

The background features a stylized landscape with rolling green hills, a central tree, and various shades of green and yellow leaves scattered throughout. A light blue diagonal band is present in the upper right quadrant.

Integrated Report 2021

SUGI Holdings Co., Ltd.

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SUGI Holdings

The SUGI Pharmacy Group strives to contribute to local communities by underpinning customers' healthy, rich lifestyles and community healthcare.

## Editorial Policy

The Integrated Report 2021 has been edited for the purpose of presenting the SUGI Pharmacy Group's business philosophy and attitude toward sustainability and providing stakeholders with easy-to-understand explanations on our activities carried out based on them and their results. The report contains data and articles regarding the corporate activities that we deem especially important.

### Reporting Coverage

The report has been designed to cover the companies in the consolidated financial statement of the SUGI Pharmacy Group to the extent possible, although the reporting coverage varies according to the item.

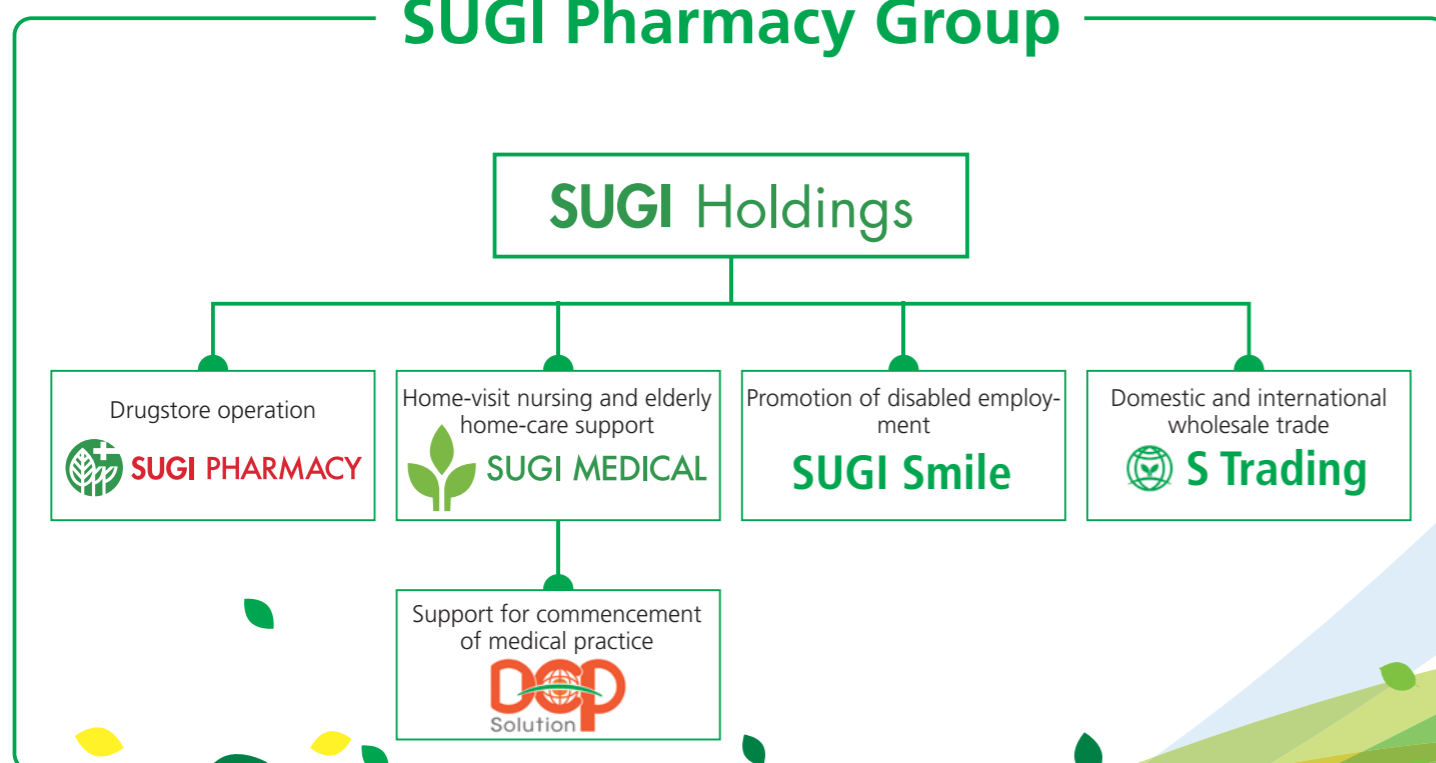
### Coverage Period

March 1, 2020 – February 28, 2021  
For some activities, more recent events have also been reported.

