TSURUHA HOLDINGS INC

TSURUHA HOLDINGS INC.

1st Quarter of FY5/22 Financial Results Announcement

September 21, 2021

Event Summary

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[Participants]	
[Number of Speakers]	3

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

Presentation

Yamazaki: Now, it is time for us to hold a financial results briefing for Q1 of the fiscal year ending May 2022 of TSURUHA HOLDINGS INC.

I would like to introduce today's attendees. Mr. Jun Tsuruha, President and Representative Director.

Tsuruha: This is Tsuruha. Thank you.

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

Murakami: This is Murakami. Thank you.

Yamazaki: I am Takuya Yamazaki, Investor Relations Manager. I will also be today's moderator.

At today's briefing, we will explain our financial results briefing materials while sharing them on a screen. Please also refer to the financial results briefing materials, brief summary, and earnings briefing posted on our website.

For today's presentation, first, Mr. Murakami will explain the business results for Q1 of the current fiscal year, followed by a briefing from Mr. Tsuruha about our initiatives and policies for the fiscal year under review. We will then move on to the question-and-answer session.

I will now move on to the explanation of financial results.

Financial Highlights

Profit down due to a reactionary fall; achieved 1Q plan

Results for 1Q of FY5/22

Net sales	Operating income
JPY **235.6** billion (+4.9YoY)	JPY **12.8** billion (-15.0 YoY)

*1Q of FY5/21: Prior to consolidation of Drug Eleven

Business Conditions
- Reactionary decline from the demand increase in 1Q of 5/21
- Profit exceeded the plan by controlling SG&A expenses

Topics
- Digital infrastructure improved business operations and captured app users
- Promotion of e-commerce and delivery services
- Determining materiality

Murakami: Thank you for taking time out of your busy schedules to join us today. I will now provide an overview of our business results for Q1 of the fiscal year ending May 2022.

Please refer to page 3 of the financial results briefing material at hand. First of all, I would like to highlight the financial results.

Net sales increased by 4.9% YoY to JPY235.6 billion, and operating income decreased by 15% YoY to JPY12.8 billion.

As for the business overview, first of all, in terms of net sales, there was a reactionary decline from the stay-at-home demand in the same period of the previous year. As for SG&A expenses, they made progress slightly below the plan, and profits exceeded the plan.

In terms of topics, we are steadily promoting our digital strategy, which is one of our business strategies for this fiscal year. We are also implementing measures to meet the growing demand for ecommerce and delivery services in the COVID-19 pandemic.

In addition, we have identified key issues and materialities as part of our sustainability efforts.

Consolidated Performance

YoY change *1Q of FY5/21: Drug Eleven (non-consolidated) (millions of yen / %)

	YoY		Results			Progress ratio vs. 1H Forecast	Estimate based on former standards		
	Results	Share		Share	YoY			Share	YoY
Net sales	224,623	100.0	235,684	100.0	104.9	**49.9**	241,550	100.0	107.5
Gross profit	65,076	29.0	69,126	29.3	106.2	**49.3**	70,431	29.2	108.2
SG&A expenses	49,913	22.2	56,237	23.9	112.7	**48.6**	57,610	23.9	115.4
Operating income	15,162	6.8	12,889	5.5	85.0	**52.4**	12,821	5.3	84.6
Ordinary income	15,328	6.8	12,944	5.5	84.4	**52.2**	12,876	5.3	84.0
Net income attributable to owners of the parent	9,137	4.1	7,536	3.2	82.5	**52.7**			

- Operating income exceeded the initial stage on lower SG&A expenses, while sales and gross profit remained as planned
- Effective from 1Q of FY5/22, Drug Eleven has now been consolidated

Please see the next page. The following are the details of consolidated results.

First of all, the YoY comparison is as shown in the figures.

In Q1 of the previous fiscal year, figures for Drug Eleven were not consolidated. In addition, due to the revenue recognition standard applied from this fiscal year, the YoY figures are a little more complicated, so we listed the figures based on the old standard on the right side of the table.

Although we do not disclose the planned figures for each quarter, the progress against the planned figures for H1 of the fiscal year is also provided for reference.

As I mentioned a little while ago, sales and gross profit are almost as planned. SG&A expenses were slightly below the plan. As a result, operating income was 85% of the previous year's level, but exceeded the plan.

Effects of changes in revenue recognition standards

(millions of yen / %)

	Before reclassification (based on former standards)			After reclassification (new standards = disclosed values)	
		Share	YoY		Share
Net sales	241,550	100.0	107.5	235,684	100.0
Gross profit	70,431	29.2	108.2	69,126	29.3
SG&A expenses	57,610	23.9	115.4	56,237	23.9
Operating income	12,821	5.3	84.6	12,889	5.5

Reclassification effects

Points granted (TSURUHA) changed from recording provision for point card certificates to deferred revenue recognition

Points granted by other companies changed from posting expenses to reducing the transaction price

Revenue recognition on sales purchases changed from gross to net basis

(Millions of yen)

Net sales -5,866

Points granted (TSURUHA) -907
Points granted (competitors) -386
Sales purchases on consignment, etc. -4,572

Cost of sales -4,560

Sales purchases on consignment, etc. -4,560

SG&A expenses -1,373

Points granted (TSURUHA) -986
Points granted (competitors) -386

Gross profit -1,305

Here, I would like to explain the revenue recognition standard that became effective this fiscal year.

Please see page 5. There are 2 main elements to the change in the revenue recognition standard. The first is the handling of points. The second is the difference in handling of consignment buying.

First of all, regarding points, in the past, when points were given, they were not deducted from net sales, but rather recorded as SG&A expenses. Under the newly adopted revenue recognition standard, points are deducted from net sales at the time of granting and are not recorded as expenses.

Regarding the second, the handling of consignment buying, instead of total amount, we record only net amount or gross profit as net sales.

As a result, on a YoY basis, there is a difference of about 2.6% in net sales, about 2% in gross profit, and about 2.7% in SG&A expenses between the new and old standards.

Consolidated Performance *Excludes Drug Eleven

YoY change

(millions of yen / %)

	FY5/21		Results			Estimate based on former standards		
	Results	Share		Share	YoY		Share	YoY
Net sales	224,623	100.0	223,892	100.0	99.7	229,596	100.0	102.2
Gross profit	65,076	29.0	65,794	29.3	101.1	66,992	29.2	102.9
SG&A expenses	49,913	22.2	52,862	23.9	105.9	54,144	23.6	108.5
Operating income	15,162	6.8	12,932	5.5	85.3	12,848	5.6	84.7
Ordinary income	15,328	6.8	13,007	5.5	84.9	12,924	5.6	84.3
Net income attributable to owners of the parent	9,137	4.1	7,664	3.2	83.9			

- **Rebound from special stay-home demand in 1Q of FY5/21**
- **Increase in fees payable, depreciation, etc. (→P7)**

Please see the next page. Consolidated results excluding Drug Eleven. These are the results of the 6 existing operating companies: TSURUHA, Kusurino Fukutaro, TGN, Lady Drug Store, Kyorindo and B&D.

For the comparison of the previous fiscal year, please refer to the figures on the old standard basis, which I mentioned earlier. It is listed in the upper right of this table.

On the old standard basis, net sales increased 2.2% YoY, gross profit increased 2.9% YoY, SG&A expenses increased 8.5% YoY, and operating income decreased 15.3% YoY.

