)	per sqm (JPY'000)	per office (%)	per employee (%)	per sqm (%)
Total retail	110,489,863	100.0%	782,862	141	21,870	600	19.2%	8.2%	-9.1%
【Store type】									
Department store	5,487,978	5.0%	228	24,070	24,930	920	-14.7%	11.1%	-24.0%
General supermarket	5,322,537	4.8%	1,122	4,744	28,850	460	1.0%	5.2%	-8.0%
Specialty supermarket	24,088,672	21.8%	35,052	687	25,670	530	2.1%	-5.7%	-11.7%
Convenience store	5,490,078	5.0%	30,598	179	17,110	1,520	11.9%	-0.1%	8.6%
General drugstore	3,803,587	3.4%	14,872	256	27,750	590	0.1%	-1.4%	-6.3%
Drugstore	3,643,964	3.3%	14,326	254	27,670	590	7.2%	1.2%	-6.3%
Other supermarket	4,407,643	4.0%	52,409	84	15,100	650	-16.5%	-9.7%	1.6%
Highly specialized store	35,167,616	31.8%	425,438	83	19,150	620	17.4%	15.7%	-3.1%
Electronics retail store	5,350,099	4.8%	2,237	2,392	70,740	850	1.6%	-2.1%	-15.0%
Specialty store	15,664,354	14.2%	197,618	79	18,000	460	0.2%	-2.6%	-16.4%
Other retail store	77,705	0.1%	1,214	64	16,020	470	-16.8%	4.0%	-16.1%
Non-store retailing	5,629,594	5.1%	22,074	255	32,790	-	42.5%	10.0%	-
Internet sales	3,222,308	2.9%	4,835	666	51,140	-	1.5%	2.3%	-
【As noted elsewhere】									
Total of medical and cosmetics retail	8,584,803	7.8%	64,259	134	23,700	960	32.5%	18.7%	0.0%
Drugstore	3,643,964	3.3%	14,326	254	27,670	590	7.2%	1.2%	-6.3%
Medical retail (excluding pharmacy)	280,518	0.3%	7,425	38	12,700	670	-61.4%	-36.7%	13.6%
Pharmacy	4,156,188	3.8%	29,483	141	24,970	2,690	24.1%	20.2%	21.2%
Cosmetics retail	504,134	0.5%	13,025	39	11,980	680	-53.4%	-34.3%	11.5%

Note: Retail refers mainly to stores that sell products for individual or household consumption, or stores that sell products in limited volume and for limited amounts to industrial users.
Note: Medical and cosmetics retail refer mainly to drugstores and pharmacies that sell health and beauty products, such as medicines and cosmetics, as well as household products and dietary supplements. Icludes pharmacies that prescribe and sell prescription drugs.
Note: Annual product sales amount per employee refers to full-time and temporary employees, as well as those transferred from different departments, and excludes full-time and temporary workers sent to other departments.
Employee refers to individual proprietors, unpaid family employees, paid employees, and permanent employees.
Source: 2012 Econoic Consensus, 2007 Commercial Statistics

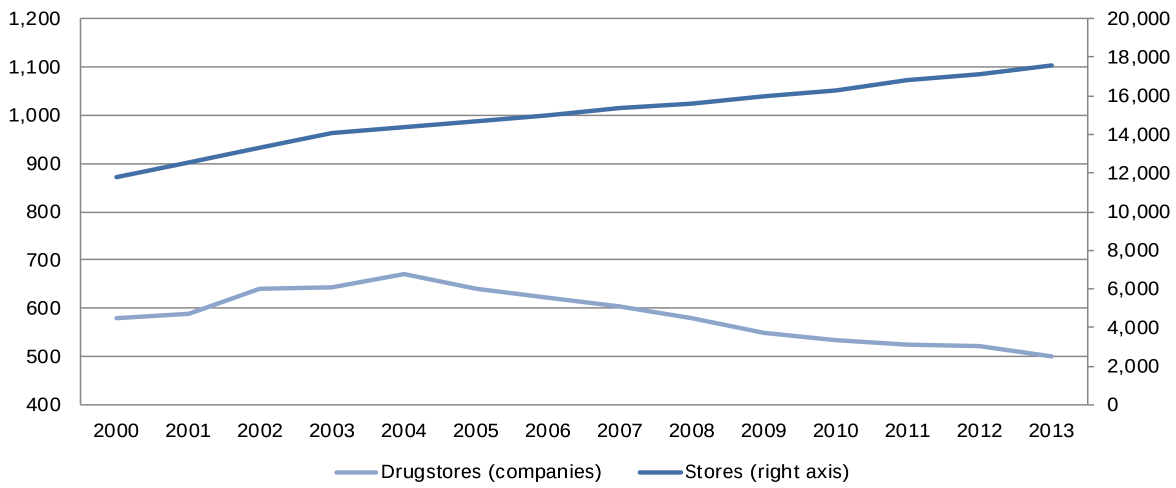
Different statistics also show that revenues are rising in the domestic drugstore industry. According to JACDS, domestic drugstore sales totaled about JPY6tn in FY 2013 (+1.2% YoY)—equivalent to annual growth of 6.5% since FY 2000, when sales totaled about JPY2.7tn. From FY 2010, however, growth has slowed as the market has become saturated with an abundance of stores.

Total drugstore sales in Japan



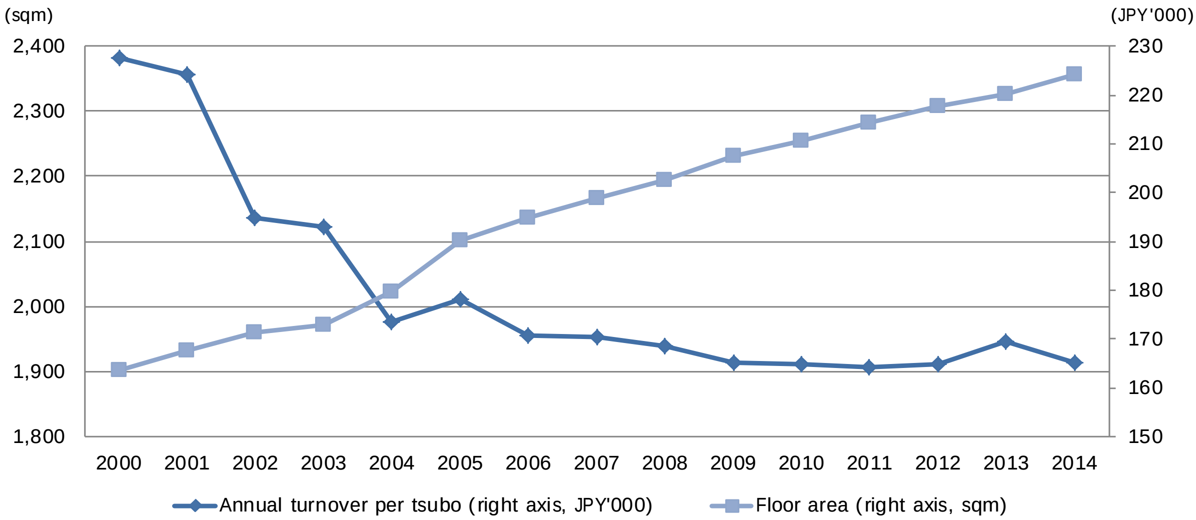
Source: Japan Association of Chain Drugstores

Domestic drugstores and store count



Source: Japan Association of Chain Drugstores

Drgustore: Sales floor area and annual turnover



Source: Company data

Development of drugstore industry

The drugstore industry has grown as regulations have eased. For example, the number of neighborhood pharmacies—the predecessors to modern-day drugstores—increased following the introduction of universal health insurance in 1961 (meaning people could afford to go to the hospital when sick). The dispensing pharmacy was born following the separation of prescription and dispensing of drugs in 1974 (after which doctors prescribed, and pharmacists dispensed).

