

2. Cash dividends

| | Annual dividends | | | | |
|--|-------------------|--------------------|-------------------|-----------------|-------|
| | First quarter-end | Second quarter-end | Third quarter-end | Fiscal year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal year ended March 31, 2019 | — | 30.00 | — | 35.00 | 65.00 |
| Fiscal year ending March 31, 2020 | — | 35.00 | — | | |
| Fiscal year ending March 31, 2020 (forecast) | | | | 35.00 | 70.00 |

Note: Revisions to dividends forecasts most recently announced: None

3. Consolidated earnings forecasts for the year ending March 31, 2020 (from April 1, 2019 to March 31, 2020)

(Percentages indicate year-on-year changes.)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Basic earnings per share |
|-----------|-------------------|-----|-------------------|-----|-------------------|-----|---|-----|--------------------------|
| | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % | Yen |
| Full year | 600,000 | 4.2 | 37,000 | 2.7 | 39,900 | 2.4 | 26,000 | 3.9 | 253.33 |

Note: Revisions to earnings forecasts most recently announced: None

*** Notes**

- (1) Changes in significant subsidiaries during the nine months ended December 31, 2019 (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Adoption of special accounting treatments for preparing quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
 - a. Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - b. Changes in accounting policies due to other reasons: None
 - c. Changes in accounting estimates: None
 - d. Restatement: None

(4) Number of issued shares (common shares)

a. Total number of issued shares at the end of the period (including treasury shares)

| | |
|-------------------------|--------------------|
| As of December 31, 2019 | 109,272,214 shares |
| As of March 31, 2019 | 109,272,214 shares |

b. Number of treasury shares at the end of the period

| | |
|-------------------------|------------------|
| As of December 31, 2019 | 6,627,096 shares |
| As of March 31, 2019 | 6,648,168 shares |

c. Average number of shares during the period

| | |
|-------------------------------------|--------------------|
| Nine months ended December 31, 2019 | 102,634,351 shares |
| Nine months ended December 31, 2018 | 105,205,978 shares |

Note: The number of treasury shares at the end of each period includes shares of the Company held by the BIP (Board Incentive Plan) Trust Account and the Share Grant ESOP (Employee Stock Ownership Plan) Trust Account (127,754 shares as of December 31, 2019 and 140,660 shares as of March 31, 2019). The shares of the Company held by the BIP (Board Incentive Plan) Trust Account and the Share Grant ESOP (Employee Stock Ownership Plan) Trust Account are included in the number of treasury shares deducted in the calculation of average number of shares during each period.

- * Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.
- * Proper use of earnings forecasts, and other special matters
(Caution regarding forward-looking statements and others)

The earnings forecasts shown above are prepared based on the information available to us as of the date of this release. Actual results may be different from these forecasts due to various factors. For the assumptions related matters concerning the earnings forecasts, please refer to page 5 of the attachment.

○ Attached Material Index

| | |
|---|----|
| 1. Qualitative Information..... | 2 |
| (1) Details of operating results | 2 |
| (2) Details of financial position..... | 5 |
| (3) Consolidated earnings forecasts and other forward-looking statements | 5 |
| 2. Quarterly Consolidated Financial Statements and Significant Notes Thereto..... | 6 |
| (1) Quarterly consolidated balance sheets | 6 |
| (2) Quarterly consolidated statements of income and consolidated statements of comprehensive income | 8 |
| Quarterly consolidated statements of income | 8 |
| Quarterly consolidated statement of comprehensive income | 9 |
| (3) Notes to quarterly consolidated financial statements | 10 |
| (Notes on going concern assumption)..... | 10 |
| (Notes when there are significant changes in amounts of equity) | 10 |
| (Segment information)..... | 10 |
| (Significant events after reporting period) | 12 |
| 3. Supplementary information..... | 14 |
| Net sales and purchases | 14 |

1. Qualitative Information

(1) Details of operating results

During the nine months ended December 31, 2019 (from April 1, 2019, to December 31, 2019), the Japanese economy continued to show indications of improvement according to various economic indicators. However, uncertainty lingered against the backdrop of trade frictions, with concerns over changes in stock prices all over the world, trends of oil prices and exchange rates, changes in corporate earnings and consumer sentiment resulting from any of the external factors mentioned above, and the consumption environment remained unfavorable.