Status of SG&A

Consolidated (millions of yen / %)

*1Q of FY5/21: Drug Eleven (non-consolidated)

Excluding Drug Eleven (millions of yen / %)

		5/21 1Q	5/21 YoY	5/22	5/22 YoY	5/22	5/22 YoY	1Q of 5/22 (former standards)	1Q of 5/22 (former standards) YoY
Personnel expenses	Amount	25,570	105.8	29,075	113.7	27,492	107.5	27,492	107.5
	Share of sales	11.4	(0.2)	12.3	+0.9	12.3	0.9	12.0	+0.6
Promotion expenses	Amount	2,106	134.7	913	43.4	807	38.3	2,089	99.2
	Share of sales	0.9	+0.1	0.4	(0.5)	0.4	(0.5)	0.9	+0.0
Expenses for rents	Amount	11,331	103.7	12,394	109.4	11,666	102.9	11,666	103.0
	Share of sales	5.0	(0.2)	5.3	+0.3	5.2	0.2	5.1	+0.1
Other expenses	Amount	10,904	103.4	13,852	127.0	12,896	118.3	12,896	118.3
	Share of sales	4.9	(0.1)	5.9	+1.0	5.8	0.9	5.6	+0.7
SG&A expenses	**Amount**	**49,913**	**105.8**	**56,237**	**112.7**	**52,862**	**105.9**	**54,144**	**108.5**
	Share of sales	**22.2**	**(0.4)**	**23.9**	**+1.7**	**23.6**	**1.4**	**23.6**	**+1.4**

- **All expenses are within budget**
- **Other expenses... Increase in fees payable (cashless, etc.), consumable goods (infection control supplies, etc.), depreciation, etc.**

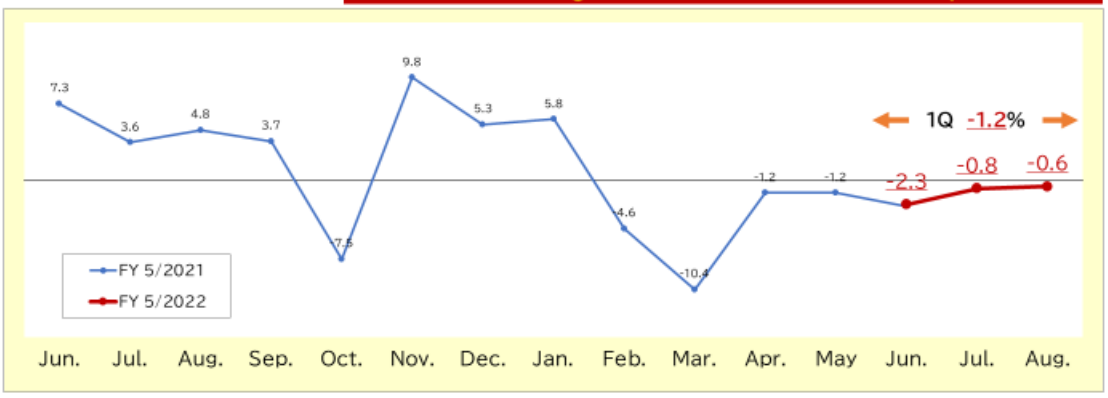
Please see page 7. The following is the status of SG&A expenses. Please refer to the figures on the right side of the table, which are based on the old standards excluding Drug Eleven.

All expenses, including labor, sales promotion, ground rent and other costs, were within the Company's budget.

Among them, other expenses have increased a little higher YoY. This is due to the tax effect of non-deductible consumption tax, the purchase of anti-infection supplies and other one-time costs, as well as an increase in commissions paid.

YoY Change in Net Sales (Stores Open for 13 Months or More) *Excludes Drug Eleven

*The underlined figures have been corrected on September 30.



Stay-at-home demand continued even after the first state of emergency in 1Q of FY5/21

→**Reactionary decline** in FY5/22

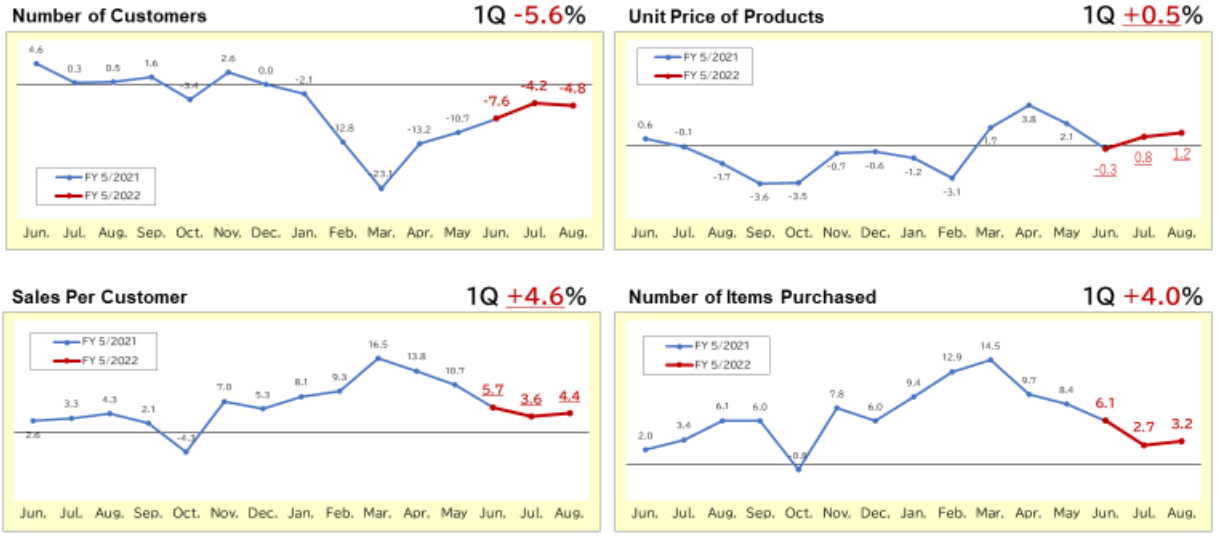
Please see page 8. This is the YoY comparison of sales at existing stores for the past 13 months.

The cumulative total for Q1 was down 2.1% from the previous year. This figure is slightly lower than we had expected.

The main reason for the YoY decline was a reactionary decline from the stay-at-home demand after the first emergency declaration in the previous fiscal year.

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

*The underlined figures have been corrected on September 30.



Please see page 9. This is a sales analysis.

As you can see, the number of customers and unit price of products were negative compared to the previous year. The sales per customer and the number of items purchased are on a positive trend.

Sales by Operating Company (Store Openings and Closures)

*The underlined figures have been corrected on September 30.

by Region

	End of FY5/21	FY5/22			
		Openings	Closures	Net change	End of 1Q FY5/22
Tsuruha	1,305	21	11	+10	1,315
Kusurino Fukutaro	233	1	3	(2)	231
TGN	298	5	1	+4	302
Lady Drug Store	228	1	-	+1	229
Kyorindo	87	1	-	+1	88
B&D	69	-	1	(1)	68
JR Kyushu Drug Eleven	199	-	3	(3)	196
TGMD (EC HQ)	1	-	-	0	1
Total for Japan	2,420	29	19	+10	2,430

by Operating Company

	Existing store sales YoY	
	FY5/21	FY5/22
Tsuruha	104.1	97.6
Kusurino Fukutaro	99.2	98.0
TGN	110.2	100.9
Lady Drug Store	107.9	101.3
Kyorindo	106.3	100.7
B&D	106.2	93.7
JR Kyushu Drug Eleven	*Treated as a new store during FY5/22	
Total for Japan	105.2	98.8

- **Newly opened dispensing pharmacies: 19**
- **Renovations of existing stores: 77**

Please see page 10. The status of store openings and closings, and existing stores sales by operating company.