In 1975, regulations stipulating that new dispensing pharmacies could not be opened near existing ones (to avoid excessive competition) were repealed. In 1976, K.K. Hac Ishida (now CFS Corporation [TSE1: 8229]) opened the Hac Sugita store in Yokohama—said to be Japan's first independent drugstore. The large, self-service store was well received by consumers. Drugstores began using low prices and economies of scale to take market share from existing dispensing pharmacies. In the late 1980s, Matsumoto Kiyoshi Co., Ltd. (TSE1: 3088) successfully tapped into demand from women by expanding its range of cosmetics and healthcare products, and conducting TV commercial campaigns. This provided the spark for an explosion in the popularity of drugstores. Chain drugstores with more than 100 stores emerged, and larger product ranges and more prescriptions stimulated demand. The establishment of the Japan Association of Chain Drug Stores in 1999 further increased recognition of the drugstore industry.

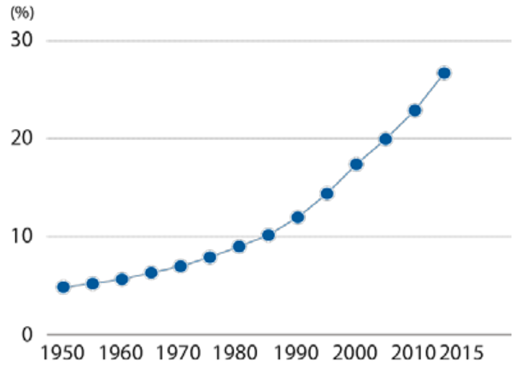
Amendments to the Pharmaceutical Affairs Law bring new challenges

Shared Research expects competition to increase among drugstores, e-commerce vendors, and other retailers owing to revisions to the Pharmaceutical Affairs Law in 2009 and 2013 (effective 2014, as described below). Together with Japan's advanced aging society and rising public spending on medical care, it appears the drugstore industry is facing new challenges.

> The **aging population** refers to the percentage of the population aged 65 or over. In Japan, that figure was 25.1% in 2013—exceeding the 21% needed to qualify as an "advanced aging society," and the highest in the world. The National Institute of Population and Social Security Research expects this figure to hit 28.7%.
> As the population ages, there is a corresponding increase in social security spending, which accounts for over 30% of public spending. The Ministry of Health, Labour and Welfare (MHLW) forecasts public spending on medical care to increase from JPY3.7tn in 2010 to JPY5.2tn by 2025. In response, the government plans to cut spending on general clinics by increasing the proportion of medical fees borne by the patient and changing the healthcare system for elderly citizens. It also plans to cut spending on pharmaceuticals by switching more prescription drugs to OTC drugs, and using more generics.

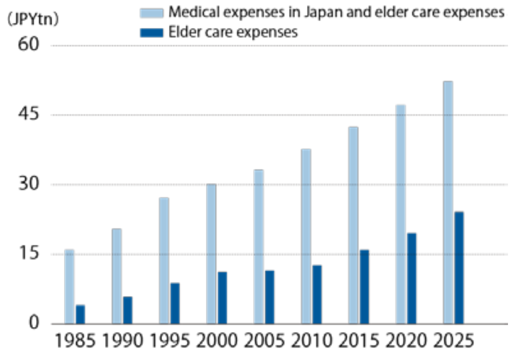
According to the company, promoting self-medication to prevent the slide from health to disease is one of the key functions of drugstores. In the company's view, self-medication means taking responsibility for one's body and resolving lighter illnesses without a doctor. Drugstores and dispensing pharmacies sell a range of products to help people maintain their day-to-day health, including prescription drugs, OTC drugs, and supplements.

Japanese population over 65 (%)



Source: Estimates from the National Institute of Population and Security Research

Medical expeses in Japan and elder care expenses



Source: Ministry of Health, Labour and Welfare

Dispensing pharmacy industry

According to the Ministry of Health, Labour and Welfare (MHLW), medical expenditure on drugs totaled JPY7.0tn in FY 2013 (+5.9% YoY)—equivalent to annual growth of 5.5% since FY 2005, when total expenditure was about JPY4.6tn. The number of dispensing pharmacies was 57,021, significantly more than the 30,000 or so convenience stores, and up 1.3% per year from FY 2005, when the number of pharmacies was 51,233. In FY 2013, the total number of prescriptions was 794.3mn (up 2.3% per year from FY 2005, when the total number was 663.6mn). The medical expense per prescription was JPY8,861 (up 3.1% per year from FY 2005, when the expense per prescription was JPY6,921).

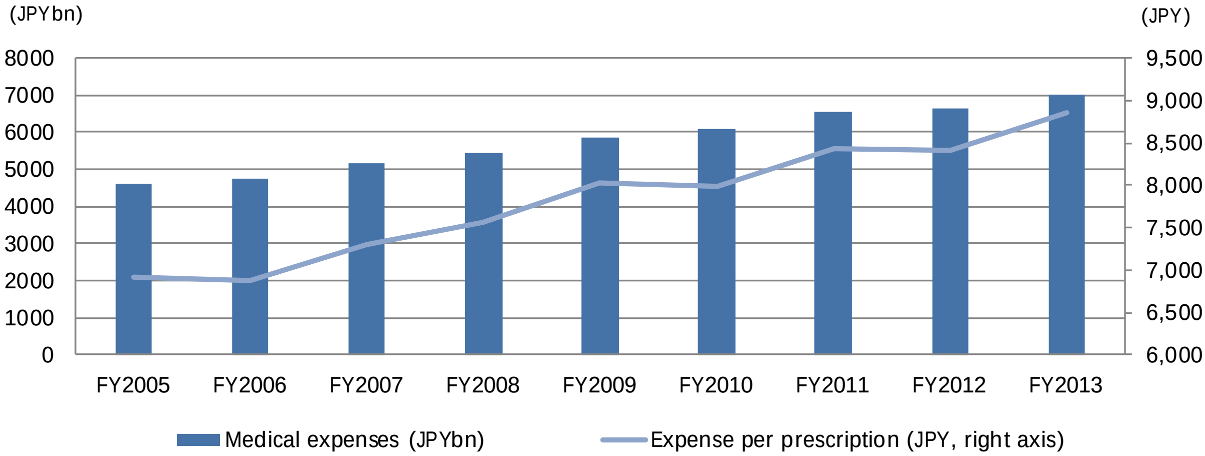
Most dispensing pharmacies are small businesses, with about 70% operated by a sole proprietor. As competition has increased, however, an industry shakeout is taking place, with major companies and medical product wholesalers acquiring small and medium-size dispensing pharmacies. Following amendments to the Pharmaceutical Affairs Law in 2009 (described below), convenience stores, supermarkets, and other retailers became able to sell pharmaceutical products. In response, drugstores differentiated themselves by focusing on their prescription dispensing businesses. Compared with other types of retail business, dispensing pharmacies are small and require less upfront investment. But only about 8,000 people become pharmacists each year, resulting in scarcity. Pharmacies have grown since the separation of prescription and dispensary practices, as described below.

