

MARGIN OF SAFETY

BALANCE OF POWER

MANAGEMENT ANALYSIS



# “AGGRESSIVE” IR AS NO.1 DRUGSTORE IN JAPAN

**MARCH 2022**

**STRICTLY PRIVATE AND CONFIDENTIAL**

# KEY MESSAGE



- Through the merger of the former Matsukiyo and Cocokara, your company has achieved the No. 1 position in the drugstore industry, both in name and reality, where economies of scale are at work.
- Despite this, the stock market valuation is lackluster. What are your company's strengths? What is the push? How do we show it? It is essential to differentiate materials and attitude from those of other companies in the industry.
- The next phase of integration will unfold between listed companies. The higher your stock price is, the more advantageous position you will get in.
- Now is the best time to lead the industry, integrating best-in-class IR and capital market measures of blue-chip companies including other industries.

Stronger push to become  
**“Asia’s No. 1 health and beauty company”**

# UNDERVALUED IN THE INDUSTRY



- Though market capitalization is within the Top 3, still in undervalued.
- Capital efficiency sits in the lowest, and "market participants" do not believe in the 7% OPM target.

	Revenue (Yen bn)	OPM	Equity Ratio	Market Cap (Yen bn)	ROA	ROE	PER	PBR	Dividend Yield
<b>3088 MatsukiyoCocokara</b>	<b>556.9</b>	<b>5.7%</b>	<b>71.0%</b>	<b>615.8</b>	<b>6.0%</b>	<b>9.5%</b>	<b>14.2x</b>	<b>1.3x</b>	<b>1.6%</b>
3141 Welcia	949.7	4.5%	44.6%	634.7	6.8%	16.4%	23.5x	3.3x	1.0%
3349 COSMOS	726.4	4.6%	52.0%	643.9	8.2%	17.2%	25.8x	3.6x	0.5%
3391 Tsuruha	919.3	5.3%	53.6%	455.4	5.5%	12.0%	16.1x	1.8x	1.8%
7649 Sugi	602.5	5.6%	62.9%	404.3	6.4%	11.1%	22.1x	1.9x	1.2%
9989 Sundrug	634.3	5.9%	67.0%	360.1	8.5%	12.7%	14.0x	1.7x	2.3%
Peer Average	766.4	5.2%	56.0%	499.7	7.1%	13.9%	20.3x	2.4x	1.4%
Peer Median	726.4	5.3%	53.6%	455.4	6.8%	12.7%	22.1x	1.9x	1.2%

**Less than PER 25x does not assure ACCRETIVE acquisition!**

In addition, according to the formula...

$$PER = \frac{1}{\text{Cost of Equity} - PGR}$$

PER	Theoretical cost of capital <sup>6</sup>	Implied growth rate
14x	5.4%	-1.7%
<b>25x</b>	<b>5.4%</b>	<b>+1.4%</b>

#1 in the industry  
seen as negative  
growth...

1. market information is as of 3/2/2022 2. PL information is actual results for the previous fiscal year 3. BS information is recent quarterly results 4. sales and dividend is company forecast 5. MK = former Matsukiyo, MC = Matsukiyo Cocokara

6. zero debt cost due to net cash, risk free rate 1.0%, Beta 0.74, equity market risk premium 6.0%.

# SUGGESTIONS FOR IMPROVING IR MATERIALS



- Listed high priorities that needed improvement. True intrinsic value can be conveyed more effectively with some ingenuity.

Need of improvement	Ideal picture
<ul style="list-style-type: none"> <li>• Roadmap towards integration and synergy realization</li> </ul>	<ul style="list-style-type: none"> <li>• Better to show what will change as a result of the integration and what synergies will be realized, even if it cannot be quantified, a qualitative explanation/story is acceptable. A timeline is even better</li> <li>• Even if you can't reveal everything now, show a single picture of when and what you are going to do</li> </ul>
<ul style="list-style-type: none"> <li>• Matsukiyo and Cocokara are separated</li> </ul>	<ul style="list-style-type: none"> <li>• No problem with separate financials and KPIs, and if so, clearly guide sections</li> <li>• Appeal a sense of unity as an integrated company</li> </ul>
<ul style="list-style-type: none"> <li>• Cocokara-style is more organized and effective</li> </ul>	<ul style="list-style-type: none"> <li>• Integrate the IR teams to combine the best practice of each former company</li> </ul>
<ul style="list-style-type: none"> <li>• Weak push of unique strength</li> </ul>	<ul style="list-style-type: none"> <li>• Emphasize the benefits of having Cocokara's customer base on the PB and One to One marketing platform, which are Matsukiyo's strengths, as well as economies of scale in terms of procurement</li> </ul>
<ul style="list-style-type: none"> <li>• Presentation of BS Management and Shareholder Returns</li> </ul>	<ul style="list-style-type: none"> <li>• Introduction of DOE, based on less volatile business characteristics, use of cash, BS management... etc., refer to advanced examples in other industries</li> </ul>

# ROADMAP TOWARDS INTEGRATION (I)

- Integration roadmap (timing and items to be accomplished) should be clearly stated to give investors an idea of the timing. Undetermined items can be updated in each earnings call.

**Image of achieving management targets**

We aim to achieve our management targets based on the two axes of group growth and the realization of the federation concept.

**Group Management Targets** for the Fiscal Year Ending March 31, 2026

The Group aims to achieve the following sales and profits in order to become Asia's No.1 drugstore and establish a leading position in the health and beauty fields.

Group net sales **1.5** trillion yen  
Operating profit margin **7.0%**

Federations (M&As and new alliances)

Management integration with "Matsumotokiyoshi Holdings, Inc"

**Make synergies from business integration realized**

- **Synergy effects through unification MD after capital alliance**  
Annualized profit improvement of approx. 8 billion yen by integration
- **Improve operating income by ¥ 30 billion in three years after the integration**  
Synergistic profits at **¥ 20 billion in total**

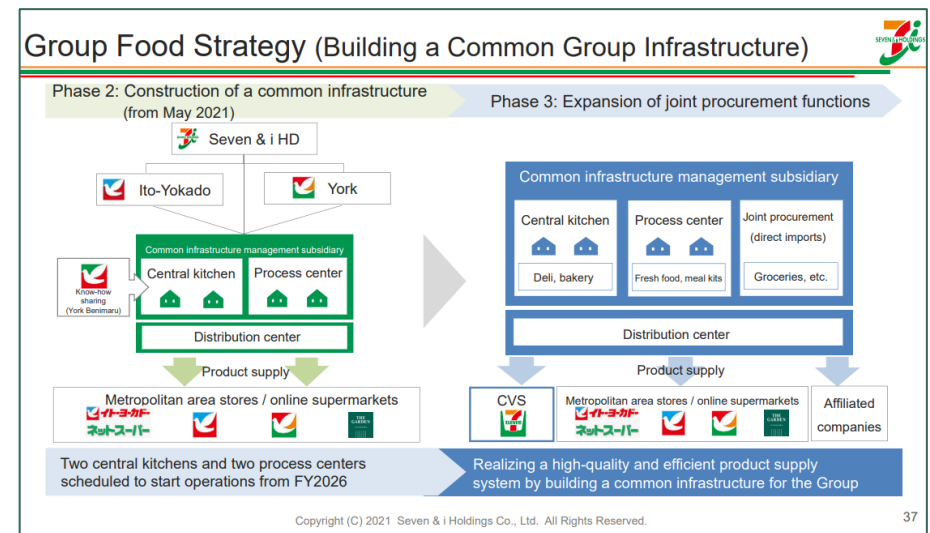
Synergy from unification MD: **¥ 8 billion synergy**

Oct. 2021 Integration

First year integration: **¥ 20 billion synergy in total**

Three years: **¥ 30 billion synergy in total**

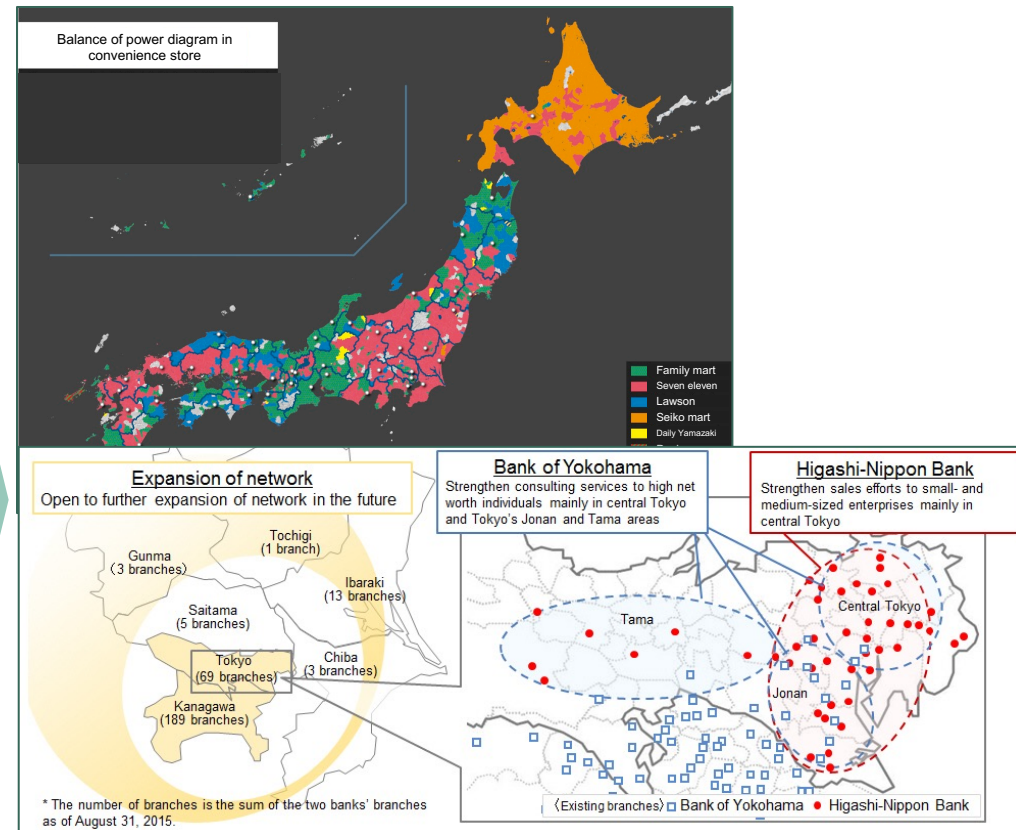
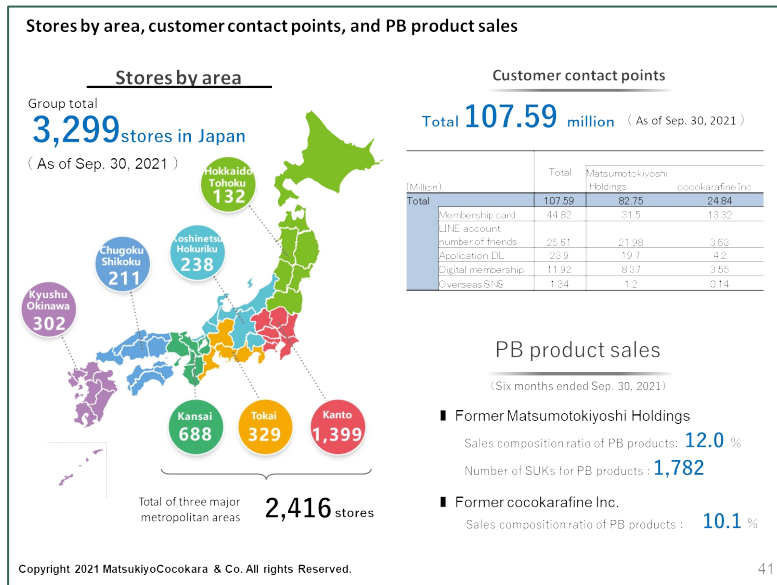
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# ROADMAP TOWARDS INTEGRATION (2)



- Expansion of the store network is one of the obvious advantages after the integration of two brands. Strategy can be vividly visualized by two-color plotting on remarkable areas alone.
- Stronger in urban areas → revolving (not sticky) customer base → unique strength in digital marketing makes the difference... more appealing equity story.