The drugstore industry continues to face a challenging business environment characterized by new store openings by competitors across industries and business lines, entrance into new areas aimed for commercial area expansion, expansion of scale through M&A, competition between different industries that is becoming more homogeneous, and the narrowing of the commercial area of individual stores caused by all of these factors.

In such an environment, given that the Group delivered satisfactory results with respect to the medium-term strategic themes which had been worked on until the previous fiscal year, we have set, on a rolling basis, the three new strategic themes of “Contributing to Local Communities in the Beauty and Health Fields with Expertise and Originality,” “Creation of New Businesses Without Being Confined by Existing Frameworks,” and “Advancement of Group Management to Enhance Corporate Value,” and have rolled them forward.

More specifically, we promoted coordination with local healthcare facilities at the 30 stores that are designated as “Health-Support Pharmacies” by the Ministry of Health, Labour and Welfare, and started nation-wide offering of contracts for the Community Pharmacy Support Program, which had previously been offered only in certain areas. At the same time, we pushed forward with near-distance store openings in major cities aimed for area share expansion and the expansion into new locations to capture inbound demand, together with the expansion of tax-free stores among existing stores (currently 1,077 stores including new stores (an increase of 148 stores from the end of the previous fiscal year)). By utilizing various data obtained from these stores, the Group has been able to offer an optimal product line-up that suits the location and environment of each store.

The Group also strove to expand the private brand product lineup. For example, we launched three new “matsukiyo LAB Foods with Function Claims supplement” products focusing on modern health concerns as part of a new series in a product line developed under the supervision of our registered dietitians. We also launched “medical treatment products for athletes” from its athlete lineup. We also established a new product brand, “Replica Notes,” launching a fabric softener and fabric refresher as starters. We have been progressively adopting English descriptions on packages of pharmaceuticals to cater to the rapidly growing needs of foreign travelers visiting Japan whose number has tripled in five years, and we added a new color to the ARGELAN Colour Lip Stick product line, which was a huge hit during the limited run last year, launching them in three colors in an effort to make them a go-to product for customers. We also established a joint private brand development project with Kindai University in a new initiative of industrial-academia collaboration.

As for products planned jointly with national brand manufacturers, we have started to sell “DEW JELLY LOTION MARINE FLORAL” under an aging care brand of Kanebo Cosmetics Inc. as a new product that is distributed exclusively through the Group stores for a limited number. We have also started to sell “ROHTO Lycee RICH PREMIUM” under the “ROHTO Lycee” eye drops brand of ROHTO Pharmaceutical Co., Ltd. targeting female consumers, as a new product to relieve so serious eye fatigue in working women, which is distributed exclusively through the Group stores.

As part of our ongoing efforts, we worked to improve management efficiency based on KPI (key performance indicators of the Group) management and to promote performance improvements at each business company. The Group also strove to increase the number of customer contact points (point card members, LINE friends, downloads of official apps, and social media followers from overseas),

which are among the strengths of the Group, and the total number of such points reached over 67 million.

As new initiatives, we promoted the transition to cashless payment methods by making available the use of the “PayPay” smartphone payment service at about 1,600 Group stores (with some exception) all over Japan effective June 8, 2019. Since June 11, 2019, about 1,700 Group stores in Japan and overseas have started to appear in the “Pokémon GO” game as PokéStops and Gyms. These are some examples of our new efforts to expand services and promote visit to our stores, aimed to attract new customers as well as existing customers.