In terms of store openings and closings, we made progress almost according to plan, opening 29 stores and closing 19 stores, for a net increase of 10 stores. As a result, the number of stores at the end of Q1 was 2,430.

In the prescriptions business, 19 new dispensing pharmacies were opened as planned.

In addition, 77 existing stores were renovated.

Existing store sales by operating company are as shown on the right.

Store Openings and Closures (Sales Situation)

*The underlined figures have been corrected on September 30.

by Region

	End of FY5/21	FY5/22			
		Openings	Closures	Net change	End of 1Q FY5/22
Hokkaido	414	1	4	(3)	411
Tohoku	533	10	2	+8	541
Kanto, Koshinetsu	493	10	5	+5	498
Chubu, Kansai	237	1	4	(3)	234
Chugoku	301	5	-	+5	306
Shikoku	226	2	1	+1	227
Kyushu, Okinawa	216	-	3	(3)	213
Total for Japan	2,420	29	19	+10	2,430
					(Others: 4 franchise stores)
International (Thailand)	22	-	-	0	22

by Operating Company

	Existing store sales YoY	
	FY5/21	FY5/22
Hokkaido	105.1	98.1
Tohoku	106.1	97.9
Kanto, Koshinetsu	103.7	96.7
Chubu, Kansai	101.0	99.4
Chugoku	110.5	100.2
Shikoku	106.5	101.3
Kyushu	111.5	111.4
Total	105.2	98.8

Please turn to page 11. The following is a summary of store openings, closings, and sales by region.

In terms of new store openings by region, we have opened 29 stores mainly in the Tohoku, North Kanto, and Chugoku regions as part of our in-depth dominance strategy.

Sales of existing stores by region are as shown in the figures on the right.

Results by Product Group (First Quarter)

*Including mail-order sales (millions of yen / %)

		Net Sales			GPM	
			YoY	Share		YoY
Products	Pharmaceuticals	49,223	109.8	20.9	41.0	(0.6)
	Prescriptions	24,296	115.2	10.3	36.3	(1.2)
	OTC	24,926	105.1	10.6	45.5	+0.2
	Cosmetics	35,095	108.2	14.9	32.2	(1.6)
	Misc. daily necessities	65,772	101.3	27.9	28.9	+1.6
	Foods	56,245	106.1	23.9	15.7	+0.8
	Other	28,278	99.5	12.0	32.6	(0.2)
	Products total	234,615	104.9	99.6	29.2	+0.3
Total		235,684	104.9	100.0	29.3	+0.3

Pharmaceuticals

- Skin-related slumped, including seasonal products (insect bites, athlete's foot remedy, vitamins, etc.)
- Growing demand for antipyretic analgesics
- Recovering trend in cold medicine and nutritional supplement drinks, which had been sluggish in FY5/21
- Impact of NHI price revision and reactionary increase in prescriptions YoY (→P14)

Cosmetics

- Strong sales of seasonal products in general cosmetics (antiperspirant, UV, etc.)
- Traded cosmetics are almost the same as FY5/21

*For YoY change, refer to former revenue recognition standards (estimated base) excluding Drug Eleven on page 13

Please see page 12. The results by product group.

The Group's total figures are as shown here. For details, I would like to explain the figures on the next page, which are based on the old standards, excluding Drug Eleven.

Results by Product Group (First Quarter) *Excludes Drug Eleven

*Including mail-order sales (millions of yen / %)

		Net Sales			Gross profit margin	
			YoY	Share		YoY
Products	Pharmaceuticals	47,169	105.3	21.1	41.3	(0.3)
	Prescriptions	23,744	112.6	10.6	36.2	(1.3)
	OTC	23,424	98.7	10.5	46.4	+1.1
	Cosmetics	32,296	99.5	14.4	32.4	(1.4)
	Misc. daily necessities	62,244	95.8	27.8	29.4	+2.1
	Foods	54,881	103.5	24.5	15.5	+0.6
	Other	26,178	92.1	11.7	32.3	(0.5)
	Products total	222,771	99.6	99.6	29.2	+0.3
	Total	223,892	99.7	100.0	29.3	+0.3

Estimate based on former standards

	Former standards		
	Net Sales YoY	GPM	Share of total products
Pharmaceuticals	105.6	41.5	(0.1)
Prescriptions	112.6	36.2	(1.3)
OTC	99.5	46.9	+1.6
Cosmetics	101.9	33.9	+0.1
Misc. daily necessities	99.9	28.6	+1.3
Foods	107.4	14.8	(0.1)
Other	95.5	33.0	+0.2
Products total	102.5	29.1	+0.2

Details of "Other" product group

	Net sales *POS basis		
		YoY	Share of total products
Health foods	9,002	105.0	3.8
Healthcare products/nursing care	14,107	84.6	5.9
Childcare products	5,480	96.3	2.3

Please see page 13. The figures shown on the right side of this page are based on the old standards, excluding Drug Eleven. Therefore, the figures on the right-hand side are the YoY figures representing the actual situation of the 6 existing companies as I mentioned earlier. I will explain according to these figures.

The first is pharmaceuticals. Prescriptions showed a high growth in reaction to last year's suppression of medical examinations. The gross profit margin of the prescriptions is negative due to the NHI price revision, but we expect it to recover at the end of Q2 when the NHI price negotiations are concluded.

As for OTC, skin-related products, including seasonal products, were slightly sluggish. These include treatments for insect bites, athlete's foot, and vitamin preparations. In addition, the demand for antipyretic analgesics has increased along with vaccinations. This is a plus. In addition, sales of cold medicine and nutritional supplement drinks, which were sluggish in the previous year, are gradually recovering.

In cosmetics, sales of general cosmetics, seasonal products such as antiperspirants and UV-related products were strong. On the other hand, sales of directly traded cosmetics were almost unchanged from the previous year. The overall trend is that we have not yet recovered to the pre-COVID-19 level.

As for daily necessities, there was a very large increase due to stay-at-home demand last year, so the figure is almost flat compared to last year.

As for food products, they likewise showed high growth due to stay-at-home demand last year, and even higher growth is expected this year. The demand for alcoholic beverages and sweets is still strong.

As for other categories, the growth of hand soap and other coronavirus countermeasure products has slowed down, resulting in a negative growth compared to last year.