Pharmacists receive medical treatment fees (described below) and NHI drug prices (the official price of medicines). These amounts are revised almost every other year—and the changes in NHI drug prices have almost always been negative for pharmacists. Major chains are acquiring an increasing number of independent pharmacies located near hospitals that mostly fill prescriptions from those hospitals (about 70% of all pharmacies). Major drugstore and pharmacy chains are also establishing themselves as regional healthcare bases, with a focus on providing at-home services.

In a bid to cut public spending on medical care, the government aims to reduce the number of pharmacies adjacent to medical institutions in favor of family pharmacies that fill patients' prescriptions from multiple hospitals. Per the Asahi Shimbun newspaper on May 22, 2015, the government is increasing the medical treatment fees of community pharmacies to encourage their spread.

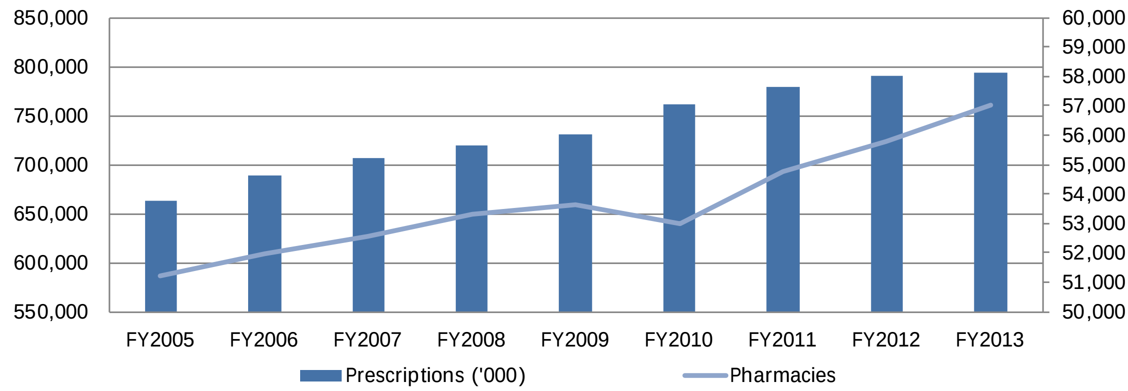
Under revisions to medical treatment fees in FY 2014, pharmacies that receive a large number of prescriptions, and those that receive a significant proportion of their prescriptions from a single medical institution, had their medical treatment fees cut. Pharmacies that offer 24-hour prescription services and generic prescription services had their medical treatment fees increased.

Total medical expenses, expense per prescription



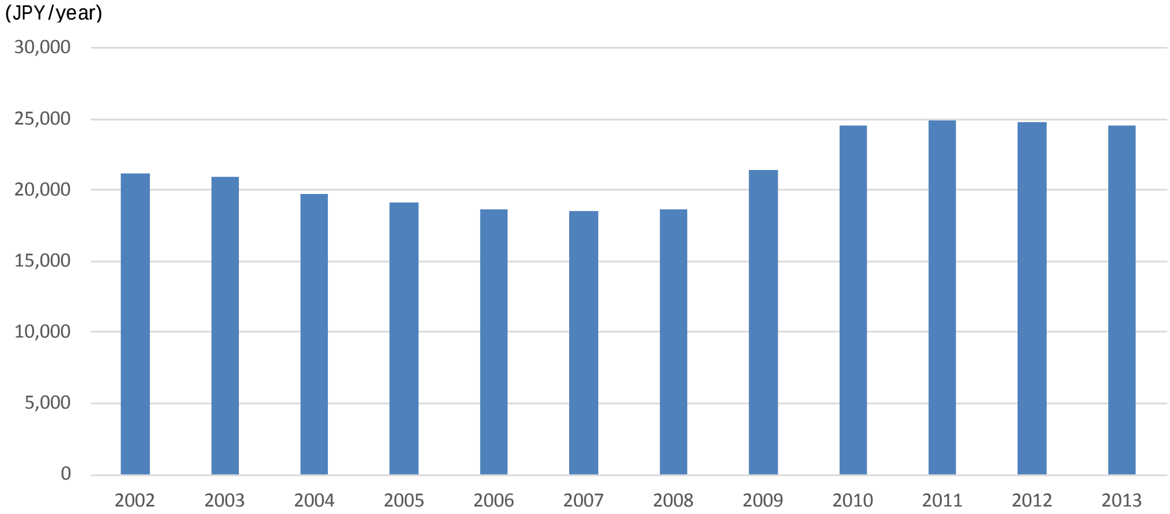
Source: "Trends in Prescription Medicine Costs," Ministry of Health, Labour and Welfare

Pharmacy count and prescriptions



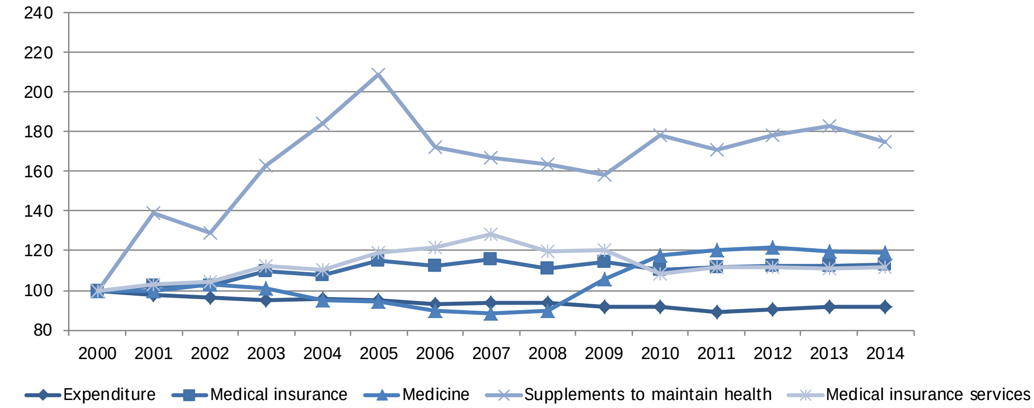
Source: Ministry of Health, Labour and Welfare

Spending on pharmaceutical products per household



Source: "Household Spending Survey," Ministry of Internal Affairs and Communications

Trends of medical insurance-related in household consumption expenditure (2000=100)



Source: ""Household Spending Survey," Ministry of Internal Affairs and Communications

Barriers to entry

Barriers to entry in the drugstore industry are low, as shown by the large number of small companies. But companies targeting sustainable expansion as a chain store or through acquisitions need capital, plus the management and operational expertise to efficiently run a nationwide network of stores. Another barrier to entry is the qualifications necessary for pharmacists and registered salespeople. The number and quality of the company's staff distinguishes it from competitors, as it develops added-value in sales of medicine, health foods, and cosmetics.

Regulations on pharmaceutical products

In Japan, the sale of pharmaceutical products is subject to the regulations of the Pharmaceutical Affairs Law. This law divides pharmaceutical products into two categories: prescription drugs and OTC drugs.

OTC drugs are available for purchase at the consumer's discretion, based on information provided by pharmacists and registered salespeople (see below) at dispensing pharmacies and other retailers. No prescription is necessary. OTC drugs are further divided into two types: drugs requiring guidance, and general non-prescription drugs. There are three types of general non-prescription drug, depending on the risk of adverse effects: type one (significant risk), type two (some risk), and type three (minor risk).

December 2013 amendments to Pharmaceutical Affairs Law, effective June 2014

Amendments to the Pharmaceutical Affairs Law were approved on December 5, 2013 (Law for Partial Amendment of the Pharmaceutical Affairs Law and the Pharmacists Law), promulgated on December 13, 2013, and effective June 12, 2014.