### Notes on Our Outlook

The Integrated Report 2021 presents forecasts and outlooks regarding future plans, strategies, and business results of the SUGI Pharmacy Group and its subsidiaries. They are based on assumptions and views judged from the information currently available to the SUGI Pharmacy Group. Please note that actual business results might differ from the expectations due to risks and uncertainties concerning future economic trends, consumer spending, market demand, taxation, various systems, etc.

## SUGI Pharmacy Group



## Table of Contents

Integrated Report 2021

2 Editorial Policy/Table of Contents

### OVERVIEW

Who is the SUGI Pharmacy Group?

3 Management Philosophy

5 Management Messages

7 Top Interview

13 To Protect People's Daily Lives from the Coronavirus Pandemic

15 Figures relating to the SUGI Pharmacy Group

17 Ideal Vision

19 Growth Milestones

21 Value Creation Process

### STRATEGY

Growth Strategies

23 Business Report (Sugi Pharmacy Co., Ltd.)

25 Market Environment

27 Mid-Term Management Plan 2022

29 Lifetime Value

31 Promotion of DX and Future Vision

33 Financial/Non-financial Highlights

### GROWTH FOUNDATION

Foundation for Growth

35 Priority Issues (Issues of Materiality)

45 Corporate Governance

### DATA & PROFILE

Data & Corporate Profile

53 Financial Indices

54 Non-financial indices

55 Consolidated Balance Sheet

56 Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

57 Consolidated Statement of Cash Flows

58 Corporate Profile and Stock Information

# Management Philosophy

## Management Philosophy

**We contribute to local communities through our sincere, kind services.**

**We help many more people smile,  
Hoping for the happiness of each employee,  
Hoping for the happiness of each customer, and  
Hoping for the happiness of everybody**



### Corporate Watchwords and Management Philosophy at the Time of the Establishment of the Company

**Corporate Watchwords**

**Kindness**  
Serve customers with sincerity and kindness.

**Honesty**  
Work with business partners with humility and honesty.

**Trust**  
Be trusted by both customers and business partners.

**Management Philosophy**

<For Society>  
Strive to create a corporate framework enabling us to contribute to local communities by selling medical and pharmaceutical products, health foods, cosmetics and daily items and by dispensing prescriptions.

<For Employees>  
Strive to create a corporate framework enabling the company to grow together with employees with the aim of ensuring their happiness.

# The SUGI Pharmacy Group will remain a "pharmacy." This is the pride of the corporate group and the pride of all employees.

Since our founding, we have aimed to contribute to local communities by selling medical and pharmaceutical products, health foods, cosmetics and daily items and by dispensing prescriptions. Today, even after we have developed into an operator of a chain of approximately 1,400 drugstores with approximately 33,000 employees, we are proud that we will remain a "pharmacy." We are working to further enhance our corporate value and accomplish sustainable growth of local communities.

Highly acclaimed for its sincere and kind treatment of customers, each of whom was served attentively through its counseling service, our first store thrived as a kind "family pharmacy." Since then, we have adopted the corporate watchwords of "kindness, honesty and trust" as the principles guiding us to growth. Layers of "kindness" form "honesty" and lead to the establishment of "trust." These tenets presented in our corporate watchwords, together with an altruistic spirit, or "sincerity," are reflected in our management philosophy, showing our fundamental values. They have been anchored among all members of our corporate group and put into practice.

Action with "sincerity" based on the tenets of our corporate watchwords and management philosophy with their focal point on "kindness," which has been the unchanging focus since our establishment, reinforces our business and HR foundation, helps customers smile, and pleases and moves them. This leads to the happiness of employees and the growth of the SUGI Pharmacy Group, loved by local communities.

## Management Messages

### To Everybody

**Sakakibara:** The global spread of the coronavirus infectious disease (COVID-19), which was unexpected by almost everyone, is taking considerable toll in terms of both deaths and cases here in Japan as well. On behalf of the SUGI Pharmacy Group, I would like to take this opportunity to express our sincere sympathy for the deceased and their families while hoping that those affected and those still fighting against the disease will recover as soon as possible.