Dispensing Division Results

FY5/22 *1Q of FY5/21: Drug Eleven (non-consolidated) (millions of yen / %)

	Consolidated			Excluding Drug Eleven	
	FY5/21	Results	YoY	FY5/22	YoY
Dispensing remuneration (millions of JPY)	21,090	24,296	115.2	23,744	112.6
Gross profit margin (%)	37.5	36.3	(1.2)	36.2	(1.3)
Prescriptions filled (thousands)	1,939	2,328	120.1	2,253	116.2
Unit price (JPY)	10,875	10,436	96.0	10,538	96.9

- **The NHI price revision on April 2022 affected the GPM**
- **Prescription volume rose (Dispensing pharmacy openings + rebound previous year's restraint on medical visits)**

Dispensing Pharmacies by Operating Company

	End of FY5/21	End of 1Q	(details)	
			Attached	independent
Tsuruha	310	315	275	40
Kusurino Fukutaro	104	109	51	58
TGN	103	103	81	22
Lady Drug Store	55	56	32	24
Kyorindo	67	68	55	13
B&D	24	25	19	6
JR Kyushu Drug Eleven	20	20	10	10
Total for Japan	683	696	523	173

Page 14, please. This is the result of the dispensing division.

As I explained earlier, I will spare you the details of this figure, but the number of prescriptions filed showed a high growth in reaction to the suppression of medical examinations.

The number of dispensing pharmacies by operating company is shown in the figures on the right for your reference.

PB Products Results (First Quarter)

*1Q of FY5/21: Drug Eleven (non-consolidated) (millions of yen / %)

	Net sales (million yen)				Share of sales (%) *Product sales excluding dispensing		Gross profit margin (%)
	FY5/21	Results	YoY	Results	YoY	Results	YoY
Kurashi Rhythm series	5,250	9,097	173.3	4.2	+1.6	46.8	+0.2
M's one / Medis' one	4,680	2,539	54.3	1.2	(1.1)	34.6	(5.6)
Subtotal	9,929	11,635	117.2	5.4	+0.5	44.2	+0.6
Exclusive products / Limited edition products	6,248	6,953	111.3	3.2	+0.1	42.6	(1.3)
Total	16,178	18,588	114.9	8.7	+0.7	43.6	(0.1)
*Excludes Drug Eleven	16,178	18,002	111.3	8.8	+0.8	43.2	(0.5)

- **Declining gross profit margin of masks has run its course**
- **Growing demand for antipyretic analgesics**
- **Declining product mix due to larger share of daily necessities and foods**

	SKUs			
	Kurashi Rhythm series	M's one / Medis' one	Exclusive products / Limited edition products	Total
Pharmaceuticals	107	30	615	752
Foods	72	8	177	257
Medical supplies	312	41	385	738
Childcare products	57	101	773	931
Cosmetics	203	57	121	381
Daily necessities	6	1	17	24
Total	757	238	2,088	3,083

- **Developing private brand products for Drug Eleven**
  - Kurashi Rhythm & M's one, total of about 560 SKUs

Please turn to the next page. PB product results.

In the current fiscal year, we will continue to make steady progress with the transition to our new brand, Kurashi Rhythm, and aim to increase PB sales and the PB ratio.

As shown in the table, PB sales in Q1 were JPY18.5 billion, up 14.9% YoY, and the PB composition ratio was 8.7%, up 0.7% YoY. This is a result of the steady progress of the project.

The number of SKUs for each product group is shown in the table on the right.

That is all from me in the first part of the explanation. President Tsuruha will continue to explain the initiatives and policies.

Full-Year Plan for FY5/21

*Drug Eleven 11.5 months included in FY5/21

(millions of yen / %)

	FY5/21		FY5/22		Estimate based on former standards		
	Results	Share	Forecast	Share	Forecast	Share	YoY
Net sales	919,303	100.0	956,000	100.0	975,700	100.0	106.1
Gross profit	266,721	29.0	286,500	30.0	287,700	29.5	107.9
SG&A expenses	218,344	23.7	235,300	24.6	236,500	24.2	108.3
Operating income	48,377	5.4	51,200	5.4	51,200	5.2	105.8
Ordinary income	47,708	5.5	51,367	5.4	51,367	5.3	107.7
Net income attributable to owners of the parent	26,318	3.3	28,280	3.0	28,280	2.9	107.6

Major effects of changes in revenue recognition standard

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

Tsuruha: Now, I would like to explain the initiatives and policies starting from page 16.

Let's turn to page 17. This is the full-year plan for the current fiscal year.

As we have already announced, net sales will be JPY956 billion and operating income will be JPY51.2 billion.

As we have explained earlier, the budget applies the change in revenue recognition standards from this fiscal year. Consignment sales and point giving will be mainly affected. Compared to the old standard, sales will be reduced by approximately 2%.

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

1H *Drug Eleven 3 months included in FY5/21 (millions of yen / %)

	FY5/21	Share	1H Forecast	Share	1H Plan (Estimate based on former standards)	Share	YoY
Net sales	453,492	100.0	472,000	100.0	481,600	100.0	106.2
Gross profit	131,633	29.0	140,300	29.7	140,900	29.3	107.0
SG&A expenses	103,634	22.9	115,700	24.5	116,300	24.1	112.2
Operating income	27,998	6.2	24,600	5.2	24,600	5.1	87.9
Ordinary income	28,330	6.2	24,777	5.2	24,777	5.1	87.5
Net income attributable to owners of the parent	16,587	3.7	14,300	3.0	14,300	3.0	86.2

2H *Drug Eleven 8.5 months included in FY5/21

	FY5/21	Share	2H Forecast	Share	2H Plan (Estimate based on former standards)	Share	YoY
Net sales	465,810	100.0	484,000	100.0	494,100	100.0	106.1
Gross profit	135,088	29.0	146,200	30.2	146,800	29.7	108.7
SG&A expenses	114,709	24.6	119,600	24.7	120,200	24.3	104.8
Operating income	20,378	4.4	26,600	5.5	26,600	5.4	130.5
Ordinary income	19,358	4.2	26,590	5.5	26,590	5.4	137.4
Net income attributable to owners of the parent	9,696	2.1	13,980	2.9	13,980	2.8	144.2

1H

- Hurdle of stay-at-home consumption of FY5/21

2H

- Impacts from weaker cold medicine sales from FY5/21 ended

Assumptions for existing store sales *Former standards

Stores open for 13 months or more・・・Full- year: +2.3

(H1: +0.4, H2: +4.3)

Please turn to page 18. This is a breakdown of the plan for H1 and H2 of the current fiscal year.

In H1 of the year, so-called anti-COVID-19 products such as masks and disinfectants sold very well last year, so there is a reaction to this. In addition, the backlash from the stay-at-home demand is also very significant.

On the other hand, in H2 of the year, last year's sluggish categories such as cold medicine will run their course. In addition, as we expect a certain amount of recovery in daily life due to the spread of vaccines, we are budgeting with a focus on H2.

Forecast of Store Openings and Closures for FY5/22

by Region

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

(Others: 4 franchise stores)

by Operating Company

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

Please turn to page 19. The plan for opening and closing stores is as shown here. The planned number of stores at the end of this fiscal year is 2,530.

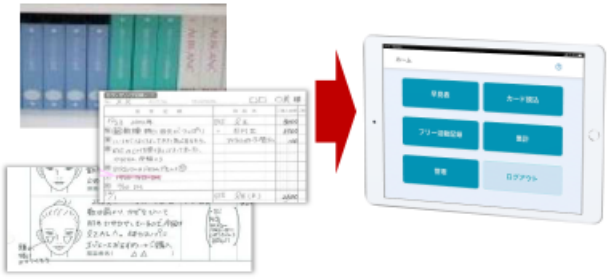
Digital Strategy

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

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

Leveraging Digital Cosmetics Ledger

Management **efficiency** and **unification of data**



Support system for shift creation

Expansion to operating companies

- **Lady Drug Store**...**Introduced in all stores** in October
- **Kusurino Fukutaro**...**Test operation started** in October

Developing pharmaceutical customer service products

Ready to start operations in 2H

- Supporting and training in **customer service and product knowledge**
- Promoting the **proper use** of pharmaceuticals

Page 20, please. This is about digital strategy.