The amendments established the category of drugs requiring guidance, and banned the online sale of these drugs. They also banned the online sale of prescription drugs by law (not ordinance).

The new category of drugs requiring guidance is distinct from general non-prescription drugs, and includes drugs that have recently switched from prescription to OTC ("switched products," where the level of risk has yet to be confirmed) and drugs that are highly poisonous. Drugs requiring guidance must be sold face-to-face (with written information about precautions for use or face-to-face guidance from a pharmacist). Online vendors that have obtained approval from the MHLW may sell general non-prescription drugs (types one, two, and three).

In principle, switched products will become general non-prescription drugs in three years. Online vendors will be able to sell them once they become general non-prescription drugs.

Key changes to pharmaceutical categorization after revision to the Pharmaceutical Affairs Law (December 2013)

Before	Prescription	Over the counter			
		Category I		Category II	Category III
	In-person consultation required per ministerial ordinance				Internet sales possible
After	**Prescription**	**Pharmaceuticals requiring instruction**	**Over the counter**		
		New category from subset of Category I	Category I	Category II	Category III
	In-person consultation required by law	In-person consultation required by law	Internet sales possible		

June 2006 amendments to Pharmaceutical Affairs Law, fully effective June 2009

Amendments to the Pharmaceutical Affairs Law that changed the framework for selling general non-prescription drugs were approved in June 2006 and became fully effective on June 1, 2009.

Previously, only pharmacists were permitted to sell pharmaceutical products. With these amendments, however, "registered salespeople" became able to sell certain pharmaceutical products—including convenience stores, supermarkets, and other retailers without pharmacists. The amendments set forth the criteria for becoming a registered salesperson, in addition to a framework for information and consultation services in proportion to product risk.

> **Registered salespeople** are registered specialists that have passed a prefectural qualifying exam.

Prior to the amendments, the same amount of information was provided for all drugs, regardless of the level of risk. Following the amendments, however, general non-prescription drugs were divided into three types depending on the risk of side-effects: type one (significant risk), type two (some risk), and type three (minor risk). Type one drugs must be accompanied by a written explanation from a pharmacist. Type two drugs must also be supported by efforts to provide information to the purchaser. As mentioned, only vendors permitted by the MHLW may sell general non-prescription drugs online.

Key changes coinciding with the promulgation of the revised Pharmaceutical Affairs Law (2009)

	Prescription pharmaceuticals	OTC Pharmaceuticals		
Before	Management and sales by a pharmacist (no consultation requirements)			
After		Category I	Category II	Category III
	In-person consultation required per ministerial ordinance	In-person consultation required per ministerial ordinance		Internet sales possible

Source: Ministry of Health, Labour and Welfare

New OTC pharmaceutical categories pursuant to the revised Pharmaceutical Affairs Law (2009)

	Category I	Category II	Category III
Risk	High	Medium	Low
Key features	Medication which requires caution such as drugs with a short history of general use.	Medication containing ingredients that pose a slight risk of side effects that require hospitalization.	Medication containing ingredients that may cause mild side effects that will not have any significant effect on daily life.
Primary applicable medications	Stomach medicine containing H2 blockers, some hair growth tonics	Cold medicine, fever reducers, antacids, herbal remedies	Some vitamin supplements, digestive catalysts
Responsible specialist	Pharmacist	Pharmacists or registered retailer	Pharmacists or registered retailer
Required information	Written consultation (required)	Best effort to educate the patient	No legal requirements
Consultation (if requested)	Required	Required	Required

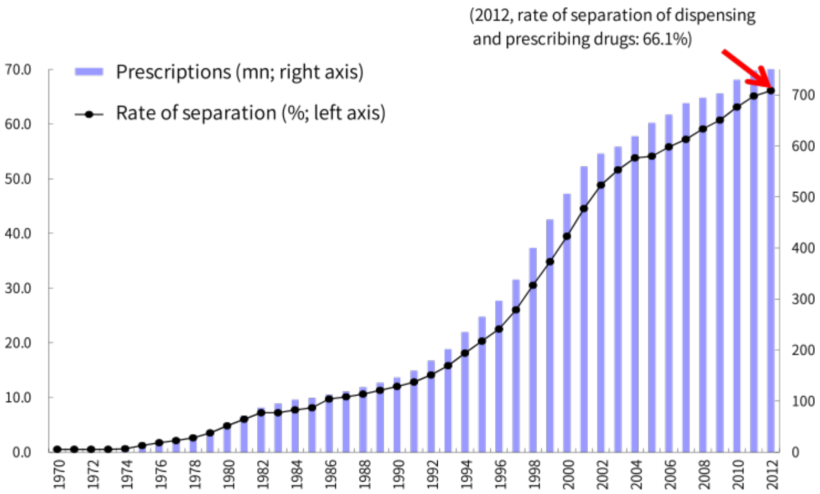
Source: Ministry of Health, Labour and Welfare

Separation of prescription and dispensary practices

This refers to the split between the prescribing and the dispensing of medicines between the doctor and pharmacist, respectively. Doctors can thus prescribe any medicine they want, regardless of which ones they have to hand. In addition, pharmacists can double-check prescriptions. Plus, if consumers collect medicines at a particular dispensing pharmacy (a community pharmacy), it may prevent the double-administration of drugs and offer an opportunity to check for drug interactions.

The split of prescribing and dispensary practice covers institution-based businesses (pharmacies take prescriptions from specific medical institutions) and area-based businesses (pharmacies take prescriptions from a wide area, without restrictions on specific medical institutions). The MHLW's promotion of family pharmacies marks a shift toward an area-based model.

Separation of dispensing and prescribing



Source: Ministry of Health, Labour and Welfare

Ordinance on sales for dispensing pharmacies, store vendors, distributors

This ordinance sets forth the number of pharmacists that must be available at a pharmacy—i.e., at least one pharmacist for every 40 prescriptions per day.

> The number of prescriptions per day is calculated by dividing the total number of prescriptions in the previous financial year by the number of working days. Technically, this ordinance does not mean that each pharmacist is only allowed to fill a maximum of forty prescriptions. For example, if the average number of prescriptions per day is 100, the prescription outlet would need to employ three pharmacists.

This ordinance is based on the principle that 40 prescriptions per day is the maximum a pharmacist can fill while still offering each patient a full explanation. When the ordinance was established, however, it assumed that pharmacists manually filled prescriptions. Now, pharmacists use computers for managing information and machines to automate formulation. In Europe and the US, pharmacists have support workers called pharmacy technicians or assistants. There is a pressing need for pharmacists in Japan, and the situation could be eased if a similar system were introduced.

Medical treatment fees

Medical treatment fees refer to remuneration provided for medical treatments covered by health insurance (official [NHI] prices for medical services by medical institutions and prescription outlets). In Japan, remuneration for medical services covered by health insurance is based on a points system. The patient pays some of the expense (generally 30%), and the remainder is covered by public health insurance. Patients pay the full cost of treatments not covered by health insurance (not covered by the points system).

> **Remuneration for medical treatments covered by health insurance**: Since its introduction in 1961, all citizens must enroll in universal public health insurance. Under the public health insurance system, there is an upper limit on the amount patients pay for treatment in any given month. Universal public health insurance, however, has created a public mindset of going straight to the hospital when ill. Coupled with Japan's advanced aging society, this means medical expenses have grown every year.