In Japan, preparation for vaccination is underway today. I must take my hat off to medical workers and other essential workers, who are committed to preparing for the vaccination. As the SUGI Pharmacy Group, we feel our responsibility once again as an operator of drug stores underpinning social infrastructure, and at the same time, we understand that our responsibility will continue to grow in the future. As management, we have nothing but words of appreciation for our employees for being engaged in their operations at the front line to fulfill their responsibility to sustain social infrastructure, as well as for our business partners for dedicating themselves to ensure the supply of products.

**Sugiura:** Regrettably, no outlook has been presented yet for the end of the COVID-19 pandemic. While implementing anti-COVID-19 measures to the extent possible, we will continue to work hard with our first priority on ensuring an environment in which all employees can work without any worry and providing a sense of safety to local residents.

### Further Growth under the New Structure through the Concepts of "Immutability and Fluidity" and "Shu-ha-ri"

**Sakakibara:** While Ms. Akiko Sugiura was appointed as Advisor in 2018, Mr. Hirokazu Sugiura was also assigned as such this time. Now that the founders have retired from the management front line, I personally feel sad. However, both the new president and I have been working a long time while watching them, and this makes me realize that we need to maintain governance-based management and continue to enhance corporate value. I feel a strong sense of responsibility.

**Sugiura:** The management structure will change greatly, but there is and will be no change in what has been valued by the founders since the establishment of their store. Although we will proceed with new measures in some fields in line with changes of the times, such as the

progress of digital transformation (DX) accelerated by the COVID-19 pandemic, we will never change our underlying business philosophy.

**Sakakibara:** I joined the company 35 years ago, when there was only one store, which was in Nishio City, Aichi Prefecture. The concepts that I learned from the founders in those days were "immutability and fluidity" and "shu-ha-ri."

**Sugiura:** We strive to value each customer and contribute to local communities. This is an "immutable" point that we must continue to follow, no matter what will happen. For measures for doing so, however, we need to make changes "fluidly" depending on the customer and times.

**Sakakibara:** I still vividly remember the founders listening attentively to each patient for about a few hours not only about his/her medicine and disease but also about other topics. Patients with the same symptom might need different medicines, and patients with similar family structures might need quite different types of counselling. I strongly felt that such an attitude toward dispensing prescriptions represented *shu*, the starting point for a pharmacist to serve a patient. The founders established a register for each patient to manage a wide variety of information, such as his/her medical records, prescriptions, and his/her family's medical records. I think that this was "ha" for the founders.

**Sugiura:** "Shu-ha-ri" is a concept often referred to in *kado* (flower arrangement) and *budo* (Japanese martial arts). I understand that "shu" means making a model as instructed by your master; "ha" means making your own model based on the completed model; and "ri" means going beyond it and creating a new model.

**Sakakibara:** The founders launched a prescription dispensing business when the separation rate of dispensing and prescribing functions was still low and expanded one pharmacy to approximately 1,400 stores over 45 years. They achieved "ri" by creating such an unprecedented model. With the baton handed over from the founders, I'm now working on new measures, such as introducing digital technology, but this is a combination of the extension of the previous business style and a new model. I feel that I'm still halfway to "ha" of "shu-ha-ri."

**Sugiura:** Under the new management structure, we will strive to enhance our corporate value and social value by carefully continuing each effort for developing our stores and areas. While striving to achieve "immutability and fluidity" and "ri" of "shu-ha-ri," we will dedicate ourselves to accomplishing sustainable corporate growth and contributing greatly to society. In this regard, we would like to ask for your continued support.



"We value each customer."  
This determination underpins our operations.  
At the SUGI Pharmacy Group, we will continue to  
provide energy, smiles, health, and happiness.

**Eiichi Sakakibara**  
Representative Director & Chairman

**Katsunori Sugiura**  
Representative Director & President

## Top Interview

By integrating the real and the digital with keyword, we will strive to support your lives and enhance our corporate value and

“health” as the healthy and rich social value.



### Katsunori Sugiura

Representative Director & President

**Q.**  
**Tell us about the SUGI Pharmacy Group's future vision.**

**Sugiura:** The ongoing spread of COVID-19 is making many people realize how important it is to be and appreciative of being in good health. Medical care and medicine are relevant to people all through their lives in a wide variety of manners. When they are healthy, they are engaged in self-care for the purpose of primary prevention and secondary prevention. When they have a disease, they receive medical care and take medicine to treat their symptoms in then acute phase or the chronic phase. When they become old enough, they need elderly nursing care and daily life support. How medical care and medicine are relevant varies according to their health stage. In the SUGI Pharmacy Group, we are proceeding with the Total Healthcare Strategy, with which we aim to ensure contact points with customers regardless of their health condition and provide each customer with the most appropriate product and service well-tuned to his/her condition through an integration of the real and the digital based on a community-oriented approach. To satisfy customers and continue increasing their lifetime value, it is necessary for the SUGI Pharmacy Group to work in cooperation with local governments, health insur-

ance associations, medical care and elderly nursing care workers, and players in many other fields. With “health” as the keyword, we would like to ensure cooperation with stakeholders sharing the same ambition and establish a healthcare network that values “ties” and “trust.” We are striving to achieve a care cycle that covers all the stages of health management, health improvement and disease prevention, thereby operating drugstores indispensable for local communities.