First of all, the digital cosmetics ledger has been launched this fiscal year. Currently, about 200 stores in the Group have introduced this.

In the past few months since the introduction of the new system, we have been improving the so-called operational methods and the technical aspects of the system. Now that we are on track to expand the introduction of the system to a certain extent, we will proceed to introduce it to most of the Group's stores in H2 of the fiscal year.

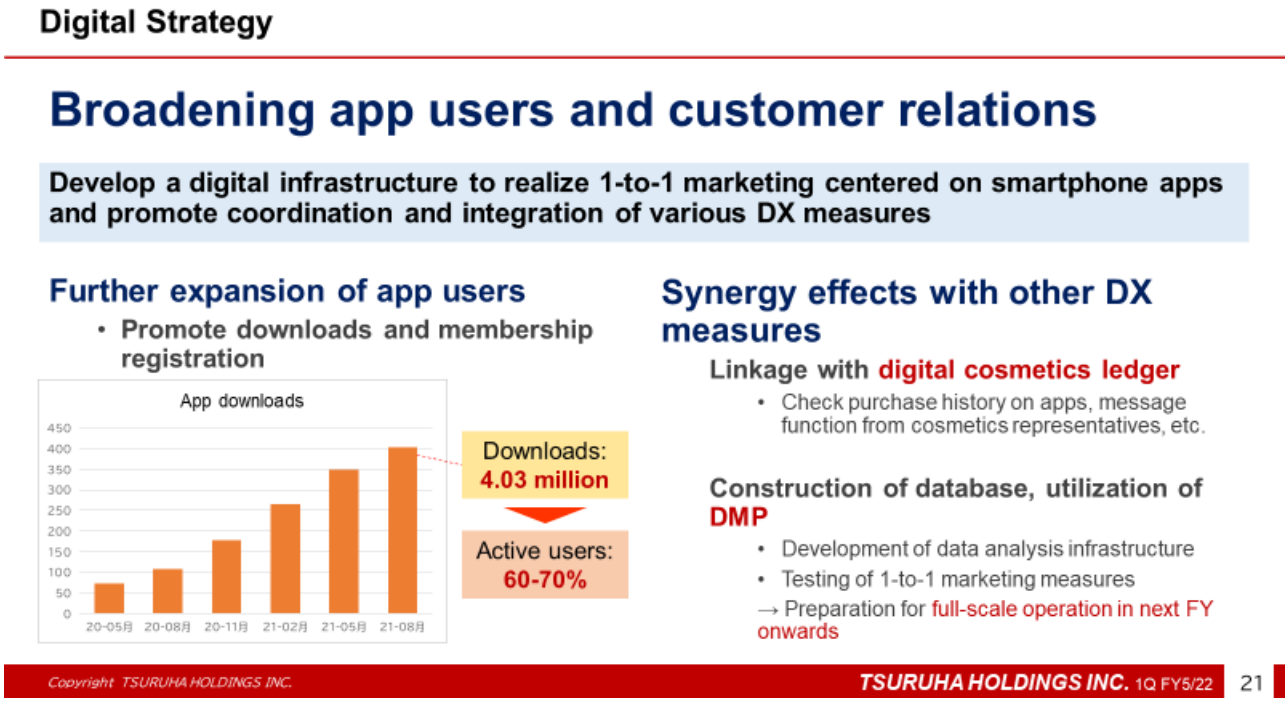
The digital cosmetics ledger is expected to reduce the time required for cosmetics staff to work on the ledger, and will also enable the use of all customer purchase data to be linked to the ledger. In addition, it will be possible to more accurately understand the usage cycle of the products used by the customers and make suggestions accordingly. It is also expected that employees other than those in charge of cosmetics will be able to browse the ledger more easily and respond to customers more easily by using this electronic ledger.

This support system for shift creation has been introduced at TSURUHA CO., LTD. In the future, we will begin introducing the system to our operating companies, Lady Drug Store and Fukutaro.

The support system for shift creation will shorten shift creation time, optimize overtime hours for employees, work hours for part-time workers and visualize man-hour. It will be possible to improve disparities among stores and manage personnel on a daily basis instead of monthly management. These effects have been achieved, and we hope to achieve the same effects at the companies introducing the system.

We are also developing a new tool for customer service for pharmaceutical products called Health Navigation, which we plan to start using in November. This is a tool that uses iPads in the store to exchange questions between the employee and the customer, and by selecting various charts on the iPad, the employee can introduce the appropriate medicine for the symptoms.

The introduction of this system will improve the customer service skills of employees who are not confident in their ability to sell, as well as new employees. In addition, we believe that the system will be effective in complying with the Pharmaceutical and Medical Device Act, since it will also show on the screen the so-called confirmation items that must be complied with in the sale of pharmaceuticals.



Please turn to page 21. This is also about digitalization. We are promoting the download of the smartphone app membership.

As of August 15, we had 4.03 million downloads, as described in this document. The most recent figure I heard earlier is about 4.4 million downloads. We will continue to promote this.

We are also continuing to test toward 1-to-1 marketing. For H2 of the fiscal year, we are experimenting with a number of measures manually, and we are starting to experiment with so-called automation and full-scale implementation from the next fiscal year.

Private Brand Strategy

Development expansion with a focus on Kurashi Rhythm

Promote product development and sales by leveraging scale merits with a focus on the Kurashi Rhythm series and Tsuruha Group Shared Brand

Further expand product lineup

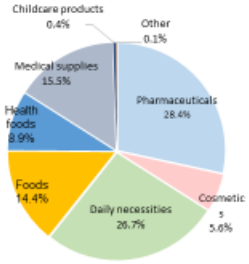
Kurashi Rhythm: End of 1Q **757** SKUs
→Target: End of 5/22 **850** SKUs

- **Strategically priced products** to combat national brands
- **Unique (only-one) products** with exceptional quality

Expand sales using recommendations and proposal strengths

All PB sales: **17.7** billion yen in 1Q
→FY Target: **70** billion yen

PB Products
Breakdown by Product Category (%)



- GPM of total PB pushed up due to high ratio of pharmaceuticals
- PB products contributed to GPM in each product group

Please turn to page 22. This is a private brand strategy.

We will expand our business with a focus on the Kurashi Rhythm brand of the TSURUHA Group. Our plan for the end of this fiscal year is to develop 850 SKUs under the Kurashi Rhythm brand.

As for PB as a whole, we will work toward our sales target of JPY70 billion.

Initiatives to Increase Convenience

Respond to new lifestyles

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

Introduce meats and fresh produce

Further expand stores carrying meats and fresh produce

- Stores introducing perishable foods: **801** at 1Q-end
- Of which, **637** stores introducing both meat and fresh produce
  → **900** at FY-end

Introduce 100-yen products

Introduce at same time as renovations to existing stores

- **16** stores at 1Q-end (Tsuruha, TGN) → **59** stores to be introduced during FY5/22

Please turn to page 23.