Medical treatment fees are regularly revised, with the most recent revision in FY 2014. Main basis for FY 2014 revisions:

- Evaluating which areas need to be expanded;

- Providing quality medical care that is easy for patients to understand, and makes them feel relaxed and secure;
- Reducing the burden on medical care professionals;
- Efficiency improvements.

The most positive aspect of the revisions for Cocokara Fine is the focus on at-home healthcare (the creation of a comprehensive regional care system), and forming a network between medical institutions and the providers of medical and nursing care.

Medical institutions issue receipts for health insurance claims based on the service provided, and bill the public health insurance system. The MHLW publishes medical treatment fee points (under Article 76 of the Health Insurance Act), broken down into three categories: medical, dentistry, and dispensing. Each point is equivalent to JPY10 in remuneration.

Dispensing points are based on:

- Dispensing technical fee
- Pharmaceutical management fee
- Drug fee
- Designated insured medical materials fee.

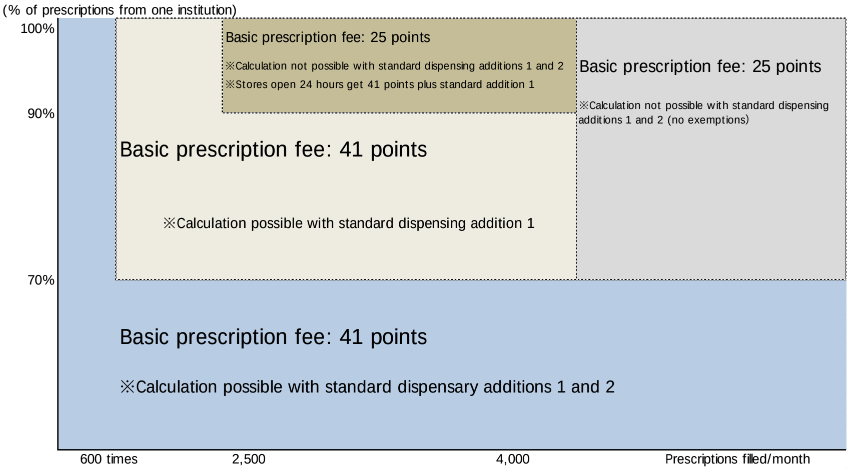
The technical fee is further broken down into a basic fee, dispensing fee, and various additions.

Basic fee

The basic fee is calculated every time a prescription outlet fills a prescription, in return for the pharmacist's pledge to safely formulate the drug. Prior to the recent amendments, this fee was 40 points. Following the consumption tax hike, it was increased to 41 points. Prescription outlets that fill a large number of prescriptions and those for whom a significant proportion of their prescriptions come from one medical institution (major across-the-street pharmacies) have their basic fee reduced to 25 points.

> The above applies to pharmacies filling over 4,000 prescriptions per month with 70% or more from one medical institution, and pharmacies filling over 2,500 prescriptions per month with 90% or more from one medical institution.

Point calculation



Source: Company data

Standard dispensing additions

Points are added for pharmacies that provide at-home services, and those that offer 24-hour or at-home services in partnership with local pharmacies. For dispensing pharmacies which meet additional conditions, costs are calculated when prescriptions are filed. There are two types of additions. Type one is for pharmacies that provide 24-hour dispensing services in partnership with local pharmacies, and type two is for pharmacies that provide 24-hour dispensing services independently, and provide at least 10 at-home services per year. Type one additions offered 10 points prior to the amendments and 12 after. Type two additions offered 30 points prior to the amendments and 36 after.

Additions for generic dispensing services

As mentioned, the government aims to improve efficiency in order to cut spending on medical care. As such, it offers additional points to encourage the use of generics. For dispensing pharmacies which meet additional conditions, costs are calculated when prescriptions are filed. Prior to the amendments, pharmacies received 5, 15, and 19 points for using generics in 22%, 30%, and 35% or more of all pharmaceutical products respectively. Since the amendments, pharmacies receive 18 and 22 points for using generics in 55% and 65% or more of all pharmaceutical products respectively.

Pharmaceutical management fee

In a bid to improve patient medication compliance and the management of leftover medicines, the government revised the way points for Drug Notebooks are calculated. Previously, points were awarded based on the distribution of stickers for the notebooks. These rules became stricter following the amendments. Before, pharmacies received 41 points whether patients had a notebook or not (so long as they were eligible to receive stickers). Following the amendments, pharmacies received 41 points for patients with a notebook and 34 points for patients without a notebook.

Drug fee

NHI drug prices were reduced by 2.7% in the revisions.

Historical financial statements

Income statement

Income Statement (JPYmn)	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.
Total Sales	**170,116**	**190,957**	**256,681**	**321,954**	**335,886**	**349,337**	**349,164**
YoY	na	12.3%	34.4%	25.4%	4.3%	4.0%	-0.0%
CoGS	123,748	143,572	193,094	242,468	249,392	258,736	260,386
GPM	**46,368**	**47,385**	**63,587**	**79,486**	**86,494**	**90,601**	**88,778**
YoY	na	2.2%	34.2%	25.0%	8.8%	4.7%	-2.0%
Vs. sales	27.3%	24.8%	24.8%	24.7%	25.8%	25.9%	25.4%
SG&A	42,532	43,991	57,211	70,906	76,451	83,162	84,408
Vs. operating revenue	25.0%	23.0%	22.3%	22.0%	22.8%	23.8%	24.2%
Operating Profit	**3,836**	**3,394**	**6,375**	**8,579**	**10,043**	**7,438**	**4,369**
YoY	na	-11.5%	87.8%	34.6%	17.1%	-25.9%	-41.3%
Vs. operating revenue	2.3%	1.8%	2.5%	2.7%	3.0%	2.1%	1.3%
Non-operating revenue	3,438	3,675	4,020	4,888	3,746	2,057	2,207
Financial expenses	36	40	36	69	74	72	78
Order processing fee	548	598	854	1,087	1,151	1,185	1,164
Information services fees							
Other non-operating revenue	2,854	3,037	3,130	3,732	2,224	476	642
Recurring Profit	**7,274**	**7,069**	**10,395**	**13,467**	**13,789**	**9,495**	**6,576**
YoY	-	-2.8%	47.1%	29.6%	2.4%	-31.1%	-30.7%
RPM	4.3%	3.7%	4.0%	4.2%	4.1%	2.7%	1.9%
Extraordinary Gains	67	6	1,151	2,431	419	231	213
Extraordinary Losses	927	853	2,815	1,499	1,000	2,738	2,534
Income taxes	2,499	2,052	2,818	6,475	5,352	3,389	2,593
Implied Tax Rate	39.0%	33.0%	32.3%	45.0%	40.5%	48.5%	60.9%
Minority Interests	-	-	-	-	-	-	-
Net Income	**3,915**	**4,169**	**5,911**	**7,920**	**7,855**	**3,598**	**1,658**
YoY	-	6.5%	41.8%	34.0%	-0.8%	-54.2%	-53.9%
Vs. operating revenue	2.3%	2.2%	2.3%	2.5%	2.3%	1.0%	0.5%

Source: Company data

Per Share Data (JPY)	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.
No. of shares ('000)	19,922	19,922	25,472	25,472	25,472	25,472	25,472
Earnings Per Share	196.60	209.39	260.79	311.59	308.95	141.46	65.31
EPS (Fully Diluted)	-	-	-	-	-	-	-
Dividend Per Share	50.00	50.00	58.00	60.00	60.00	60.00	60.00
Book Value Per Share	2,149.66	2,309.76	2,384.22	2,646.73	2,886.08	2,960.96	2,992.97

Source: Company data

Between FY03/09—when the company was established by share transfer—and FY03/13, Cocokara Fine grew earnings by increasing store count through acquisitions and new store openings, and increasing the number of stores that fill prescriptions. The average price of prescriptions also rose. As a result, in FY03/13, the company booked its highest ever recurring profit, at JPY13.8bn. After merging its vendors in April 2013, however, efficiency improvements failed to materialize and recurring profit fell in FY03/14 and FY03/15. This was due to a temporary increase in overheads and expenses related to restructuring the vendor network. Plus, the construction of a logistics center in eastern Japan faced difficulties.