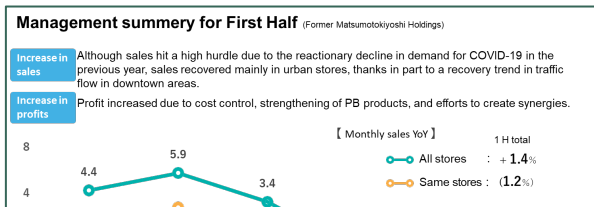


# DIVIDED MATSUKIYO AND COCOKARA



- Lay out 1) company-wide results and strategy 2) aggregated KPIs of Matsukiyo and Cocokara 3) separated strategy of two different brands in more easy-to-understand manner.

Management summary for First Half / Management policies for Second Half — P.3 ~ P.6  
 Summary for First Half Results of former cocokarafine Inc. — P.7 ~ P.9  
 Operating results for First Half / Forecasts for FY2021 — P.10 ~ P.21



## Summary of First Half Results (Former cocokarafine Inc.)

### Net sales

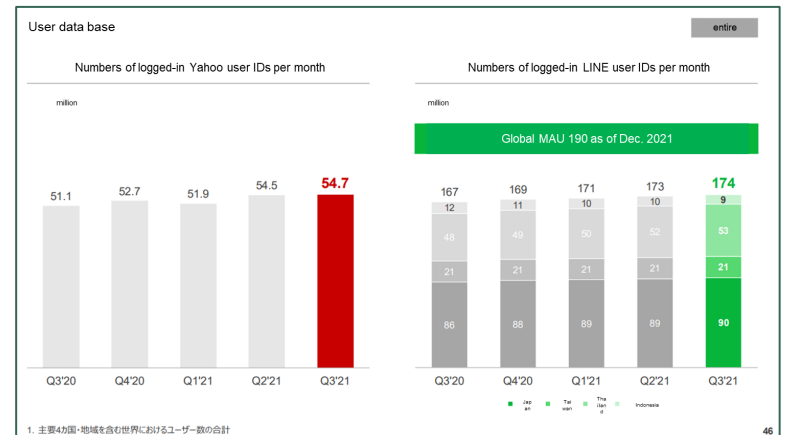
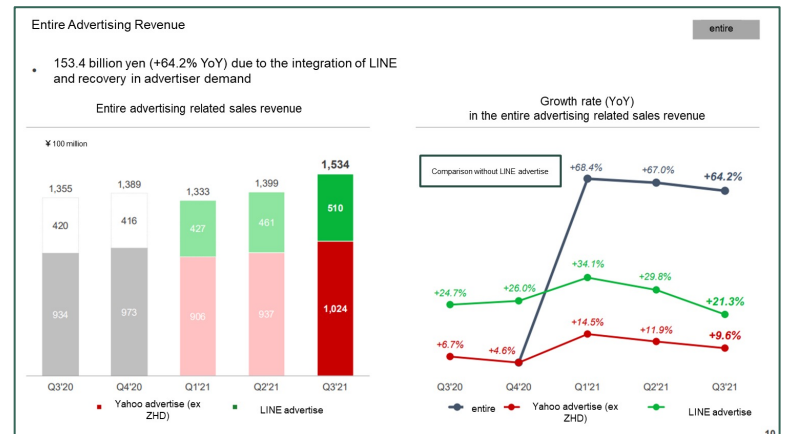
- **Same stores struggled** due to the prolonged impact of COVID-19.
- Net sales decreased by approximately 10 billion yen due to **the impact of approximately 14 billion yen decrease in sales in the wholesale business.**
- **Net sales in the core drugstore and pharmacy business were 102.1% of year on year** due to M&As and new store openings in the pharmacy business.

### Gross profit

- Gross profit margin improved by 3.8 points.
- **Gross profit margin in the drugstore business improved by 1.2 points.**
- **Improvement in the profit mix** due to a lower sales mix in the wholesale business and an higher sales mix in the dispensing business

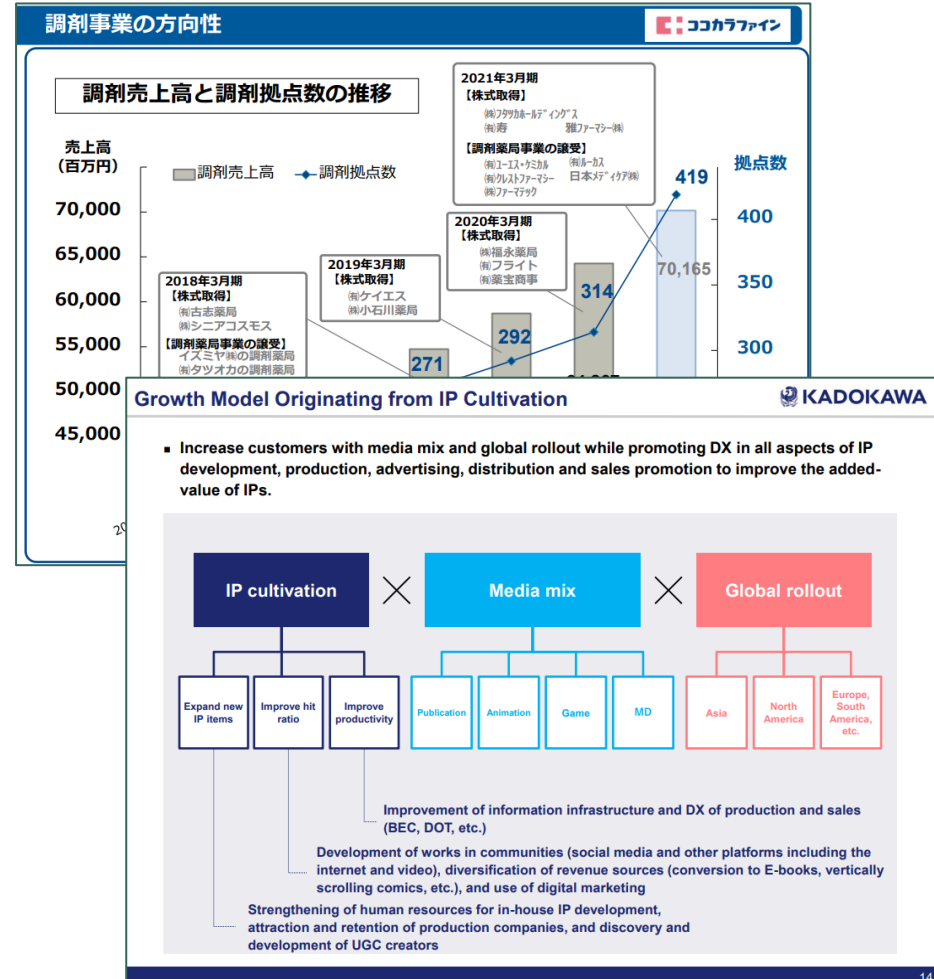
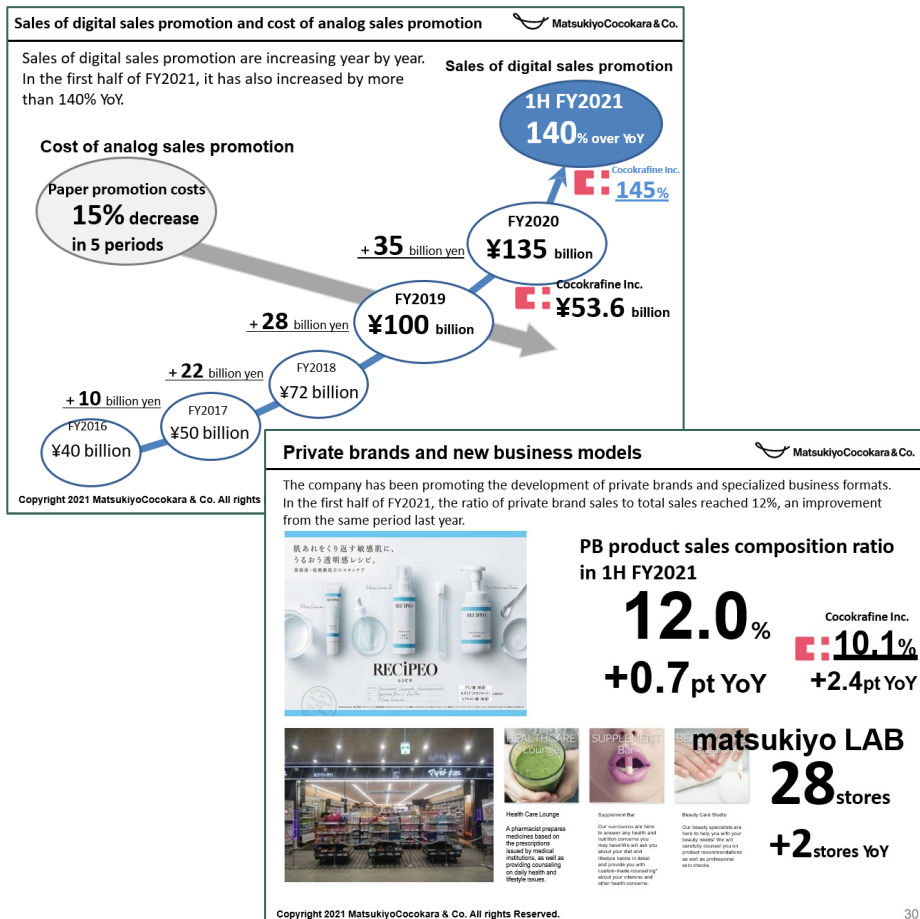
### SG&A

- **Reduction of SG&A expenses by approximately 2.1 billion yen compared to the plan** by improving store operation efficiency and controlling expenses within COVID-19



# MORE ORGANIZED EYE-CATCH

- Matsukiyo-style? has dynamic features, but somewhat difficult to see as a way of presenting data points. Visual images and data/charts should be separated.