Regarding overseas businesses, the network of cross-border electronic commerce stores in China continued to grow steadily. Matsumotokiyoshi stores in Thailand have been in business for four years now, and we have worked on scrap and build, bringing the total to 31 stores. For drugstore business, the Group has opened the seventh store in Taiwan. We have also been preparing for opening the first store in Vietnam, establishing “Matsumoto Kiyoshi Vietnam Joint Stock Company” with Lotus Food Group, and have announced a plan to enter into Hong Kong as the next area of the business expansion. In this manner, the Group is striving to capture not only inbound demand in Japan, but also foreign customer demand in their home countries.

New store openings include “Obiyamachi Store,” the first store in Kochi Prefecture; near-distance openings of “Shinjuku Dori Store” and “Shinjuku Yasukuni Dori Store” to expand share in the Shinjuku area, “Hakata Sumiyoshi Store” and “Hakata Station Chikushi Exit Store” to expand share in the Hakata area in Fukuoka Prefecture; “Shibuya Spain Zaka Store” with the aim of expanding share in the Shibuya area; “Narita International Airport Terminal 2 3F Store” and “Narita International Airport Terminal 2 B1F Store” as international airport terminal franchise stores; “Central Japan International Airport Terminal 2 Store” as a directly-operated store; and “APA HOTEL & RESORTS TOKYO BAY MAKUHARI Store” as a store inside a hotel. In total, the Group opened 72 new stores on the strength of its knowhow to open stores in a variety of formats.

In addition, the Group is proceeding steadily with revenue structure reform, for example, by carrying out a renovation of 39 stores for the purpose of revitalizing existing stores, and closing 27 stores for the expiry of contracts and unprofitable operations. The renovated stores include “Ikebukuro Part 2 Store” as an “urban-type store of the ever evolving Matsumotokiyoshi Group.” As a result, the number of Group stores at the end of the nine months ended December 31, 2019 was 1,699.

(* The total number of Group stores above does not include 31 stores managed by Central & Matsumotokiyoshi Ltd. in Thailand and seven stores managed by Matsumotokiyoshi (Taiwan) Limited in Taiwan.)

CSR (corporate social responsibility) activities that the Group focuses on, include projects to support people who want to stay beautiful and healthy, such as the 27th and 28th Self-medication Forums held under the theme of “Learn Ways to Improve Oneself from Beauty and Health Experts to Start Today” and attended by a large number of customers.

As for ESG activities, an internal project worked on updating our uniform by actively collecting idea and requests from store employees, mainly focusing on the store’s cosmetics salespeople. As a result, the uniform of our cosmetics salespeople was updated for the first time in 11 years to one that is superior in terms of design and functionality. Going forward, the Group will continue the effort to be a corporate group in which women can feel rewarded at work and actively participate.

As a result, net sales were ¥446,155 million (up 2.6% year on year), operating profit was ¥26,822 million (down 1.6%), ordinary profit was ¥28,748 million (down 2.3%), and profit attributable to owners of parent was ¥18,904 million (up 0.1%).

Results of operations by segment were as follows:

Retail business

The first quarter suffered from unfavorable weather conditions from the start. Temperature was generally low and rainfall during the rainy season was higher than the previous year's relatively short rainy season, which resulted in shorter daylight hours, making it very challenging for the performances of spring-summer season products.

During the longer-than-usual Golden Week holidays in April-May, sightseeing demand and the use of major facilities in Japan increased, and cost for travel increased significantly as a result. In this situation, foreign travelers, one of the Group's purchase segment, avoided visits to Japan during that time, to some extent affecting our sales to inbound tourists, which had been on steady increase.

The unfavorable weather conditions continued during the second quarter as well, and with the rainy season a month longer than the previous year, seasonal products struggled during the period, except for early to mid-August. However, we managed to enjoy increasing demand prior to the consumption tax rise in October. Sales to inbound tourists, which were negatively affected by natural disasters in the previous year, grew steadily.