As part of our efforts to improve convenience, we are continuing to introduce meats and fresh produce this fiscal year. The number of customers has increased by about 105% to 110% since the introduction.

We are also speeding up the introduction of JPY100 products this fiscal year. The number of customers increased by about 110% after the introduction of this introduction, so we would like to contribute to increasing the number of customers by introducing this kind of fresh food and JPY100 products.

We will continue to work on ways to improve the convenience of this one-stop shopping.

Initiatives to Increase Convenience

Respond to new lifestyles

Growing sales channels in the stay-home environment in light of the expanding market for e-commerce and delivery in the midst of the COVID-19 pandemic

E-commerce growth

Expansion of EC distribution center

- **Kanto distribution center** (converted from a closed store)

Ready to start operations in 2H

Linkage with CRM systems

- Real-time networking of point granting and use

Use of delivery services

Partnerships and participating

- Operating at **22** stores of TSURUHA

Wolt foodpanda

Starting delivery of pharmaceuticals

- Approx. 100 products including **cold medicine** and **eye drops** (2 stores in Sapporo)

Please turn to page 24.

We will be launching our new ecommerce base, the Kanto Shipping Center, in November, which has been a little behind schedule. By doing so, we will first aim to increase our current shipping capacity and reduce our shipping costs.

Also, on the right, we are currently experimenting with delivery services such as Wolt and foodpanda. The number of stores that support these services is still very small, so we haven't seen any significant results yet, but we would like to continue researching this kind of service in order to respond to the new purchasing styles of our customers.

Other Initiatives

Dispensing Business Strategy

Promote new openings of attached pharmacies and expand share of sales

Promote new store openings

- New dispensing pharmacies in 1Q: **19 stores**
  →FY target: 91 stores

Collaboration with online medical services

- Available at about 100 stores in Hokkaido.

PMI of Drug Eleven

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

Increase competitiveness of existing stores

- **5 stores** renovated, including **introduction of food products** in 1Q
- Plan to **close stores** for **S&B** (in 2H)

[Drug Eleven results and Reference of 5/21] (millions of yen / %)

	2Q of 5/21 (6/1~8/31)	Share	1Q of 5/22 (5/16~8/15) *Former standards	Share	1Q of 5/22÷2Q of 5/21	Note
Net sales	12,946	100.0	11,942	100.0	92.2	Rebound from special demand in 1Q of FY5/21
Gross profit	3,575	27.6	3,438	28.8	96.2	Synergies from introducing private brand products and integrating procurement, etc.
SG&A expenses	3,335	25.8	3,334	27.9	100.0	Renovating and closing costs remain flat
Net sales	240	1.9	104	0.9	43.5	
Total stores at period-end		204		196	96.1	

Please turn to page 25. This is the dispensing business strategy.

This fiscal year, we plan to open 91 pharmacies, more than in previous years. Currently, we have 19 pharmacies, and the pace of opening is proceeding as planned.

As for online medical treatment, we have started some experiments. We will continue to monitor trends and consider when to introduce the system in earnest.

In addition, the number of Drug Eleven stores has decreased slightly due to the closure and reorganization of loss-making stores and inbound stores. As a result, sales have been lower than the previous year.

However, with the introduction of group PB and group synergies such as the integration of procurement, the gross profit margin has been improving. In addition, there have been a few renovated stores that have introduced food products, and most of the stores have seen an increase in sales of about 120 after the renovation, so we are feeling the effect.

We will continue to revitalize these existing Drug Eleven stores through scrap-and-build or full renovation as planned.

Initiatives for Sustainability

Determining Materiality

[Organize and identify key issues into five materiality items]
Aiming to create a sustainable company and society as a starting point for all initiatives to improve corporate value

Bring Richness and Surplus to Customers' Lives

- Providing best services
- Supporting the beauty and health of all customers
- Launching products contributing to a healthy and enriched lifestyle
- Increasing customers' life-span by providing healthcare services
- Playing an essential role as a lifeline for local customers

Provide Comfortable and Rewarding Work Environment for Each Individual.

- Creating a work-life balanced environment where workers of all ages, nationalities, and genders are welcome and rewarded
- Establishing a workplace to cultivate human resources
- Valuing the health of employees

Create Global Environment for Next Generation

- Reducing the environmental impact toward a carbon-free society
- Switching to and introducing environmentally friendly products
- Minimizing waste

Collaborate with Business Partners

- Working to strengthen ongoing collaboration through fair trade
- Driving sustainability throughout supply chains (Compliance)

Drive Governance

- Implementing an effective governance system and risk management
- Disclosing timely and reliable information

Please turn to page 26.

This is a description of the materialities or important issues for the TSURUHA Group, which were released on September 7. We will continue our efforts to promote sustainability based on our management philosophy, "We bring richness and surplus to customers' lives."

We are currently in the process of discussing the KPIs required for each of these items internally. We will disclose this information as soon as it is decided.

Initiatives for Sustainability

Recent and future initiatives

Reduction of CO_2 emissions by reducing plastic bags

[One year since July 2020]

Reduction of approx. 340 million plastic bags

- Decline rate of plastic bags in stores: 82%

Equivalent to CO_2 reduction of approx. 20,740 tons

Solar power generation system for own use

Installation of a solar power generation system on the roof of stores
→Reduce CO_2 emissions by allocating electricity for own use in stores

To be installed in 23 stores (planned for 2H)

Pharmaceutical distribution optimization model

Reviewing the frequency of drug deliveries to dispensing pharmacies in collaboration with pharmaceutical wholesalers
→To reduce CO_2 emissions in the distribution category

Have conducted at all TSURUHA dispensing pharmacies

Please turn to page 27.

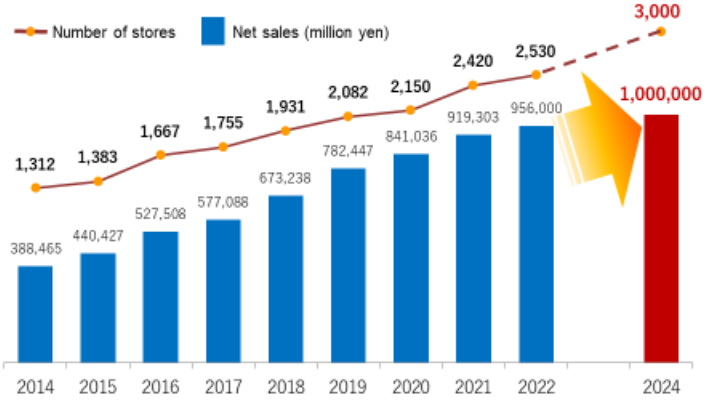
This is an example of our efforts to promote sustainability as I mentioned. In addition to reducing CO2 emissions by reducing the use of plastic bags, we have started to install solar power generation systems in our stores this fiscal year. We have also mentioned here the reduction in the number of deliveries.

Mid-Term Targets

Target for FY5/24

Stores: **3,000**

Net sales: JPY **1** trillion



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

Page 28.

Last but not least, we will continue to make management efforts to achieve our ongoing mid-term targets of JPY1 trillion in sales and 3,000 stores by the fiscal year ending May 2024.

We appreciate your continued support.

This concludes my explanation. Thank you very much.

Question & Answer

Yamazaki: Thank you very much. We will now move on to the question-and-answer session.

Please go ahead.

Questioner A: Yes. Thank you for your explanation. Let me ask you 2 main questions.