# UNIQUE POINTS OF DIFFERENTIATION



- Further promotion of data-driven merchandising, digital transformation, and I-to-I marketing as strengths that are ahead of other drugstores, and can show even higher potential for growth.
- Unique strengths such as reduced flyer costs through LINE digital membership, targeted advertising, and use of customer data are points that could be more appealing.

**Membership size and composition** MatsukiyoCocokara & Co.

The growth rate of digital members is higher than card members.  
The increase in the composition of digital members has led to an increase in the unit purchase price.

**Total number of contact points for members** **82.75 million** as of the end of Sep. 2021

Cocokrafine Inc. **24.74 million**

**Point card members** **31.5 million**

Cocokrafine Inc. **13.25 million**


**Digital members** **106% YoY**

- Digital members composition is increasing
- The purchase amount increases to about 110% when the point card member becomes a digital member

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**National brand marketing (advertising business)** MatsukiyoCocokara & Co.

The company is engaged in the ad serving business for maker brands.  
Both the number of transactions and sales have been growing steadily, resulting in a high rate of return.



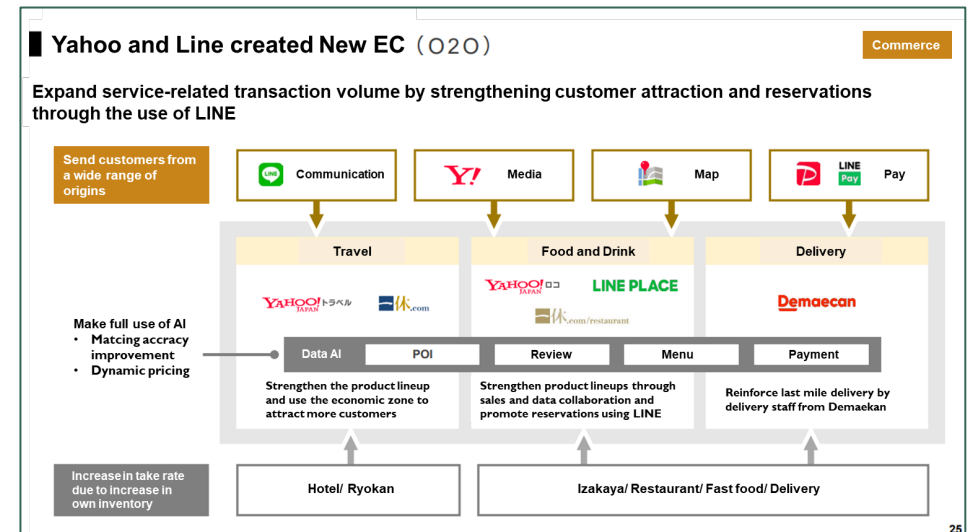
**1H FY2021**

Number of transactions **113% YoY**

Sales **106% YoY**

Operating profit margin **60% YoY**

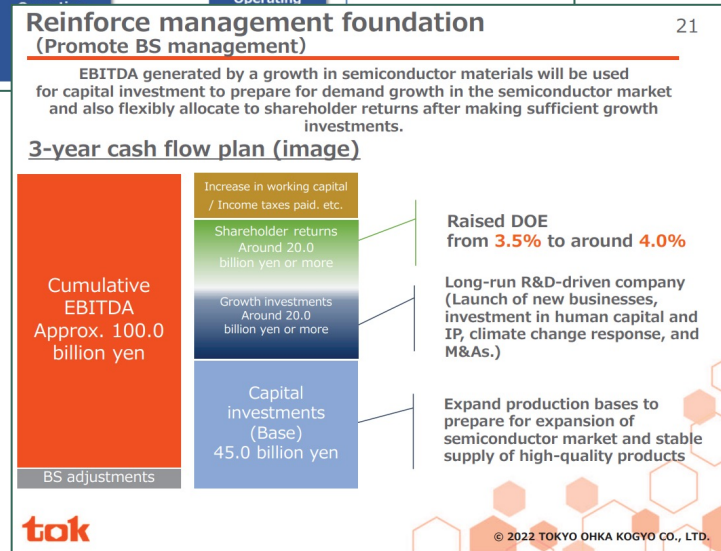
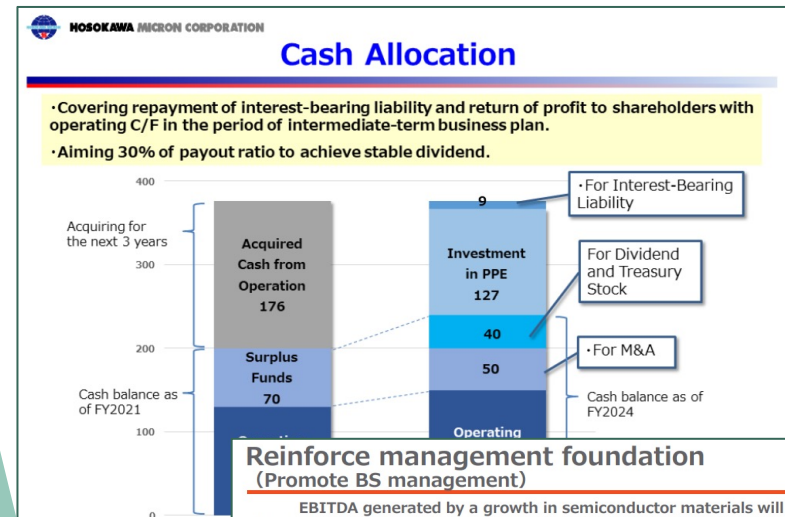
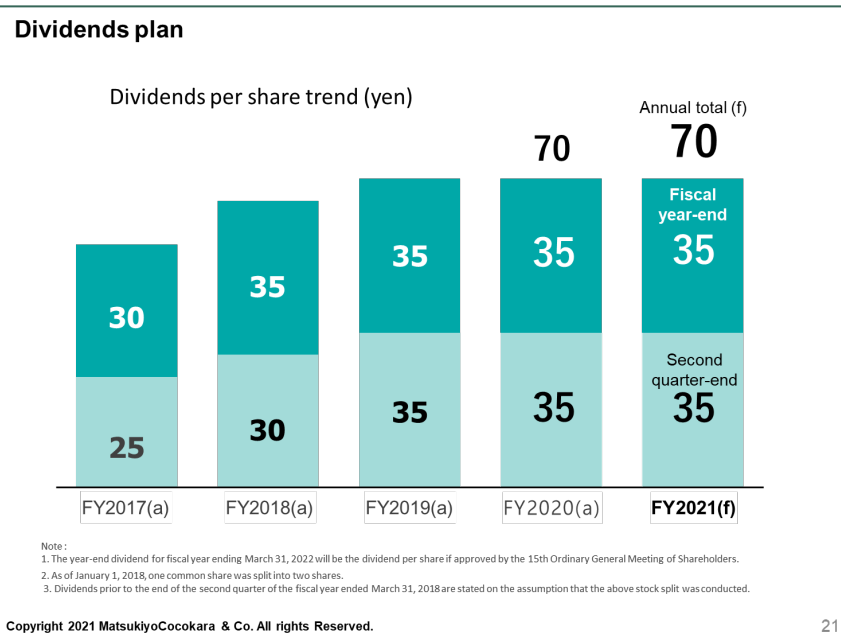
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# BS MANAGEMENT, SHAREHOLDER RETURN (I)



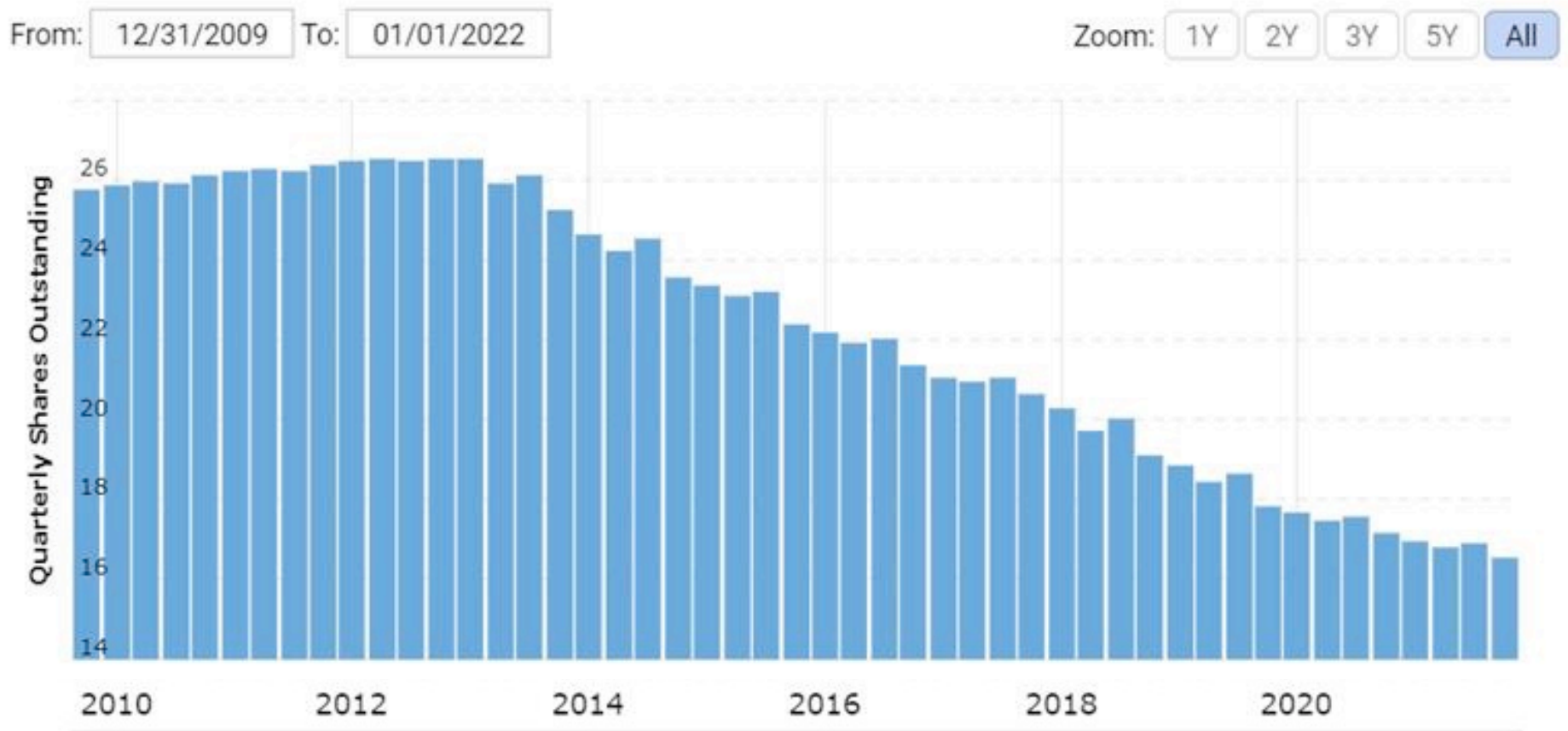
- Instead of the current fixed dividend, more flexible and diversified return policy, including share buybacks and DOE, as well as a clear statement of cash allocation are welcome.