This third quarter suffered from reaction to the last-minute demand prior to the consumption tax increase in October. As many stores, mainly in the Kanto area, had to suspend operations before and after the attack of a large-scale typhoon, autumn season products remained in a severe situation, partly due to generally high temperature. Meanwhile, in November and December, sales to inbound tourists and others expanded smoothly thanks to the strengthening of private brand products and the success of other initiatives, despite the remaining impact of the consumption tax increase to some extent. While the number of travelers visiting Japan from certain countries has dropped, the ratio of our sales to travelers from such countries is low and the impact is minor.

The prescription business grew steadily as prescription drug sales increased due to various measures that the Group implemented. For example, we prioritized the opening of stores that were expected to be highly profitable including the opening of a pharmacy space inside existing stores. Other measures included securing technical support fees and deepening tie-ups with local medical care as Health Support Pharmacy.

In such an environment, operating results of the Other Retail business steadily improved due to new store openings that progressed at a favorable pace and other measures we have taken, including the revitalization of existing stores by renovation, raising the share of private brand products in total sales, efficient and effective implementation of sales promotion measures, and management efficiency improvements by KPI-based management. However, the overall Retail Business failed to exceed the year-before results as the Matsumotokiyoshi Retail business was struggling due to sluggish sales of seasonal products that were highly dependent on the weather and temperature conditions. Though sales remained weak, profits have been in line with our estimates. The last-minute demand before the consumption tax hike in October was not as large as expected and the reactive fall in demand took a rest during the third quarter.

Wholesale business

In the wholesale business, the performance of seasonal products faced challenging conditions as in the retail business. However, the wholesale business grew steadily mainly due to capturing the last-minute demand before consumption tax hike, new store openings by companies under new and existing franchise agreements including the two stores opened at Narita International Airport Terminal 2, the capture of inbound demand, and an increase in the number of companies that have concluded a contract for the Community Pharmacy Support Program.

As a result of the operating activities above, net sales of the retail business were ¥428,720 million (up 2.5% year on year), net sales of the wholesale business were ¥14,901 million (up 6.0%), and net sales of the management support business were ¥2,533 million (up 7.0%).

(2) Details of financial position

Total assets as of the end of the third quarter ended December 31, 2019 increased by ¥15,632 million from the end of the previous fiscal year to ¥333,957 million. This was mainly as a result of an increase of ¥7,390 million in merchandise and an increase of ¥2,820 million in notes and accounts receivable - trade.

Liabilities increased by ¥1,851 million to ¥110,906 million. This was mainly as a result of an increase of ¥5,286 million in accounts payable - trade and a decrease of ¥4,954 million in income taxes payable.

Net assets increased by ¥13,781 million to ¥223,050 million. This was mainly as a result of an increase of ¥11,710 million in retained earnings.

(3) Consolidated earnings forecasts and other forward-looking statements

No changes have been made to the consolidated earnings forecasts for the year ending March 31, 2020 that were announced on May 10, 2019.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly consolidated balance sheets

(Millions of yen)

| | As of March 31, 2019 | As of December 31, 2019 |
|---------------------------------------|----------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 43,353 | 43,373 |
| Notes and accounts receivable - trade | 23,472 | 26,292 |
| Merchandise | 76,160 | 83,551 |
| Supplies | 663 | 691 |
| Other | 25,298 | 26,682 |
| Allowance for doubtful accounts | (7) | (144) |
| Total current assets | 168,942 | 180,448 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Land | 40,156 | 40,078 |
| Other | 33,203 | 34,119 |
| Total property, plant and equipment | 73,360 | 74,197 |
| Intangible assets | | |
| Goodwill | 5,756 | 5,095 |
| Other | 4,146 | 4,548 |
| Total intangible assets | 9,903 | 9,644 |
| Investments and other assets | | |
| Leasehold and guarantee deposits | 37,337 | 37,868 |
| Other | 28,855 | 31,871 |
| Allowance for doubtful accounts | (74) | (73) |
| Total investments and other assets | 66,118 | 69,666 |
| Total non-current assets | 149,382 | 153,508 |
| Total assets | 318,324 | 333,957 |