The first is the usual question. What is the operating margin by region?

The second question. There has been a lot of talk about the soaring cost of raw materials, which may not be relevant to drugstores. Your company also deals in food products. There have been various discussions about raising prices, and 3 months ago, I think President Tsuruha told us that the competitive environment would worsen in the closing of accounts, and that he was quite worried, or rather, that your company would have to compete.

3 months have passed since then, and I would like to know what you think about the external environment, such as the competitive environment or, conversely, the pressure of rising costs, which may work to your advantage. Thank you in advance.

Yamazaki: Thank you very much. I'll start with the data first. The figures for each of the operating companies are in the brief summary, so I will skip them. The operating profit margin by region of TSURUHA is as follows.

This is on the basis excluding the new stores. In the Hokkaido region, the rate of sales has increased from 9.6% in the previous fiscal year to 8.4% in the current fiscal year. In the Tohoku region, the rate was 7.2% in the previous fiscal year and 5% in the current fiscal year, and in the Kanto-Koshinetsu region, the rate was 6.8% in the previous fiscal year and 4.2% in the current fiscal year. In the Chubu-Kansai region, the rate was negative 6% in the previous fiscal year and negative 4.6% in the current fiscal year. That's all.

Tsuruha: I will now give you the second answer. As for your question about competition, as I mentioned before, we are aware that price competition is still continuing in areas where drugstore companies are newly opening stores, especially in the northern Kanto region.

On the other hand, although the selling prices of SM companies vary depending on the Company, I am aware that price competition in the COVID-19 pandemic in general has calmed down a bit since last year.

It's a price competition in regions where we compete with so-called discount drug stores. As I have said before, we will look at each store in detail and compete with those stores that we really need to compete with.

Of course, we don't deal with all products, and our business structure is different from that of the discount type, so we will compete in the major areas that affect our customers, but we have to be very careful about the balance.

I hope this answers your question.

Questioner A: I'm sorry, as for the other thing about the manufacturer's price increase, in general, I think that a company as large as yours would have a relative advantage even if the manufacturer raises its prices.

Tsuruha: Do you mean a price increase in raw materials or something like that?

Questioner A: Price increases of raw materials and processed foods from manufacturers.

Tsuruha: I think we will have to look at the fair prices around us to determine if we have the advantage or not.

Questioner A: Is it safe to say that you're not too worried about it right now?

Tsuruha: We don't see any significant impact on sales.

Questioner A: Understood. Thank you.

Yamazaki: Yes. Thank you. Next question, please.

Questioner B: Thank you.

I have 3 questions. The first one is about sales trends.

As for cosmetics, the situation of COVID-19 is still continuing, and people are wearing masks all the time, so even if economic activities continue to return, I think there is a feeling that the directly traded cosmetics will not be revived so easily. Looking ahead to H2 of the fiscal year and the next fiscal year, we can think of various ways in which the economy will resume after COVID-19. For example, do you think that it will take a long time for cosmetics to grow, or do you think that food products will unexpectedly continue to maintain this sales trend? Roughly, how do you see future trends by product?

In H2 of the year, of course, the hurdle will be lowered, but I think you have set a higher sales forecast than in H1, so please tell us about the sales trend.

The second is about the digital strategy.

I've heard about various other companies that have partnered with your company, and I can see that you are putting a lot of effort into digital. For example, you have talked about the digital cosmetics ledger and 1-to-1 marketing using smartphones. I want to know your expectation level about what kind of initiatives you have the most response or feel the possibility. Please tell us if you have any particular response to this area.

Thirdly, I would like to reconfirm my understanding that the gross profit margin in the survey is provisional and will be adjusted retroactively, so the gross profit margin will return further in Q2. Is this correct? These are the 3 points.

Tsuruha: Thank you. Now, let me give you my answer.

As for your first question about future trends by product, as you mentioned, the situation in the cosmetics business has not recovered as much as we had expected.

However, although we divide our sales into directly traded cosmetics and general cosmetics, the sales of general cosmetics exceeded the previous year's level, both in the market and for us, and so-called Korean cosmetics, which are currently in vogue, and other cosmetics-related products are selling very well.

In terms of directly traded cosmetics, each company is probably having a hard time. As I have always said, we have been focusing on counseling cosmetics for a long time, and I feel that we were able to hold on quite well last year despite the difficulties faced by everyone else. As I mentioned about the ledger, we have customers and clients, and I feel that we can show our strength in this area while everyone else is struggling, so I am still interested in this area.

Also, regarding food and daily necessities, as you mentioned, we had expected that we would struggle this year due to the backlash from last year's considerable growth, but both food products and daily necessities have continued to perform well. Of course, there has been a series of emergency declarations throughout this year, but I feel that to some extent, our customers have been able to settle into their lives.

This is how I see the product trend. Is it alright with you?

Questioner B: For H2 of the year, of course, I think the hurdle is low. As for the top plan, do you have confidence that you can do it if you continue in your current natural state? I feel that it will be difficult unless you see another gradual recovery. What do you think about this?

Tsuruha: In H2, sales of cold medicine and other products that were sluggish last year will have run their course. Naturally, compared to last year, the sales growth of existing stores is planned to be about 4%. We expect sales to recover more than last year. We expect that the dispensing business will also grow more than last year.

The second point is the response to DX.

This is also about cosmetics, but as for the ledger I just explained, I think that there are probably not many drugstores that manage a cosmetics ledger to this extent. I believe that the ledger, which manages not only customer POS data but also customers, is our major weapon. By integrating POS, we believe that we can provide very useful information and promote sales to our customers.

Actually, there are a lot of stores that keep ledgers of their customers, their customer management, and even their pharmaceutical products, so if we can successfully integrate those things into this DX, it will be a unique advantage. I have such an expectation.

Murakami: Next, regarding the third question.

As for the gross profit margin of dispensing, you are right. The gross profit margin is currently about 1% lower than last year, but we will probably conclude the negotiation by Q2, on November 15, so we expect the gross profit margin in this area to recover when the NHI price margins return. That is all.

Questioner B: Excuse me. As for the dispensing part, there has been a lot of talk about the shortage of generic shipments, so if we look at the rate alone, should we consider the risk that the return will not be that large?

Tsuruha: I know that there have been reports about this, but we are planning so that there will be no impact.

Questioner B: Thank you very much.

Yamazaki: Thank you very much. Next question, please.

Questioner C: I have 1 question. Aeon Chairman Motoya Okada stepped down at the annual shareholders' meeting in August. We have been told that this is to strengthen governance.

I'm wondering if there is a part where the relationship with Aeon hasn't been seen recently. President Tsuruha, could you explain what kind of relationship you would like to have with Aeon in the future?

Tsuruha: As for our relationship with Aeon, it is the same as before. Currently, as a member of HapYcom, we are offering HapYcom products, and we are also participating in the exchange of information on educational organizations and other such activities as usual. I think the relationship will continue to be the same. That's all.

Questioner C: I see. In the case of Welcia, they have been adding Origin Bento to their stores as part of their efforts to strengthen their food products, but is it correct to say that the relationship with Aeon will remain unchanged and that you are not taking any action to deepen the relationship?

Tsuruha: We will continue to have conversations with Aeon in various aspects as we have in the past, so if there are things that we can do together, if necessary, we will do them, and we will continue to discuss them as we have in the past. That's all.