# BS MANAGEMENT, SHAREHOLDER RETURN (2)



- The chart below shows Apple's total number of shares outstanding. Both EPS and PER have increased (see Appendix 2 - slide 27~ for details).





# REFERENCE SLIDE EXAMPLES

## APPENDIX I

# GROUP STRATEGY ILLUSTRATED BY PHASE

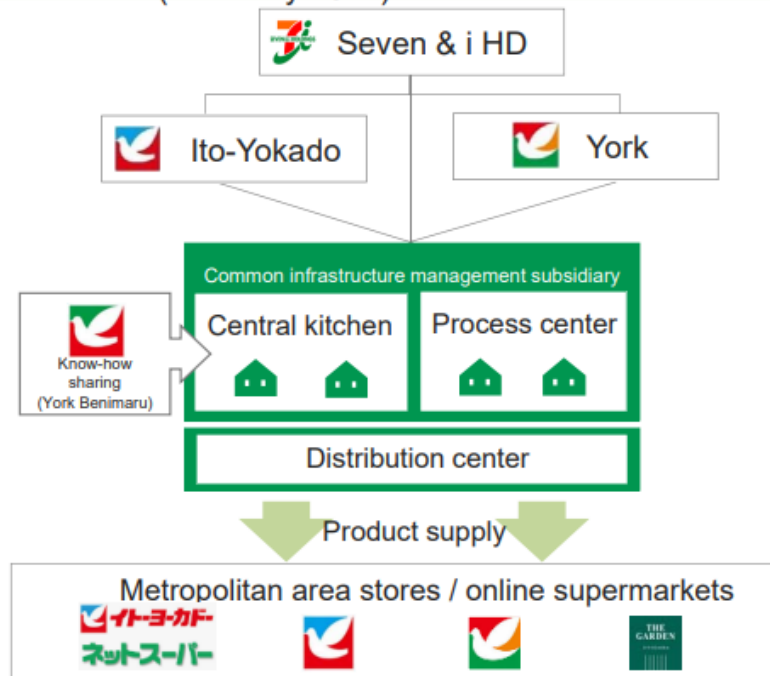


## Group Food Strategy (Building a Common Group Infrastructure)

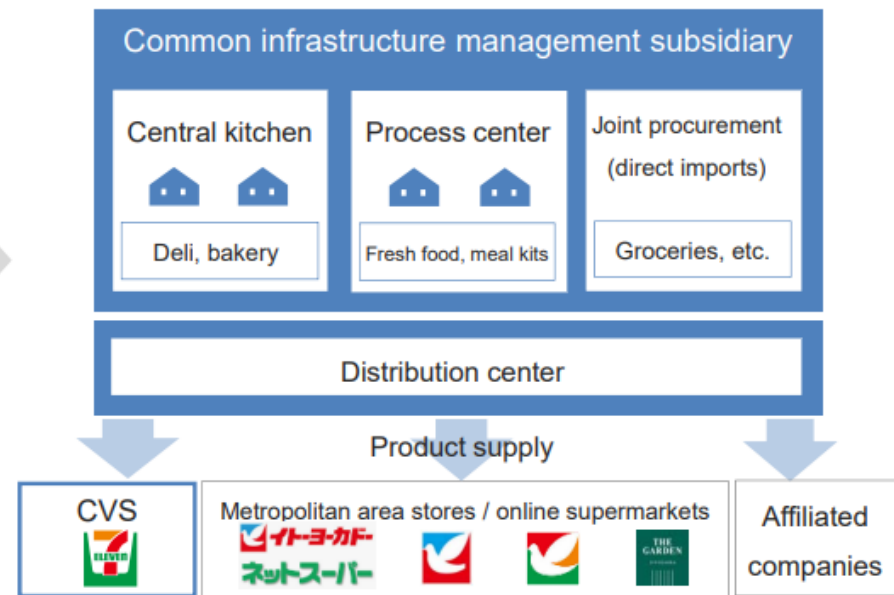


Phase 2: Construction of a common infrastructure (from May 2021)

Phase 3: Expansion of joint procurement functions

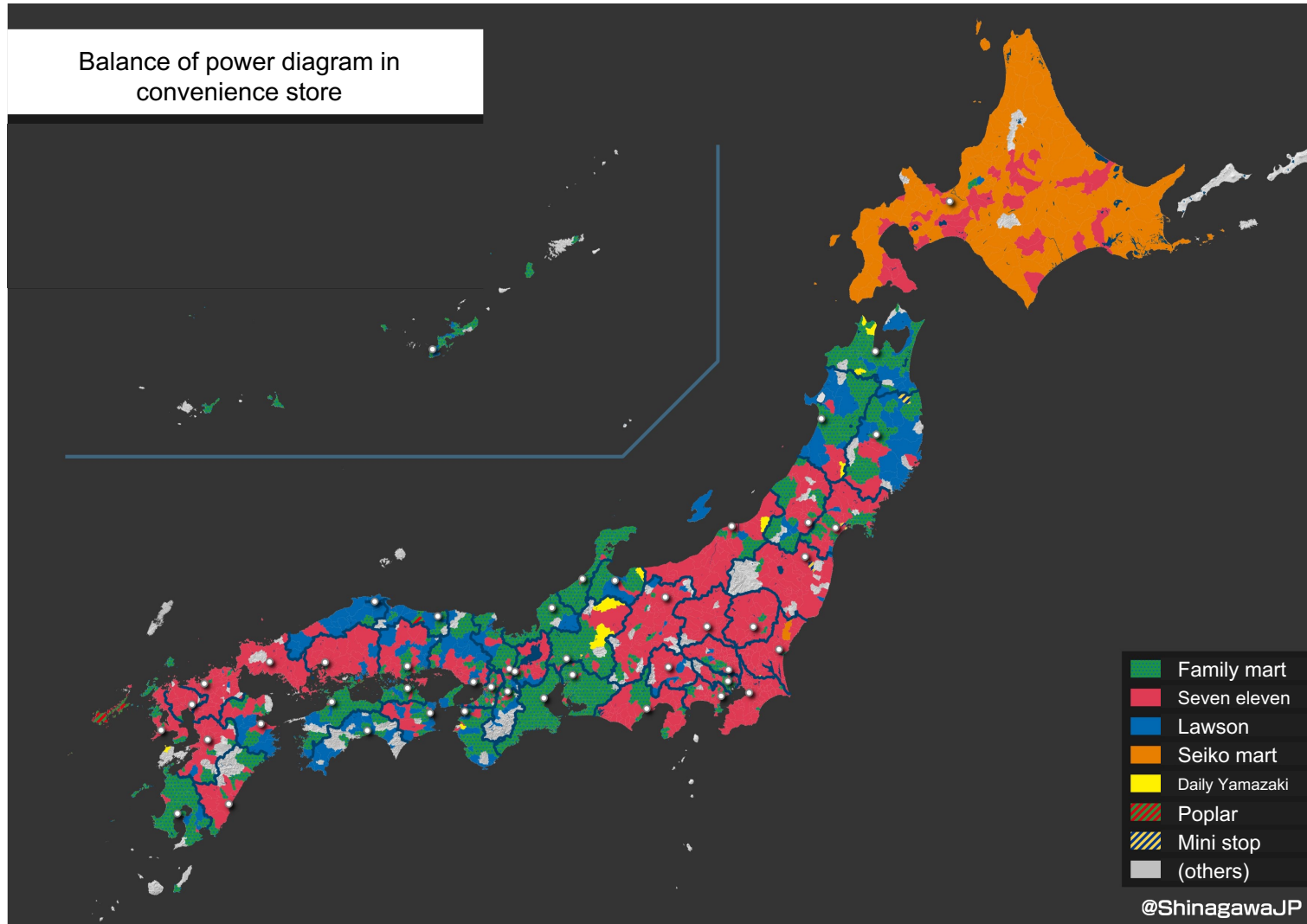


Two central kitchens and two process centers scheduled to start operations from FY2026



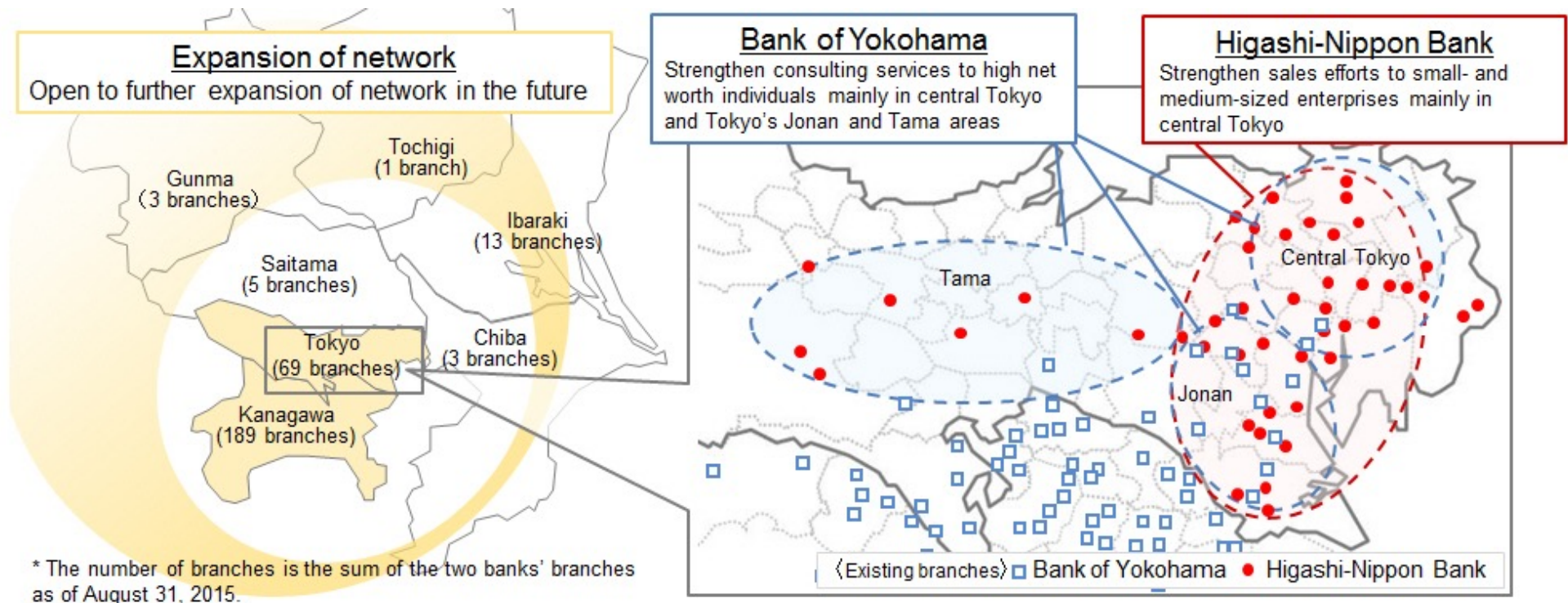
Realizing a high-quality and efficient product supply system by building a common infrastructure for the Group