(Millions of yen)

| | As of March 31, 2019 | As of December 31, 2019 |
|--|----------------------|-------------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 64,119 | 69,405 |
| Income taxes payable | 7,406 | 2,452 |
| Provision for bonuses | 3,723 | 1,968 |
| Provision for point card certificates | 2,783 | 3,422 |
| Asset retirement obligations | 4 | 11 |
| Other | 13,790 | 15,387 |
| Total current liabilities | 91,828 | 92,647 |
| Non-current liabilities | | |
| Provision for share-based remuneration | 134 | 134 |
| Provision for share-based remuneration for directors (and other officers) | 39 | 39 |
| Retirement benefit liability | 234 | 246 |
| Asset retirement obligations | 7,201 | 7,427 |
| Other | 9,615 | 10,409 |
| Total non-current liabilities | 17,226 | 18,258 |
| Total liabilities | 109,054 | 110,906 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 22,051 | 22,051 |
| Capital surplus | 22,994 | 22,996 |
| Retained earnings | 177,270 | 188,980 |
| Treasury shares | (20,765) | (20,707) |
| Total shareholders' equity | 201,551 | 213,321 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 7,674 | 9,685 |
| Total accumulated other comprehensive income | 7,674 | 9,685 |
| Share acquisition rights | 43 | 43 |
| Total net assets | 209,269 | 223,050 |
| Total liabilities and net assets | 318,324 | 333,957 |

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income

Quarterly consolidated statements of income

Year to quarter end consolidated statements of comprehensive income

(Millions of yen)

| | Nine months ended December 31, 2018 | Nine months ended December 31, 2019 |
|--|--|--|
| Net sales | 434,798 | 446,155 |
| Cost of sales | 300,357 | 305,365 |
| Gross profit | 134,440 | 140,789 |
| Selling, general and administrative expenses | | |
| Provision for point card certificates | 1,284 | 638 |
| Salaries and allowances | 37,555 | 39,051 |
| Provision for bonuses | 1,874 | 1,968 |
| Retirement benefit expenses | 758 | 800 |
| Rent expenses on land and buildings | 25,475 | 27,295 |
| Other | 40,245 | 44,213 |
| Total selling, general and administrative expenses | 107,191 | 113,966 |
| Operating profit | 27,248 | 26,822 |
| Non-operating income | | |
| Interest income | 87 | 77 |
| Dividend income | 288 | 310 |
| Gain on donation of non-current assets | 522 | 403 |
| Order handling commission | 789 | 821 |
| Other | 527 | 354 |
| Total non-operating income | 2,215 | 1,967 |
| Non-operating expenses | | |
| Interest expenses | 12 | 13 |
| Foreign exchange losses | 9 | 5 |
| Cash over and short | 8 | 11 |
| Other | 18 | 11 |
| Total non-operating expenses | 49 | 41 |
| Ordinary profit | 29,414 | 28,748 |
| Extraordinary income | | |
| Gain on sales of non-current assets | 0 | 6 |
| Gain on sales of investment securities | 48 | 7 |
| Insurance claim income | - | 62 |
| Total extraordinary income | 49 | 76 |
| Extraordinary losses | | |
| Loss on sales of non-current assets | 81 | 27 |
| Loss on retirement of non-current assets | 250 | 174 |
| Loss on store closings | 79 | 64 |
| Impairment loss | 831 | 258 |
| Loss on disaster | - | 95 |
| Other | - | 1 |
| Total extraordinary losses | 1,243 | 621 |
| Profit before income taxes | 28,221 | 28,202 |
| Income taxes - current | 8,935 | 8,337 |
| Income taxes - deferred | 397 | 961 |
| Total income taxes | 9,333 | 9,298 |
| Profit | 18,887 | 18,904 |
| Profit attributable to owners of parent | 18,887 | 18,904 |