Questioner C: I understand. Thank you very much.

Yamazaki: Thank you very much. Next question. Please.

Questioner D: Thank you. I have 2 questions.

The first point is about the results of Q1. I think there was an explanation, but I missed it, so I would like to confirm 1 point. As for the explanation of the gross profit margin, the YoY increase in daily necessities is quite large, but is this due to the low base of the previous year or something like that?

The second point is an additional confirmation on the convenience improvement initiative that you just mentioned in the latter half of the explanation. You said that the number of customers increased by about 105% to 110% with the introduction of meat and fresh produce, and about 110% with the introduction of JPY100 products, but is it true that the sales per customer has not changed much?

Also, is there any impact of the remodeled stores on profit growth?

In addition, I would like you to reiterate the medium-term plan for fresh food and stores introducing JPY100 products. At the last briefing, I think you said that you would continue to open about 100 to 200 stores of fresh food each fiscal year, but I would like to ask you again.

Tsuruha: Thank you very much.

The first is about the increase in the gross profit margin of daily necessities in Q1.

This one continues from the previous fiscal year, and our efforts with so-called manufacturers is also a gross profit measure in the JBP category. We have continued to implement these measures and, as in the previous year, thanks to the JBP, we have successfully implemented measures to premiumize and increase the volume of products. As a result, gross profits on daily necessities have been rising for the last few years

The second point is about JPY100 products and fresh food.

The number of merchants is naturally growing along with the number of customers. Therefore, the sales per customer itself is increasing. However, in terms of the unit price of products, there are still cheap products among JPY100 products, so those areas have declined, but the sales per customer have improved.

Regarding the future introduction of fresh food, as I have said every time, we would like to open about 100 stores every year while carefully monitoring the surrounding environment, but this will be done while carefully examining the problem of the floor space and the surrounding environment.

In terms of JPY100 products, they require a certain amount of floor space compared to fresh foods. Our standard format is at least 300 tsubo, or more. We will do it in such a format as putting in the products properly and then adding JPY100 products for the convenience of the customers.

To put it simply, we will only put them in large stores to some extent. That's all.

Questioner D: Thank you very much. Just to confirm, would it be correct to assume that the gross profit margin of daily necessities will continue to be the same in Q2 and beyond as you continue your efforts?

Tsuruha: That's right. Yes.

Questioner D: Okay, thank you very much.

Regarding fresh food and JPY100 products, has the renovation already had the effect of increasing profits?

Tsuruha: Yes.

Questioner D: So, does the 300 tsubo standard type already account for the majority of your stores? A large part? What is the percentage?

Tsuruha: I'm sorry, I don't have the ratio figures, but now the basic format for new stores is 300 tsubo. However, of course, we also use furnished stores, and there are naturally smaller stores in urban areas, but for now, we feel that our most standard format is around 300 tsubo.

However, again, if we want to provide more convenience and new things on the line, we will need a store of about 350 tsubo. In the future, I think that the trend will be for suburban stores to become slightly larger than 300 tsubo, or 350 if possible.

Questioner D: I see, understood. One last thing on strengthening foods.

Many drugstores listed on the stock exchange are trying to strengthen their food supply, including fresh foods, in a suburban or residential area with a floor space of 250 tsubo or 300 tsubo, and I think that KUSURI NO AOKI, Sugi Pharmacy, Create, and SUNDRUG are all doing the same. I would like to know if there is anything that makes your company different when it comes to strengthening food products, including fresh foods. Do you think that each company will be able to continue in this direction and still gain market share from SMs in the medium to long term? What is your medium-term outlook for this area?

Tsuruha: Thank you very much. As you mentioned, we believe that we have yet to fully differentiate our food products. However, our current thinking is that meats and fresh produce are only placed there for convenience, so even if they are somewhat the same as other drugstores, we believe that the first priority is to sell them to our customers in a safer and more secure manner at a fair price. In that sense, I believe that there are many areas where we have not been able to differentiate ourselves.

However, we have not been able to differentiate ourselves from other drugstores, so of course we feel that we will need to develop PB products and other such products in the future.

In addition, as for differentiation from SMs and gaining market share from SMs, I would like to reiterate that we have no intention of competing with SM's fresh food lineup, nor do we have the ability to compete with them. At this point, we would like to attract customers to our stores for the convenience and for fresh foods, and continue to offer health and beauty products, prescriptions, and daily necessities. That's all.

Questioner D: Thank you very much.

Yamazaki: Thank you very much. Next question, please.

Questioner E: I would like to ask for 2 brief additions.

First, I want to reconfirm the impact of the new revenue recognition standard.

I believe that in the plan for H1, the gross profit margin was expected to improve by about 0.4 points compared to the level before the change in standards, but in Q1, the improvement was only 0.1 points. So, I would like to ask again about the impact on gross profit margin in this Q2, whether there will be any change in the forecast or how we should look at it.

The second point. Also, as a supplement, I would like to reconfirm the gross profit margin for the dispensing division.

When I think about the previous year, there was also an impact by the revision, and a rather negative impact due to the lengthening of prescriptions, but what were the major influences behind the decline in gross profit this time? Also, there was a talk of a return in Q2, but when we think about the previous year, the improvement was quite large, so I would like to know how your company views the gross profit margin in Q2. Please.

Murakami: Thank you for your question.

The first question is about the revenue recognition standard, which is newly changed this time. On this basis, we forecast the gross profit margin for H1 and H2 at the beginning of the fiscal year.

As for our expectations for the H2 forecast in gross profit, at this point, also for H2, we will use the current trend and our assumptions to some extent. Based on the assumptions, we believe that gross profit growth will be in line with our forecast.

The second point is about the gross profit margin of dispensing division.

Again, there were various things that the supply side had not expected, including generics, but we have been negotiating with various alternative products even during the COVID-19 pandemic, and we have almost reached an agreement on the amount of money. The final decision will probably be made in another month or 2 months. We do not disclose how much will be returned in Q2, so I will not give you a figure, but I think we will be able to return a figure that will almost make up for the current negative gross profit.

From H2 of the fiscal year onward, the gross profit will naturally be based on what is returned here, and it will also depend on factors such as pediatrics and whether or not very high-priced drugs are included. These factors will change the gross profit.

The last point is that NHI drug prices will be revised every year from now on, and to some extent we have estimated and incorporated the rate of revision for the period after April 1 next year into our forecast. That's all.

Questioner E: Thank you very much. Just to confirm one thing, what is the overall impact of the revenue recognition standard in this H1? Since there was not much change at the start, should we expect Q2 to be the same, or should we expect to see more of a difference in Q2?

Murakami: In that sense, there is an impact as a matter of fact, but in terms of the total amount of gross profit, there is not that much of an impact. However, if you look at the figures we explained this time, the amount of sales will change, so there will be a change with the ratio.

In H1 of the fiscal year, as I mentioned at the beginning, the total gross profit was almost in line with the plan.

At the moment, we are expecting that it will be in line with the plan. Does that answer your question?

Questioner E: I understand. Thank you.

Yamazaki: Thank you very much. The time has passed, so we will conclude the question-and-answer session here. Thank you for your questions.

This concludes the financial results briefing for Q1 of the fiscal year ending May 2022 of TSURUHA HOLDINGS INC. Thank you very much.

Tsuruha: Thank you very much.

[END]

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