# MAPPING BALANCE OF POWER WITH COMPETITORS





# ILLUSTRATION OF COMBINED BRANCH NETWORK



# EASY-TO-READ INDICATORS BY SERVICE LINE

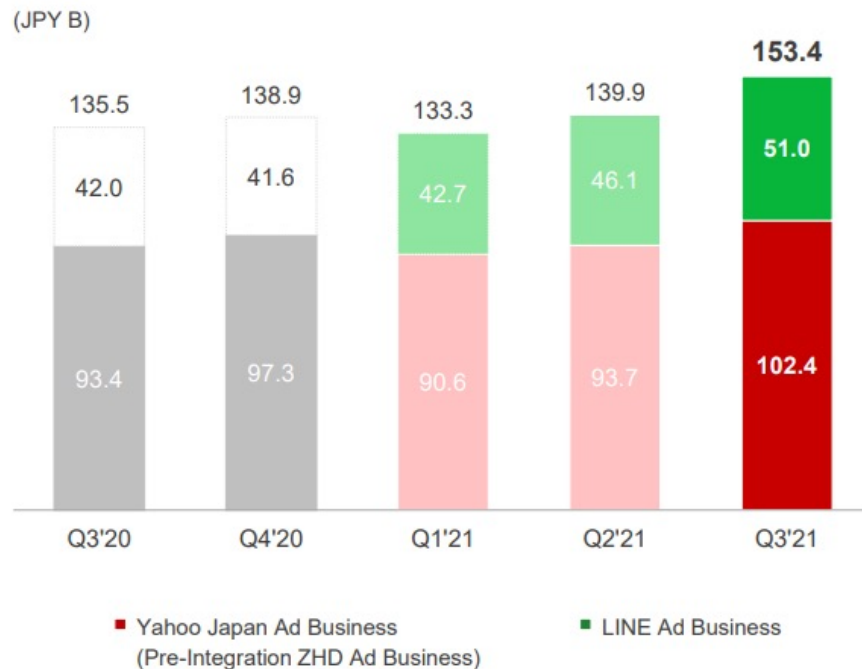


## Whole Group – Total Advertising Revenue

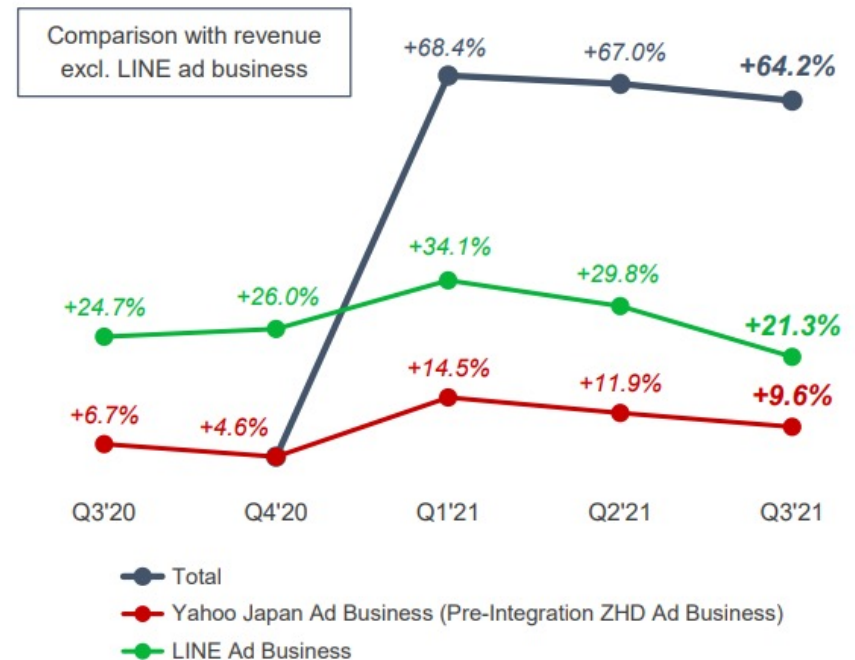
Whole Group

- In addition to the impact of LINE integration, recovery in advertisers' demand, etc., drove revenue to **JPY153.4 B (YoY +64.2%)**.

Group Total Advertising Revenue



Group Total Advertising Revenue – YoY Growth Rate





# EASY-TO-READ INDICATORS BY SERVICE LINE

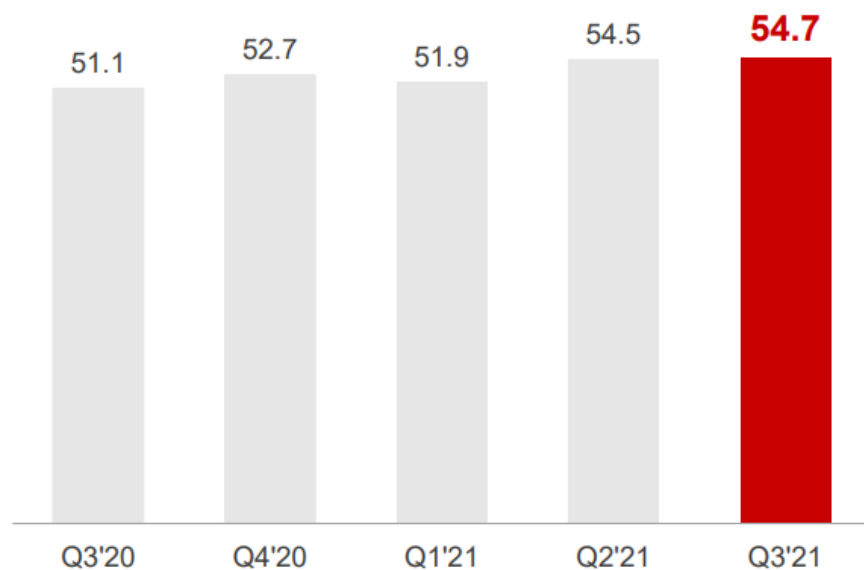


## User Base

Whole Group

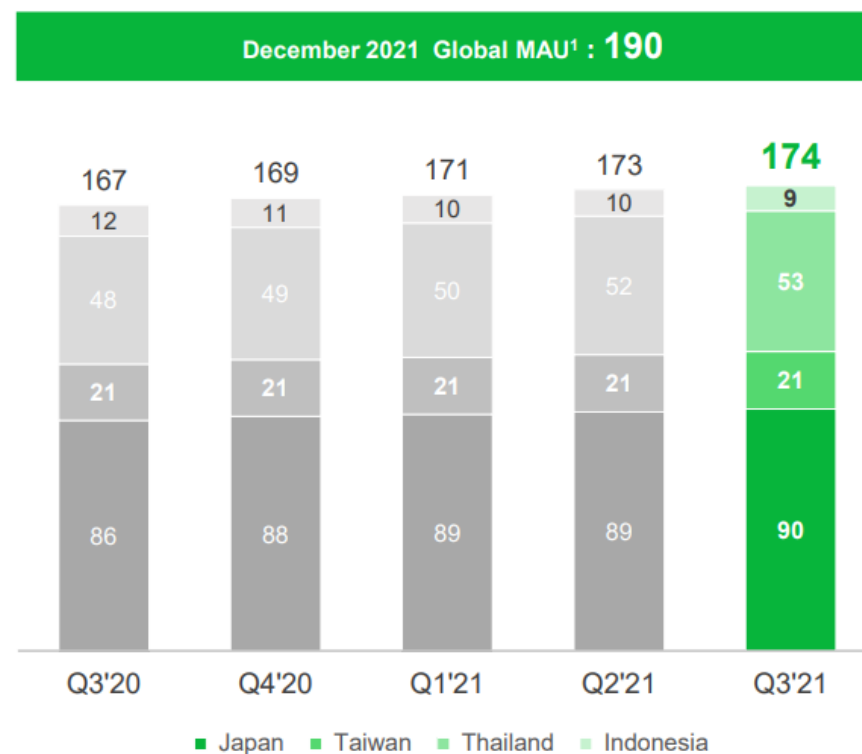
Yahoo Japan - Number of Monthly Logged-in User IDs

(Million)



LINE - Monthly Active Users

(Million)