Quarterly consolidated statement of comprehensive income

Year to quarter end consolidated statement of comprehensive income

(Millions of yen)

| | Nine months ended December 31, 2018 | Nine months ended December 31, 2019 |
|--|--|--|
| Profit | 18,887 | 18,904 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (161) | 2,011 |
| Total other comprehensive income | (161) | 2,011 |
| Comprehensive income | 18,725 | 20,915 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 18,725 | 20,915 |
| Comprehensive income attributable to non-controlling interests | – | – |

(3) Notes to quarterly consolidated financial statements

(Notes on going concern assumption)

Not applicable.

(Notes when there are significant changes in amounts of equity)

Not applicable.

(Segment information)

[Segment information]

I Nine months ended December 31, 2018

1. Disclosure of net sales and profit (loss) by reportable segment

(Millions of yen)

| | Retail business | | Wholesale business | | Management support business | Total | Adjustments (Note 1) | Amounts in the quarterly consolidated statement of income (Note 2) |
|---------------------------------|-------------------------|--------------|-------------------------------------|-----------------|-----------------------------|---------|----------------------|--|
| | Matsumotokiyoshi Retail | Other Retail | Matsumotokiyoshi Holdings Wholesale | Other Wholesale | | | | |
| Net sales | | | | | | | | |
| Sales from external customers | 276,384 | 141,990 | 144 | 13,911 | 2,367 | 434,798 | – | 434,798 |
| Intersegment sales or transfers | 11 | 25 | 294,019 | – | 10,449 | 304,505 | (304,505) | – |
| Total | 276,396 | 142,015 | 294,163 | 13,911 | 12,816 | 739,303 | (304,505) | 434,798 |
| Segment profit (loss) | 19,854 | 7,111 | 1,317 | 230 | (801) | 27,711 | (462) | 27,248 |

(Notes) 1. The adjustment of negative ¥462 million to segment profit (loss) includes negative ¥663 million of amortization of goodwill and ¥200 million of intersegment transaction elimination.

2. Segment profit (loss) is adjusted with operating profit stated in the quarterly consolidated statement of income.

2. Disclosure of impairment loss on non-current assets or goodwill for each reportable segment

(Significant impairment loss on non-current assets)

The Group regards primarily stores as a base unit for its minimum cash flow-generating unit, while grouping idle assets according to each property unit. With regard to the asset groups whose operating profit has consistently been negative and asset groups for which the market prices fell considerably, such as land, the Group wrote off their carrying amount to the recoverable amount and recognized the amount of the write-off of ¥831 million as an impairment loss under extraordinary losses.

The breakdown of the impairment loss is ¥541 million for Matsumotokiyoshi Retail, ¥198 million for Other Retail, ¥96 million for Management support business and negative ¥5 million for consolidation eliminations and adjustments.

(Significant change in the amount of goodwill)

Not applicable.

II Nine months ended December 31, 2019

1. Disclosure of net sales and profit (loss) by reportable segment

(Millions of yen)

| | Retail business | | Wholesale business | | Management support business | Total | Adjustments (Note 1) | Amounts in the quarterly consolidated statement of income (Note 2) |
|---------------------------------|--------------------------|--------------|--------------------------------------|-----------------|-----------------------------|---------|----------------------|--|
| | Matsumoto-kiyoshi Retail | Other Retail | Matsumoto-kiyoshi Holdings Wholesale | Other Wholesale | | | | |
| Net sales | | | | | | | | |
| Sales from external customers | 281,077 | 147,642 | 86 | 14,814 | 2,533 | 446,155 | – | 446,155 |
| Intersegment sales or transfers | 6 | 27 | 298,932 | – | 11,336 | 310,302 | (310,302) | – |
| Total | 281,084 | 147,670 | 299,018 | 14,814 | 13,869 | 756,457 | (310,302) | 446,155 |
| Segment profit (loss) | 18,549 | 8,192 | 1,219 | 155 | (817) | 27,300 | (477) | 26,822 |

(Notes) 1. The adjustment of negative ¥477 million to segment profit (loss) includes negative ¥635 million of amortization of goodwill and ¥158 million of intersegment transaction elimination.