FY03/09 earnings results

In FY03/09—its first year after establishment by share transfer—Cocokara Fine booked sales of JPY170.1bn, operating profit of JPY3.8bn, recurring profit of JPY7.3bn, and net income of JPY3.9bn. Sales outperformed forecasts announced on January 30, 2009 by 0.4%, operating profit by 6.3%, recurring profit by 3.9%, and net income by 11.2%. Despite sluggish consumer spending and poor weather, the company benefited from the consolidation of management.

FY03/10 earnings results

In FY03/10, Cocokara Fine reported full-year sales of JPY191.0bn (+12.3% YoY), operating profit of JPY3.4bn (-11.5% YoY), recurring profit of JPY7.1bn (-2.8% YoY), and net income of JPY4.2bn (+6.5% YoY). The company's focus on increasing the quality of its existing businesses, and robust results in the prescription business made up for sluggish consumer spending and weak sales of general non-prescription drugs after the amended Pharmaceutical Affairs Law came into full effect in June 2009. Operating profit and recurring profit fell because GPM declined, mainly for OTC drugs. Net income increased on lower income taxes.

FY03/11 earnings results

In FY03/11, Cocokara Fine reported full-year sales of JPY256.7bn (+34.4% YoY), operating profit of JPY6.4bn (+87.8% YoY), recurring profit of JPY10.4bn (+47.1% YoY), and net income of JPY5.9bn (+41.8% YoY). The company began operating under a new structure, following its merger with Allied Hearts Holdings in October 2010. The company reported significantly higher sales and profits as store count grew.

FY03/12 earnings results

In FY03/12, Cocokara Fine reported full-year sales of JPY322.0bn (+25.4% YoY), operating profit of JPY8.6bn (+34.6% YoY), recurring profit of JPY13.5bn (+29.6% YoY), and net income of JPY7.9bn (+34.0% YoY). Sales and profits increased significantly as the merger with Allied Hearts Holdings contributed to earnings over the full-year, and the company made Suzuran Pharmacy a subsidiary.

FY03/13 earnings results

In FY03/13, Cocokara Fine reported full-year sales of JPY335.9bn (+4.3% YoY), operating profit of JPY10.0bn (+17.1% YoY), recurring profit of JPY13.8bn (+2.4% YoY), and net income of JPY7.9bn (-0.8% YoY) (amounts have been adjusted for changes to accounting methods in FY03/14; year-on-year comparisons are simple comparisons with publicly disclosed FY03/12 figures). The company formerly booked purchase discounts (equivalent to the interest when procurement charges are paid early) as non-operating revenue, but this year it began including them in CoGS as a deduction from procurement costs. Excluding the effect of this change, recurring profit increased by 2.4% YoY.

FY03/14 earnings results

In FY03/14, Cocokara Fine booked full-year sales of JPY349.3bn (+4.0% YoY), operating profit of JPY7.4bn (-25.9% YoY), recurring profit of JPY9.5bn (-31.1% YoY), and net income of JPY3.6bn (-54.2% YoY). In April 2013, the company merged six vendor subsidiaries (Seijo, Segami Medics, Zip Drug, Lifort, Suzuran Pharmacy, and Medical Index) to form Cocokarafine Healthcare. Store count was 1,352—up by 91 compared with end March 2013, as the company opened 58 stores, acquired 62 stores by making Iwasakikoukendou a subsidiary, and shut 29 stores. Profits fell sharply on a temporary increase in overheads caused by the merger of vendor subsidiaries in April 2013, temporary confusion post-merger, and expenses relating to restructuring its sales structure.

FY03/13 recurring profit: JPY13.8bn (record high)

(JPYmn)	Change in gross profit	Change in SG&A expenses (- refers to higher expenses)	Change in recurring profit
FY03/14	**4,107**	**-8,401**	**-4,294**
① Demand from consumption tax hike	1,800		
② Sales growth at new stores (ex. effects of tax hike)	2,180		
③ Decline in sales at existing stores (ex. effects of tax hike)	-3,700		
④ Lower GPM at existing stores (ex. effects of tax hike)	-700		
⑤ Robust Pharmaceuticals segment	922		
⑥ More efficient logistics, effects of unification, other	630		
⑦ Higher costs from news stores, rennovations	-3,400		
⑧ One time expenses from unification (YoY)	-160		
⑨ Increase in processing of old pointcard at Kodama store, other	-700		
⑩ End of negative goodwill amortization/depreciation	-1,167		
FY03/14 recurring profit: JPY9.5bn			

Source: Company data

FY03/15 earnings results

In FY03/15, Cocokara Fine reported full-year sales of JPY349.2bn (unchanged), operating profit of JPY4.4bn (-41.3% YoY), recurring profit of JPY6.6bn (-30.7% YoY), and net income of JPY1.7bn (-53.9% YoY). The company faced difficult conditions for sales, with poor weather—typhoons and rain in western Japan—sluggish sales of seasonal products following a cool summer, and the pullback after the rush to beat the consumption tax hike.

The company made up for these negative factors by encouraging customers to convert points and other promotional campaigns. Iwasakikoukendou also contributed to revenues over the full-year, after it became a subsidiary in January 2014 (contributing three months of revenues to the FY03/14 results). As a result, sales were on par with the previous year. Profits, however, fell significantly, partly on a temporary increase in logistics costs of JPY860mn and higher overheads.

FY03/14 recurring profit: JPY9.5bn

(JPYmn)	Change in gross profit	Change in SG&A expenses (- refers to higher expenses)	Change in recurring profit
FY03/15	**-1,823**	**-1,096**	**-2,919**
① Pullback in demand from the tax hike (April-May 2014)	-1,800		
② Pullback in demand from the tax hike (Feb.-March 2014)	-1,800		
③ Existing drugstores (ex.① and ②)	-513		
④ Higher sales from new stores (inc. Iwasakikoukendou)	3,150		
⑤ Temporary cost from delayed efficiency of Kanto logistics, restructuring	-860		
⑥ No more one-time costs related to unification (as in the previous year)		660	
⑦ Higher costs from new stores, etc. (inc. Iwasaki Kendo)		-3,100	
⑧ Profitability of subsidiary (Nursing Care and Internet businesses)		200	
⑨ Improved efficiency measures for employee adjustment, etc.		1,144	
FY03/15 recurring profit: JPY6.6bn			

Source: Company data

The company booked impairment losses of JPY1.7bn on stores, down from FY03/14, when that figure was JPY2.4bn. But it also booked a write-down of JPY406mn on shares in affiliates, including Shanghai Cocokarafine Inc.