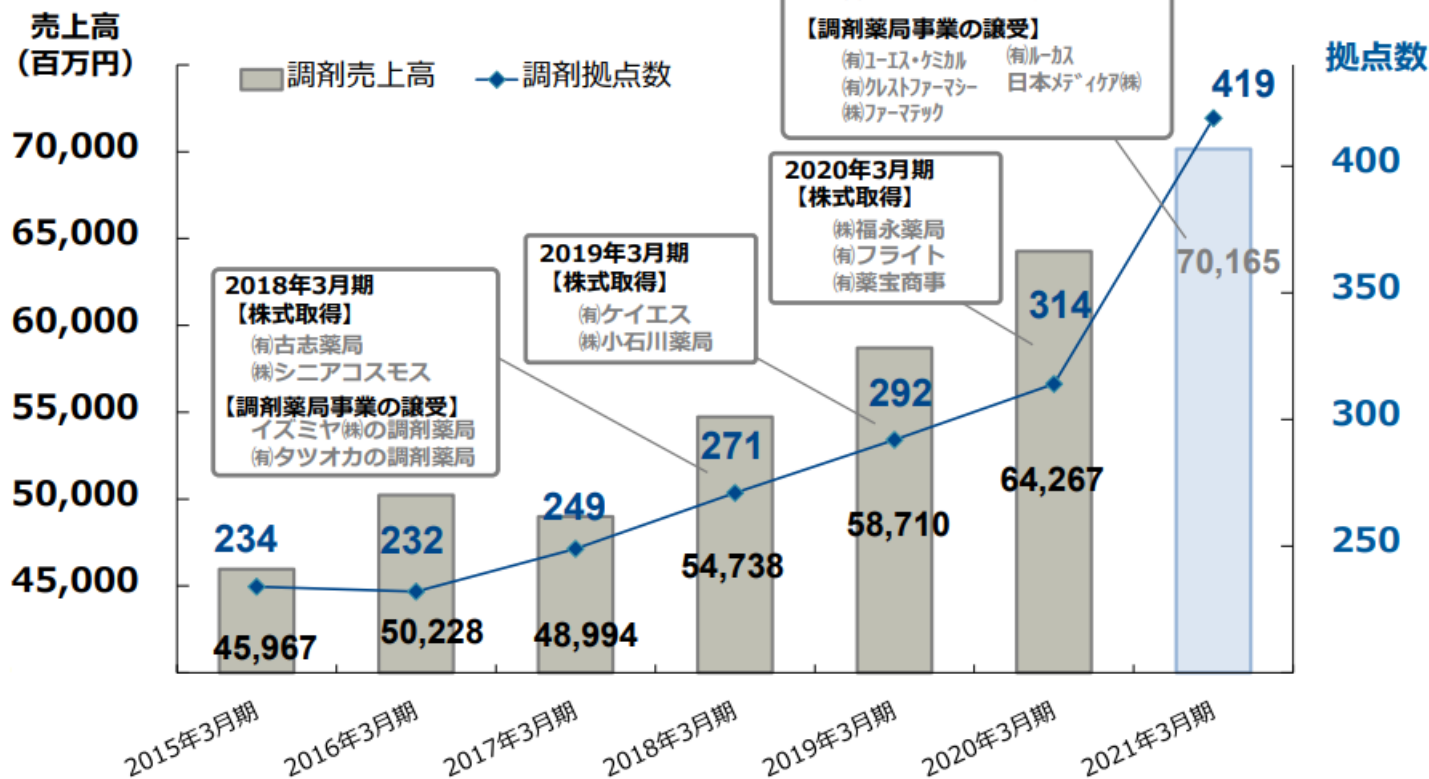
# WELL ORGANIZED COCOKALA MATERIALS



## 調剤事業の方向性



### 調剤売上高と調剤拠点数の推移



## ITを活用した顧客戦略②

ココカラファイン

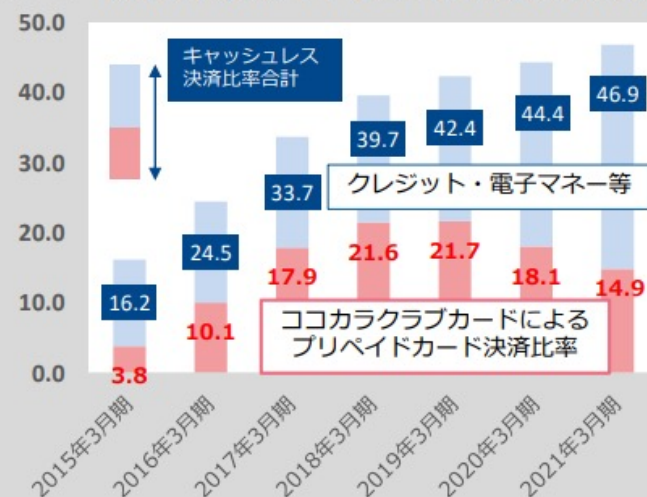
### 共通ポイントサービスの導入

- ・楽天ポイントカード (2019年10月)
- ・dポイント (2020年7月)



### 多様な決済方法への対応

(単位: %) 物販に占めるキャッシュレス決済比率推移



### EC購入商品の店舗受け取りサービスの対象店舗拡大

2020年7月  
全国1,000店舗  
以上に拡大

2021年3月  
調剤専門店も対象となり  
対象店舗は 1,334店舗に



ネットで注文、  
店舗で受け取り  
全国の対象店舗で送料無料で  
1,980円(税込)以上のお買い上げで、  
店舗受取サービスをご利用いただけます。

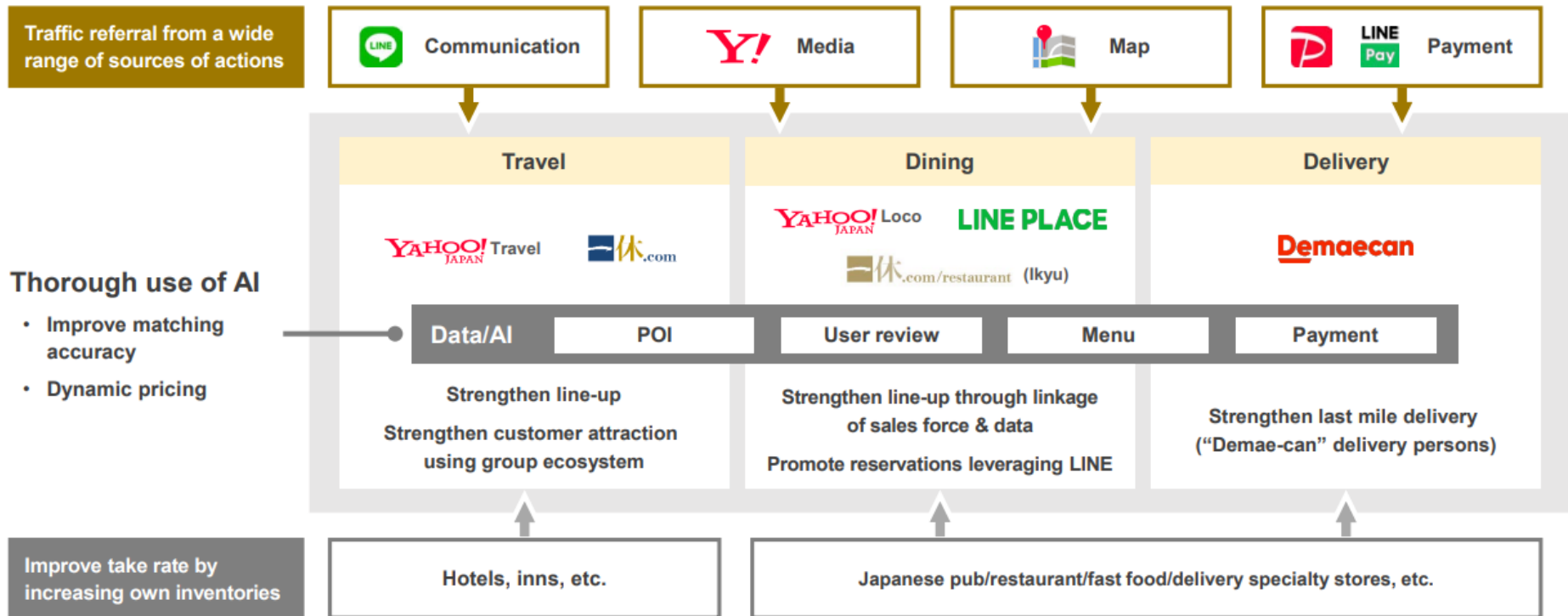
# AT A GLANCE DIGITAL PLATFORM AND STRATEGY



Brand new EC (O2O) from Yahoo! JAPAN and LINE

Commerce Business

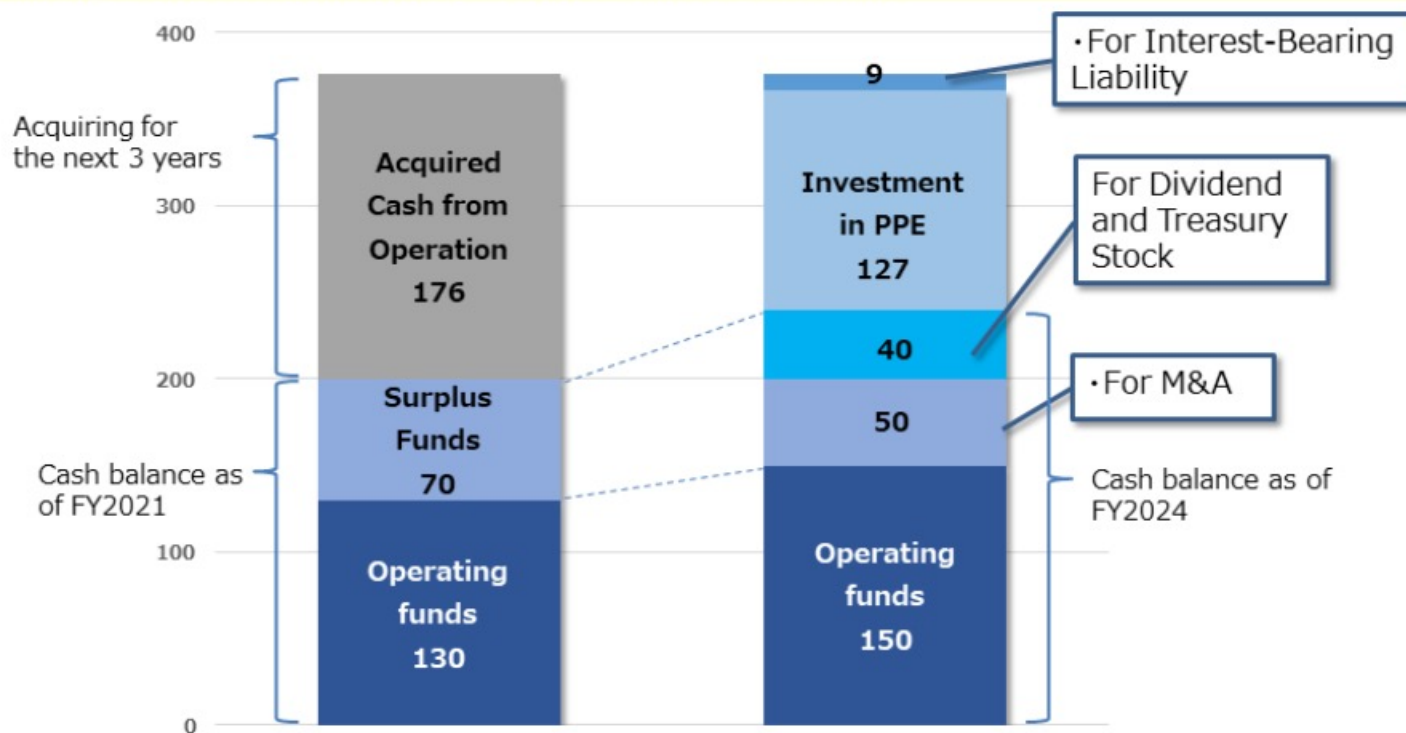
Popularize new purchase experience using LINE, develop into future growth driver of transaction value



# MID-TERM CASH ALLOCATION PLAN

## Cash Allocation

- Covering repayment of interest-bearing liability and return of profit to shareholders with operating C/F in the period of intermediate-term business plan.
- Aiming 30% of payout ratio to achieve stable dividend.