2. Segment profit (loss) is adjusted with operating profit stated in the quarterly consolidated statement of income.

2. Disclosure of impairment loss on non-current assets or goodwill for each reportable segment

(Significant impairment loss on non-current assets)

The Group regards primarily stores as a base unit for its minimum cash flow-generating unit, while grouping idle assets according to each property unit. With regard to the asset groups whose operating profit has consistently been negative and asset groups for which the market prices fell considerably, such as land, the Group wrote off their carrying amount to the recoverable amount and recognized the amount of the write-off of ¥258 million as an impairment loss under extraordinary losses.

The breakdown of the impairment loss is ¥151 million for Matsumotokiyoshi Retail, ¥87 million for Other Retail, ¥21 million for Management support business and negative ¥2 million for consolidation eliminations and adjustments.

(Significant change in the amount of goodwill)

Not applicable.

(Significant events after reporting period)

Execution of important contracts, etc.

Under the resolution adopted at the Board of Directors meeting on January 31, 2020, the Company entered into a Memorandum of Understanding (the “MOU”) on a business integration (the “Business Integration”) and a contract on a capital and business alliance agreement (the “Alliance”) (the “Capital and Business Alliance Agreement”) with cocokara fine Inc. (cocokara fine) on the same day. The overview of the agreement is as follows:

1. Objectives of the contracts

On January 31, 2020, the Company and cocokara fine entered into the MOU for the Business Integration, aiming to become a business group with ¥1 trillion in sales and 3,000 stores in Japan and ultimately become Asia’s No. 1 health and beauty company. As part of the Business Integration, the two companies intend to use the period until the Business Integration effectively to become an efficient and competitive company right after the Business Integration by enhancing their corporate values with an early exertion of synergy and integrating their strategies and corporate cultures. To that effect, the two companies concluded the Capital and Business Alliance Agreement, under which cocokara fine will issue new shares for allotment to the Company (the “Third-Party Allotment of Shares) and the two companies will start mutual cooperation through their bilateral consultations.

2. Name of the partner company

| | |
|-----------------------|--|
| Trade name: | cocokara fine Inc. |
| Address: | Innotech Bldg., 3-17-6 Shin-Yokohama, Kohoku-ku, Yokohama, Kanagawa Prefecture |
| Representative: | Atsushi Tsukamoto, President |
| Capital: | ¥1,000 million |
| Business description: | Provision of comprehensive health-related services, led by drugstore chain operations and dispensing pharmacy business, as well as nursing care, dispensing at patients’ homes and online sales. |

3. Details of the Business Integration and the Alliance

(1) Method of the Business Integration

On condition of obtaining approvals at their general meetings of shareholders and approvals of the relevant authorities required for the Business Integration, the two companies plan to consider and discuss the method of the Business Integration for the final agreement, with a basic plan of establishing a holding company through a joint share transfer.