Balance sheet

Balance Sheet (JPYmn)	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.
Total Current Assets	**44,124**	**43,511**	**66,819**	**85,692**	**88,523**	**77,179**	**78,399**
Cash and Equivalents	10,730	9,387	11,684	23,947	24,217	8,062	6,164
Marketable Securities	-	800	800	700	-	-	-
Accounts Receivable	7,486	7,714	12,416	13,856	12,402	14,784	14,272
Inventories	20,795	20,278	33,716	36,125	40,500	42,645	47,021
Deferred Tax Assets	886	872	1,642	1,719	1,916	1,883	1,811
Other Receivables	3,318	3,442	4,974	7,694	7,699	7,896	7,307
Allowance for Doubtful Accounts	-7	-4	-3	-5	-	-2	-2
Other Current Assets	914	1,021	1,590	1,654	1,787	1,910	1,823
Total Tangible Fixed Assets	**18,160**	**17,937**	**26,048**	**26,302**	**28,621**	**28,537**	**25,850**
Buildings	7,487	7,001	11,609	11,851	12,971	13,408	11,827
Land	9,153	9,175	10,995	10,949	11,161	11,346	11,076
Lease Assets	93	617	1,216	1,165	1,243	1,183	730
Other	1,424	1,143	2,227	2,335	3,245	2,599	2,215
Total Intangible Assets	**1,362**	**1,313**	**2,096**	**2,397**	**4,056**	**3,200**	**2,757**
Goodwill	386	451	723	1,004	2,090	1,113	942
Other	976	861	1,372	1,392	1,964	2,086	1,815
Total Other Fixed Assets	**16,034**	**16,916**	**26,396**	**26,523**	**28,377**	**30,387**	**28,604**
Lease and Guarantee Deposits	13,518	13,729	20,192	20,467	22,137	22,814	21,991
Deferred Tax Assets	1,258	1,295	3,821	3,516	3,646	4,539	4,252
Other	1,459	2,110	2,648	2,791	2,800	3,259	2,529
Allowance for Doubtful Accounts	-202	-218	-265	-253	-207	-236	-170
Total Fixed Assets	**35,557**	**36,167**	**54,541**	**55,223**	**61,054**	**62,125**	**57,211**
Total Assets	**79,682**	**79,679**	**121,361**	**140,915**	**149,578**	**139,305**	**135,610**
	-	-	-	-	-	-	-
Total Current Liabilities	**29,157**	**26,565**	**53,658**	**67,710**	**70,638**	**57,535**	**54,904**
Accounts Payable	20,374	19,874	36,387	50,492	51,306	37,181	39,056
Short-Term Debt	2,300	1,100	6,240	4,200	4,800	7,800	3,900
Lease Obligation	27	173	305	348	479	479	271
Income Tax Payable	1,723	537	2,848	2,545	2,676	1,686	631
Provision for Bonuses	761	850	1,588	1,787	1,808	1,872	1,837
Provision for Point Card Certificates	803	856	1,139	1,346	1,383	2,119	2,390
Other Current Liabilities	3,165	3,172	5,148	6,992	8,183	6,396	6,817
Total Long-Term Liabilities	**7,715**	**7,116**	**7,097**	**5,927**	**5,522**	**6,449**	**5,470**
Long-Term Debt	-	-	-	-	-	-	-
Lease Obligation	85	484	846	665	685	642	372
Deferred tax liabilities	na	na	na	na	-	39	24
Net defined benefit liabilities	2,281	2,412	2,438	2,568	3,187	3,909	3,189
Negative goodwill							
Other Fixed Liabilities	680	717	1,478	1,526	1,649	1,857	1,884
Total Liabilities	**36,872**	**33,681**	**60,755**	**73,638**	**76,161**	**63,984**	**60,374**
Total Shareholder Equity (Net Assets)	**42,809**	**45,997**	**60,605**	**67,277**	**73,417**	**75,320**	**75,235**
Issued Capital	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Reserves	24,980	23,985	34,419	34,419	34,438	34,438	34,439
Retained Earnings	16,789	20,959	25,217	31,867	37,928	40,016	40,743
Treasury Stock	-13	-14	-91	-92	-59	-61	-979
Valuation difference on available-for-sale securities	53	67	59	82	110	137	269
Remeasurements of defined benefit plans	-	-	-	-	-	-211	-236
Working Capital	7,907	8,118	9,745	-511	1,596	20,248	22,237
Interest-Bearing Debt	2,300	1,100	6,240	4,200	4,800	7,800	3,900
Net Cash	8,430	9,087	6,244	20,447	19,417	262	2,264

Figures may differ from company materials due to differences in rounding methods.
Source: Company data

Cash Conversion Cycle	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.
Accounts Receivable Turnover	22.7	25.1	25.5	24.5	25.6	25.7	24.0
Days in Accounts Receivable	**16.1**	**14.5**	**14.3**	**14.9**	**14.3**	**14.2**	**15.2**
Inventory Turnover	6.0	7.0	7.2	6.9	6.5	6.2	5.8
Days in Inventory	**61.3**	**52.2**	**51.0**	**52.6**	**56.1**	**58.6**	**62.8**
Payables Turnover	6.1	7.1	6.9	5.6	4.9	5.8	6.8
Days in Payables	**60.1**	**51.2**	**53.2**	**65.4**	**74.5**	**62.4**	**53.4**
Cash Conversion Cycle (days)	**17.3**	**15.6**	**12.2**	**2.1**	**-4.2**	**10.4**	**24.6**

Figures may differ from company materials due to differences in rounding methods.
Source: Company data

Assets

Key assets include inventory assets (about 30% of total assets), tangible fixed assets (20%), lease deposits for rented stores (16%), and accounts receivable (10%). Most accounts receivable are closed on the 15th of the month (1st-15th of the month are paid at the end of the month; 16th to the end of the month are paid on the 15th of the following month).

Liabilities

The main item is accounts payable, accounting for about 60% of total liabilities. Accounts payable are closed at month end, and paid at the end of the following month.

Net assets

Accumulated other comprehensive income (valuation and translation adjustments) is minimal, and net assets are mostly shareholders' equity.

When the year-end falls on a holiday, such as in FY03/13 and FY03/14, cash and accounts payable temporarily increase.

Cash flow statement

Cash Flow Statement (JPYmn)	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.
Operating Cash Flow (1)	2,327	4,745	8,140	21,645	10,012	-7,011	7,165
Investment Cash Flow (2)	-2,615	-3,001	-4,097	-4,916	-6,222	-8,221	-2,241
Free Cash Flow (1+2)	**-288**	**1,744**	**4,043**	**16,729**	**3,790**	**-15,232**	**4,924**
Financial Cash Flow	277	-2,297	-3,959	-4,553	-4,240	-926	-6,827
Depreciation & Amortization (A)	1,038	959	1,696	2,425	3,741	4,712	4,121
Capital Expenditures (B)	-2,213	-1,475	-2,642	-3,629	-4,877	-4,614	-2,282
Working Capital Changes (C)	-3,780	-169	-2,234	10,258	-2,956	-17,034	-1,937
Simple FCF (NI + A + B - C)	**6,520**	**3,822**	**7,199**	**-3,542**	**9,675**	**20,730**	**5,434**

Figures may differ from company materials due to differences in rounding methods.
Source: Company data

Operating cash flow

Cocokara Fine has booked a stable positive operating cash flow every year, except FY03/14 when it faced the pullback after the consumption tax hike. In that year, accounts receivable increased while accounts payable fell. The significant increase in profits in FY03/13 also led to higher income tax in FY03/14. The company thus booked negative operating cash flow.

Investment cash flow

The company generally reports a negative investment cash flow of at least JPY2bn each year, as it buys tangible fixed assets and spends on lease deposits to open new stores.