# COMMITTED TO CASH ALLOCATION + DOE

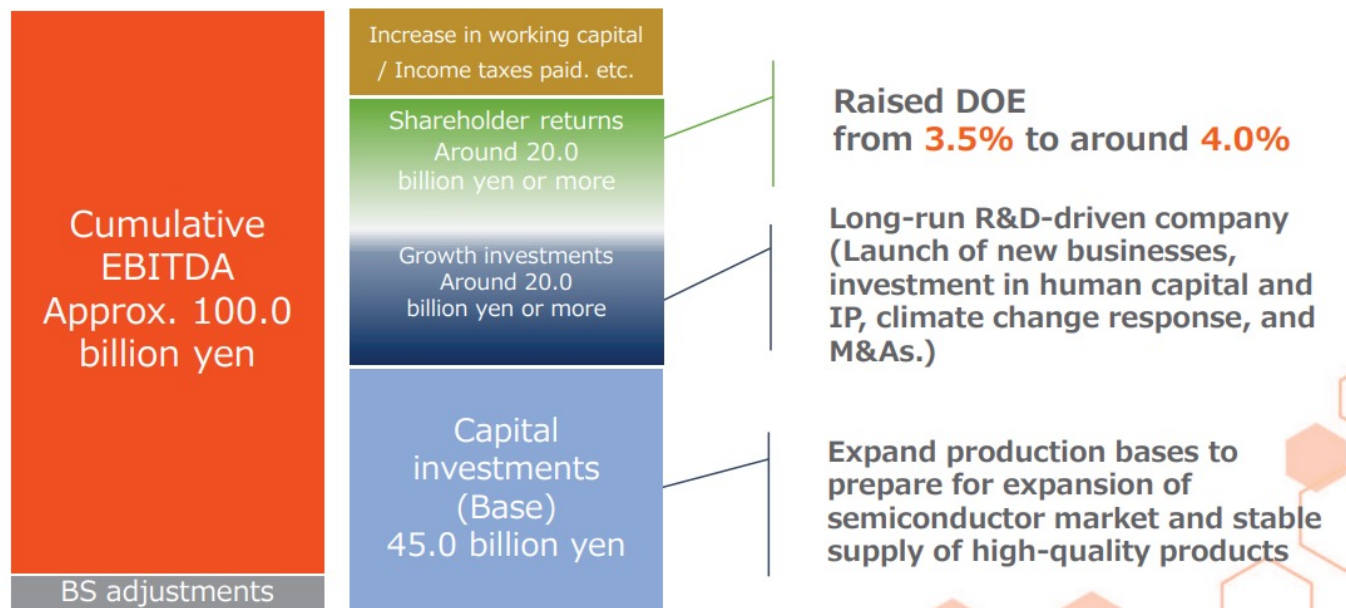


## Reinforce management foundation (Promote BS management)

21

EBITDA generated by a growth in semiconductor materials will be used for capital investment to prepare for demand growth in the semiconductor market and also flexibly allocate to shareholder returns after making sufficient growth investments.

### 3-year cash flow plan (image)



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# CLEAR POST-MERGER MANAGEMENT TEAM COMPOSITION



New management structure (including outside directors)

## Management team that will strongly drive this business integration



President and Representative Director  
Co-CEO  
Kentaro Kawabe



**Accelerate synergy creation**  
Representative Director  
Co-CEO  
Takeshi Idezawa

New appointment



**Lead product strategies**  
Director  
Group Chief Product Officer  
Jungho Shin

New appointment



Director  
Senior Managing Corporate Officer  
Takao Ozawa

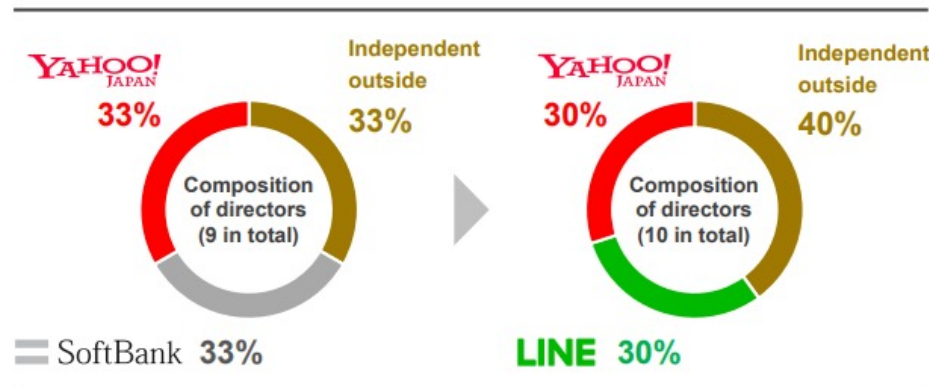


**Drive various business growth & enhance brand value**  
Director  
Senior Managing Corporate Officer  
Jun Masuda

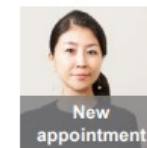
New appointment



Director  
Senior Managing Corporate Officer  
Group Chief Synergy Officer  
Taku Oketani



Independent Outside Director,  
Full-time Audit and Supervisory Committee Member  
Yoshio Usumi

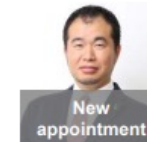


Independent Outside Director,  
Audit and Supervisory Committee Member  
Maiko Hasumi

New appointment



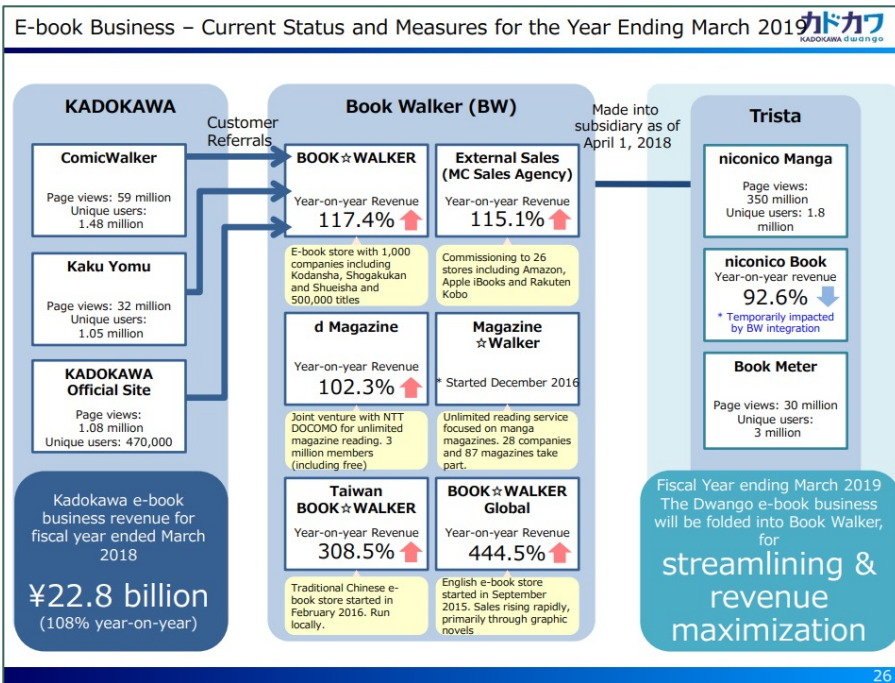
Independent Outside Director,  
Audit and Supervisory Committee Member  
Tadashi Kunihiro



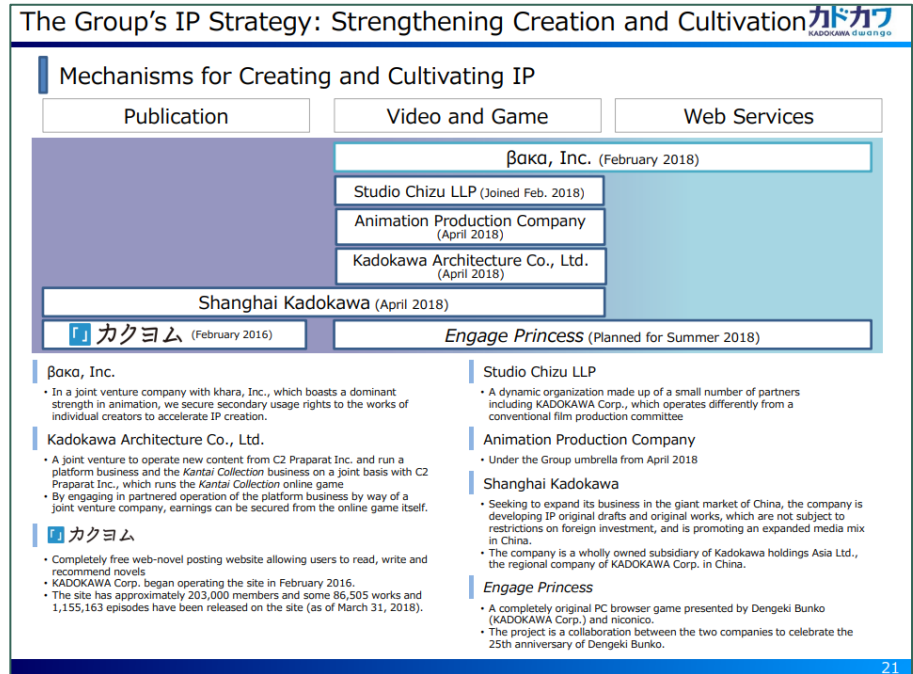
Independent Outside Director,  
Audit and Supervisory Committee Member  
Rehito Hatoyama