(2) Schedule of the Business Integration

The two companies will consider and talk about the schedule of the Business Integration in line with a basic schedule as set forth below. There may be changes in the schedule after consultation in case there is the need for the changes due to delays in obtaining approvals of the Fair Trade Commission under the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade and other relevant guidelines, other procedures of examinations by the other relevant authorities and some other reasons.

| | |
|----------------------------|--|
| January 31, 2020: | Conclusion of the Memorandum of Understanding |
| February 2021 (planned): | Conclusion of the final agreement on the Business Integration |
| June 2021 (planned): | Annual general meetings of shareholders of the two companies (approvals of the Business Integration plans) |
| October 1, 2021 (planned): | Effective date of the Business Integration |

(3) Details of the Alliance

(Details of the Business Alliance)

In the Business Alliance, the two companies will aim at an early synergy exertion by cooperation in the mutual supply of private brand products and development of merchandising, the integration of purchases of national brand products, dispensing and merchandising, the sharing of sales promotions, purchases and settlement contracts, and the improvement of operational efficiency at their stores.

(Details of the capital alliance)

Through the Third-Party Allotment of Shares, the Company will acquire 5,939,600 shares of cocokara fine's common stock at ¥6,460 per share (for a total of ¥38,369,816,000). After the acquisition, the Company will hold 6,006,908 shares (along with the currently held 67,308 shares) of cocokara fine with 20.04% of the full voting rights after the recapitalization.

(4) Schedule of the Alliance

The schedule of the Alliance is as follows. However, there may be changes depending on the situation of approvals from the Fair Trade Commission under the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade and other relevant guidelines. With the view of an early synergy exertion by the Alliance, the Company plans to make the payment for the Third-Party Allotment of Shares as soon as it obtains an approval thereof from the Fair Trade Commission.

| | |
|--------------------------|---|
| January 31, 2020: | Conclusion of the Capital and Business Alliance Agreement |
| March 31-April 30, 2020: | Pay-in period for the Third-Party Allotment of Shares |

3. Supplementary information

Net sales and purchases

(1) Net sales by operating segment

Net sales by segment for the nine months ended December 31, 2019 are as follows:

| Segment name | Nine months ended December 31, 2019 | |
|-----------------------------|-------------------------------------|--|
| | Amount (Millions of yen) | Change from the corresponding period of previous fiscal year (%) |
| Retail business | 428,720 | 102.5 |
| Wholesale business | 14,901 | 106.0 |
| Management support business | 2,533 | 107.0 |
| Total | 446,155 | 102.6 |

Notes: 1. Intersegment transactions are eliminated.

2. Consumption taxes pertaining to sales are accounted for under the tax exclusion method.

(2) Net sales by product

Net sales by product for the nine months ended December 31, 2019 are as follows:

| Products | Nine months ended December 31, 2019 | |
|-------------------------------------|-------------------------------------|--|
| | Amount (Millions of yen) | Change from the corresponding period of previous fiscal year (%) |
| Retail business | | |
| Medical and pharmaceutical products | 135,770 | 103.5 |
| Cosmetics | 175,893 | 101.3 |
| General merchandise | 76,682 | 104.0 |
| Food | 39,497 | 100.9 |
| Subtotal | 427,844 | 102.4 |
| Wholesale business | 14,493 | 106.0 |
| Total | 442,338 | 102.5 |

Notes: 1. Net sales by product do not include sales of the management support business. In addition, the amounts above do not include operating revenue (rent income from tenants and royalty income from franchisees).

2. Consumption taxes pertaining to sales are accounted for under the tax exclusion method.

(3) Purchases by product

Purchases by product for the nine months ended December 31, 2019 are as follows:

| Products | Nine months ended December 31, 2019 | |
|-------------------------------------|-------------------------------------|--|
| | Amount (Millions of yen) | Change from the corresponding period of previous fiscal year (%) |
| Retail business | | |
| Medical and pharmaceutical products | 82,182 | 101.7 |
| Cosmetics | 122,598 | 99.7 |
| General merchandise | 58,219 | 103.1 |
| Food | 34,374 | 100.3 |
| Subtotal | 297,374 | 101.0 |
| Wholesale business | 14,456 | 106.3 |
| Total | 311,830 | 101.2 |

Notes: 1. Purchases by product do not include purchases of the management support business.

2. Consumption taxes pertaining to purchases are accounted for under the tax exclusion method.