Financial cash flow

Excluding FY03/09—when the company merged—Cocokara Fine has booked a negative financial cash flow every year as it pays dividends and repays interest-bearing debt.

Other information

Corporate timeline

April 2008	Segami Medics Co., Ltd. and Seijo Co., Ltd. merge and establish Cocokara Fine Holdings Inc. through the transfer of shares.
October 2009	Acquires all outstanding shares in nursing care service provider Takara Care Co., Ltd. and makes it a subsidiary.
December 2009	Concludes business partnership agreement with Circle K Sunkus Co., Ltd. in order to develop new business segments, launch joint stores, and cooperate in merchandising.
September 2010	Acquires the drugstore and pharmacy operations of Iwai Co., Ltd., which operates 24 stores in the Greater Tokyo Area.
October 2010	Merges with Allied Hearts Holdings Co., Ltd. and changes its name to Cocokara Fine Inc. Relocates head office to Yokohama (Kanagawa).
January 2011	Acquires shares in SO Pharmaceutical Corporation, a developer and manufacturer of pharmaceuticals and cosmetics, and makes it a subsidiary.
August 2011	Acquires shares in Medical Index Co., Ltd., an operator of pharmacies in Asahikawa (Hokkaido), and makes it a subsidiary.
October 2011	Acquires shares in Suzuran Co., Ltd., an operator of drugstores and pharmacies in Hokkaido, and makes it a subsidiary.
December 2011	Acquires shares in Riha Works Ltd., and Genki Co., Ltd., both providers of rehabilitation-focused nursing care services, and makes them subsidiaries.
April 2012	Changes name of second-tier subsidiary Takara Care Co., Ltd., engaged in nursing care services, to Finecare Inc. and consolidates the group's nursing care services into this entity as a subsidiary.
May 2012	Opens first store in China, Cocokara Metro 5th Avenue Store, through Shanghai Cocokarafine Inc., its subsidiary in the country.
September 2012	Acquires the drugstore and pharmacy operations of ABC Drug Co., Ltd., which runs 13 stores in Tokyo and Saitama Prefecture.
November 2012	Acquires all outstanding shares in KODAMA Co., Ltd., an operator of drugstores and pharmacies in the Koshinetsu and Tohoku areas, with a focus on Niigata Prefecture, and makes it a subsidiary.
February 2013	Establishes Cocokarafine OEC Co., Ltd., an e-commerce business.
April 2013	Merges six subsidiaries Seijo Co., Ltd., Segami Medics Co., Ltd., Zip Drug Co., Ltd., Lifort Co., Ltd., Suzuran Co., Ltd., and Medical Index Co., Ltd. to form Cocokarafine Healthcare Inc.
August 2013	Acquires shares in Kojido Co., Ltd., an operator of pharmacies in Setagaya (Tokyo), and makes it a subsidiary.
November 2013	Acquires all outstanding shares in Iwasakikoukendou Co., Ltd., an operator of drugstores in Yamaguchi, and makes it a subsidiary.

Major shareholders

As of September 30, 2015

Top Shareholders	Amount Held
Masato Saito	6.90%
The Master Trust Bank of Japan, Ltd. (managed trust account)	6.60%
Cocokara Fine Inc. empoyee stock ownership	4.89%
Segami Real Estate Co., Ltd.	4.45%
Ichiro Ishibashi	2.79%
Daiichi Sankyo Healthcare Co., Ltd.	2.37%
Japan Trustee Services Bank, Ltd. (trust account)	2.29%
THE BANK OF NEW YORK, JASDEC TREATY ACCOUNT (standing proxy: Mizuho Bank, Ltd., Settlement Sales Department)	1.82%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1.75%
Goldman Sachs, regular account (standing proxy: Goldman Sachs Group, Inc.)	1.60%

Source: Company data

Top management

President Atsushi Tsukamoto (b. November, 1962)

Tsukamoto graduated from Meiji Pharmaceutical University after majoring in pharmacy, having spotted business opportunities in pharmaceuticals. In April 1985, he joined Seijo, Cocokara Fine's predecessor and became a store manager after three years. He increased customer count and sales with his own planning, including special sales to commemorate professional baseball victories, and daily special offers negotiated with manufacturers and wholesalers. A year later Tsukamoto became store manager. In 1996 he became a director of Seijo and general manager of the branch store department, before becoming general manager of sales in 1999, managing director and head of sales in 2002, and representative director in 2002. In 2008, he was appointed representative director of Cocokara Fine.

Employees

As end March 2015, it had 5,625 employees, plus 5,260 part-time employees (based on eight hours work in a day).

Other

The name Cocokara Fine refers to the pursuit of a healthy (fine) mind (*kokoro*) and body (*karada*). *Coco* also refers to working together (co-working) with stakeholders to face new challenges. Cocokara brings to mind the Japanese phrase *koko kara hajimaru*, meaning "it starts from here."

Cocokara Fine's logo is a *C* and a colon, with the *C* standing for Cocokara Fine, and the colon meaning "that is" (because according to the company, it plays many roles for its customers). There is also a white cross formed between the C and the colon. This represents the company's "steadfast commitment as a pharmaceuticals dispenser to ensure safety, security and reliability for every customer."

Profile

Company Name	Head Office
cocokara fine Inc.	Innotech Bldg., 3-17-6 Shin-Yokohama, Kohoku-ku, Yokohama, Japan 222-0033
Phone	**Listed On**
+81-4-5548-5929	Tokyo Stock Exchange 1st Section
Established	**Exchange Listing**
April 1, 2008	April 1, 2008
Website	**Fiscal Year-End**
http://www.cocokarafine.co.jp/	March
IR Contact	**IR Web**
	http://www.cocokarafine.co.jp/ir/index.html
IR Mail	**IR Phone**
	+81-4-5548-5937

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Azbil Corporation	istyle Inc.	SBS Holdings, Inc.
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Benefit One Inc.	ITO EN, Ltd.	SMS Co., Ltd.
Canon Marketing Japan Inc.	J Trust Co., Ltd	SOURCENEXT Corporation
Chiyoda Co., Ltd.	Japan Best Rescue Co., Ltd.	Star Mica Co., Ltd.
Cocokara Fine, Inc.	JIN Co., Ltd.	SymBio Pharmaceuticals Limited
Comsys Holdings Corporation	Kenedix, Inc.	Takashimaya Co., Ltd.
Creek & River Co., Ltd.	KLab Inc.	Takihyo Co., Ltd.
Daiseki Corp.	LAC Co., Ltd.	Tamagawa Holdings Co., Ltd
DIC Corporation	Lasertec Corp.	TEAR Corporation
Digital Garage Inc.	MAC-HOUSE Co.	3-D Matrix, Ltd.
Don Qijote Holdings Co., Ltd.	Matsui Securities co., Ltd.	TOKAI Holdings Corp.
Dream Incubator Inc.	Medinet Co., Ltd.	Verite Co., Ltd.
Elecom Co.	MIRAIT Holdings Corp.	WirelessGate, Inc.
EMERGENCY ASSISTANCE JAPAN Co.	NAGASE & CO., LTD	Yellow Hat Ltd.
en-Japan Inc.	NAIGAI TRANS LINE LTD.	Yumeshin Holdings
FerroTec Corp.	NanoCarrier Ltd.	VOYAGE GROUP, Inc.
Fields Corp.	Nippon Parking Development Co., Ltd.	ZAPPALLAS, INC.
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