New appointment

# (BAD EXAMPLE) MIXTURE OF CHARTS, LETTERS, AND NUMBERS



26



21

Source: Kadokawa FY2018/3 Full Year Financial Results

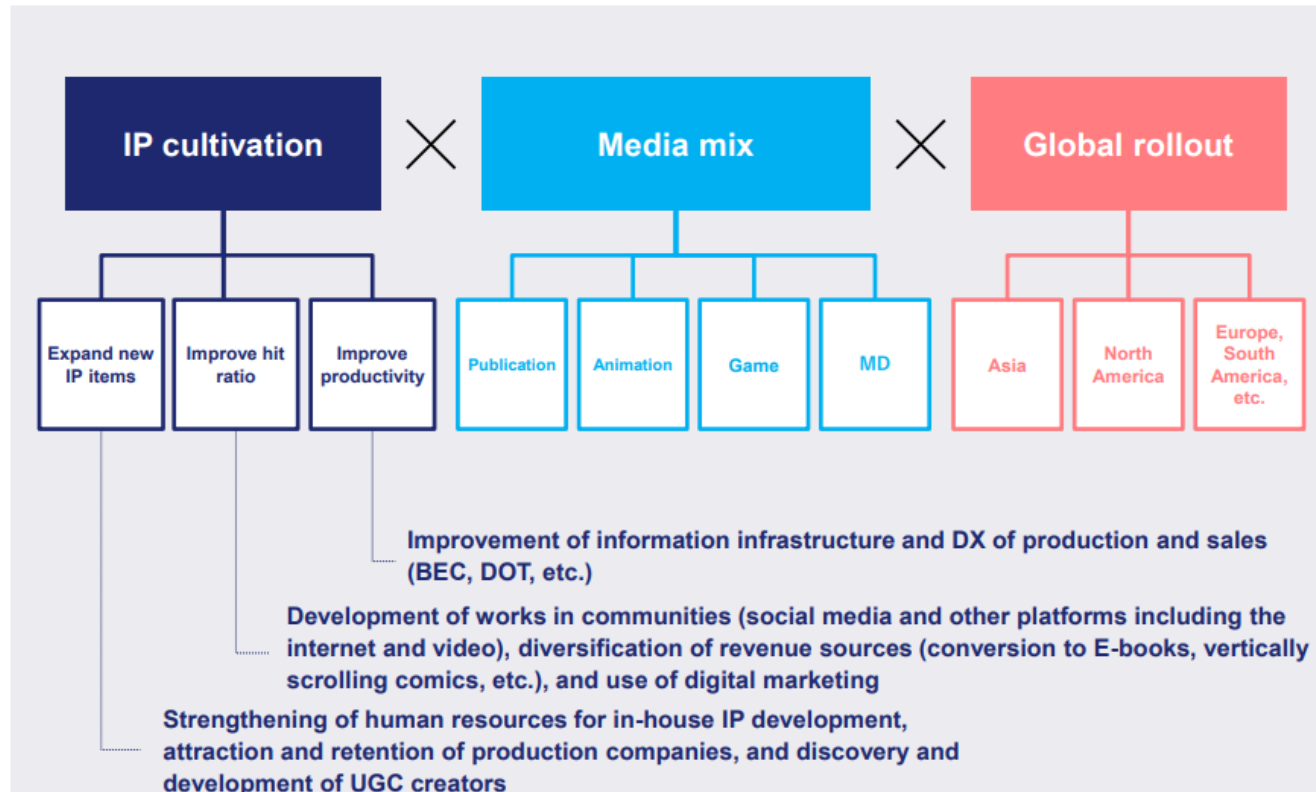


# (GOOD EXAMPLE) SHOW BIG PICTURE WITH GRAPHIC IMAGE

## Growth Model Originating from IP Cultivation



- Increase customers with media mix and global rollout while promoting DX in all aspects of IP development, production, advertising, distribution and sales promotion to improve the added-value of IPs.





# BS MANAGEMENT OF APPLE, INC.

## APPENDIX 2

# EYE-OPENING TABLE FOR APPLE'S SHAREHOLDERS



## Apple Return of Capital and Net Cash Position



\$ in Billions

Fiscal Periods	Buyback			Dividends and Equivalents	Net Share Settlement	Capital Returned	Net Cash		
	Open Market	Accelerated Share Repurchase	Total				Cash <sup>1</sup>	Debt <sup>2</sup>	Net Cash
FY'12 - FY'17	\$98.0	\$68.0	\$166.0	\$60.7	\$7.2	\$233.9	\$269	\$116	\$153
FY'18	\$68.1	\$5.0	\$73.1	\$13.7	\$2.5	\$89.3	\$237	\$114	\$123
FY'19	\$55.1	\$12.0	\$67.1	\$14.1	\$2.8	\$84.0	\$206	\$108	\$98
Q1'20	\$10.0	\$10.0	\$20.0	\$3.5	\$1.4	\$24.9	\$207	\$108	\$99
Q2'20	\$18.5		\$18.5	\$3.4	\$0.2	\$22.1	\$193	\$110	\$83
Q3'20	\$10.0	\$6.0	\$16.0	\$3.7	\$1.7	\$21.3	\$194	\$113	\$81
Q4'20	\$18.0		\$18.0	\$3.5	\$0.4	\$21.9	\$192	\$112	\$79
Q1'21	\$24.0		\$24.0	\$3.6	\$2.9	\$30.5	\$196	\$112	\$84
Q2'21	\$19.0		\$19.0	\$3.4	\$0.3	\$22.7	\$204	\$122	\$83
<b>Total Return through Q2'21</b>	<b>\$320.7</b>	<b>\$101.0</b>	<b>\$421.7</b>	<b>\$109.6</b>	<b>\$19.4</b>	<b>\$550.7</b>			

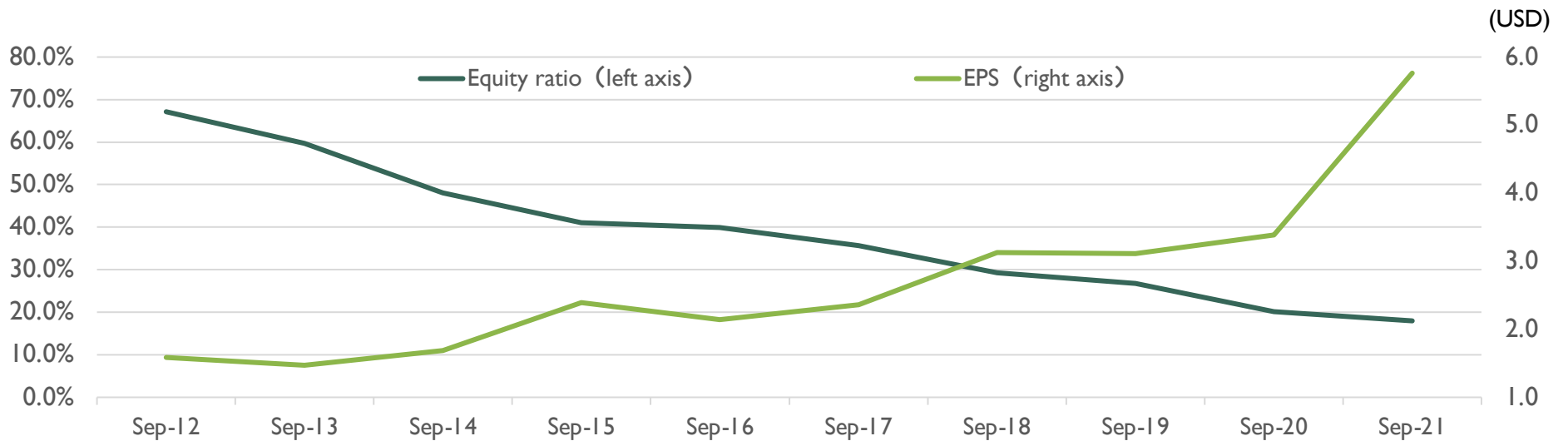
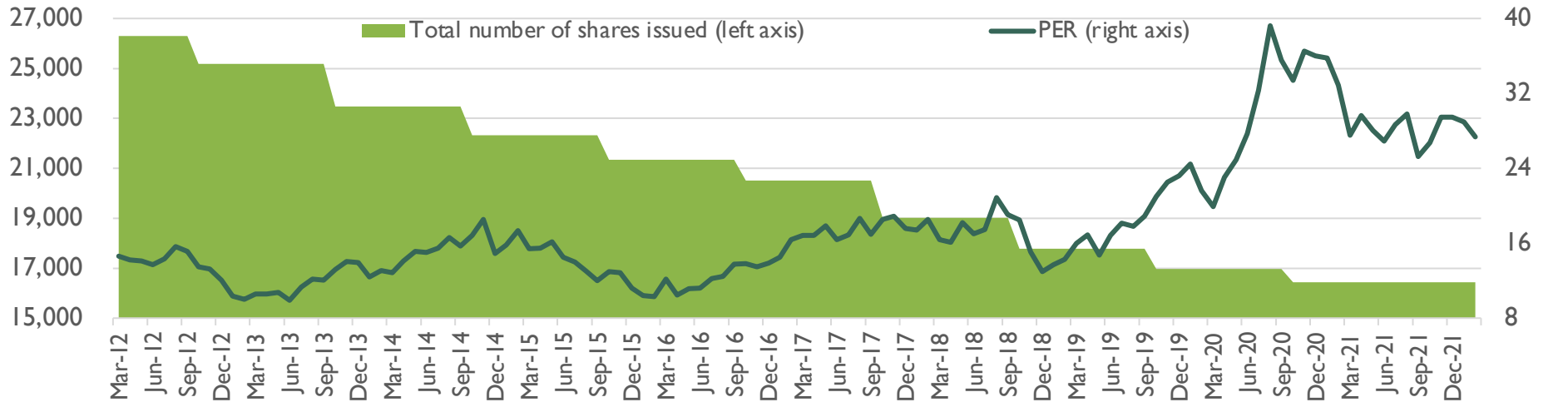
basic guideline since 2018: Net Cash Neutral

Source: Q2'21 Return of Capital Timeline (q4cdn.com)

# APPLE'S BUYBACK IMPROVES VALUATION



(million shares)



\*Compiled by Hibiki from Bloomberg



# VALUATION IMPROVEMENT OF CVS, INC.

## APPENDIX 3

# TRENDS IN PCFR CVS VS WBA



## CVS Health PCFR Band



## WBA PCFR Band



# P/B RATIO CVS VS WBA



## CVS Health PBR Band



## WBA PBR Band



# TAKEAWAY



- CVS has achieved results by expanding from the drugstore category into peripheral businesses; acquisition of Target's pharmacy and retail in-store clinic business in 2015, recent integration of Aetna, global insurance business, and is evolving into a healthcare interface company
- WBA's asset efficiency deteriorated due to its focus on drug horizontal integration. Furthermore, acquisition of RiteAid in 2015 was forced through despite the inefficient acquisition of some assets due to regulatory intervention, which subsequently resulted in significant store closures due to lack of synergies
- CVS is growing faster in sales and expanding its service areas. A variety of goods and services are provided in stores deployed
- WBA has a heavier debt due to past acquisitions, but EBITDA margins are in close; CVS has maintained profitability while growing sales, and the market appreciates its clear growth strategy



# DISCLAIMER



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