**Q.**  
**Tell us about the main features and advantages of the SUGI Pharmacy Group.**

**Sugiura:** In the SUGI Pharmacy Group, Hirokazu Sugiura and Akiko Sugiura, both the founders and pharmacists with a strong passion for prescription dispensing services, realized growth by continuing to take on challenges in developing a chain of prescription dispensing drugstores, which were still rare in Japan at the time of our establishment. We have been engaged in prescription dispensing services deeply and growing rapidly, and this is one of the main features and advantages of the SUGI Pharmacy Group. Both Chairman Sakakibara and I

possess qualification as a pharmacist and have inherited the business philosophy of expanding the field where pharmacists can demonstrate their abilities. In Japan, where there is reportedly a shortage of pharmacists, how to secure pharmacists is a hurdle for new entry into the market of prescription dispensing services. At the SUGI Pharmacy Group, however, we have approximately 3,000 pharmacists, which is a great advantage for us. How can we retain pharmacists despite the current shortage? This is partly because we enable pharmacists to concentrate on what they can contribute to as such. In addition, we ensure that they can demonstrate their ability in various fields on their request, even if the field is outside prescription dispensing, and that this approach is visible even from the outside. Other factors include the concentration of our stores in densely populated areas and the introduction and operation of working styles and overtime work systems flexible enough to accommodate pharmacists' requests.

Another feature and advantage is that we are trying to expand our various operating fields with “health” as the keyword. This is a critical point for achieving the Total Healthcare Strategy. We are associated extensively not only with the prescription dispensing drugstore operator SUGI Pharmacy but also with, for example, the home-visit nursing and elderly home-care support provider SUGI Medical and

a medical care service operating company that provides support for commencement of medical practice and online medical care counseling platforms.

Our growth speed is also one of our advantages. We are striving to expand our operating scale through strategic dominance of setting up new stores mainly in the metropolitan areas in Kanto, Chubu and Kansai. At the same time, we are also reinforcing our efforts to establish stores in the Hokuriku area. For the past few years, we have continued to set up 120 stores per year, with the number of our stores reaching 1,391 as of the end of February 2021. In addition, while developing physical stores, we are also increasingly introducing digital technology in various fields. The consequence is synergy between the digital and the real. While digital technology is making physical stores even more robust, the increase in the number of physical stores is enhancing digital efficiency. Behind the SUGI Pharmacy Group's rapid growth is the fact that management, which has inherited the founders' passion, can make decisions quickly through monolithic unity based on a clear vision. I believe that a company can contribute to society only if it can take full advantage of opportunities for growth without missing them.

## Q.

**Tell us about the mega trends and social issues expected to occur in the future business environment and the opportunities and risks to be experienced by the SUGI Pharmacy Group in such an environment.**

**Sugiura:** Japan is one of the best countries in the world in terms of longevity, but it is said that the gap between the average lifespan and healthy lifespan, namely the period to be spent in an unhealthy condition until the final moment, is nine years on average for men and 12 years on average for women. The SUGI Pharmacy Group's operations are intended to contribute to the extension of the healthy lifespan. We are committed to our business based on the belief that the more we work, the more beneficial it will be to customers. The domestic healthcare segment is growing with the background of the rise in the aging of the population. The Japan Revitalization Strategy, formulated by the Japanese government, estimates that the healthcare market in a broad sense will reach the 37 trillion yen level in 2030. At the same time, there is the social challenge of rising medical care costs exerting pressure on the national budget. The Ministry of Health, Labour and Welfare has expressed its expectations of pharmacies, through the Pharmacy Vision for Patients, to play a role in the comprehensive community care system. There is a call for pharmacies to make a shift by 2035 from the present operating style of "pharmacies located near medical institutions to support the separation of dispensing and prescribing functions" to "pharmacies to support the separation of dispensing and prescribing functions with their focus on local patients" by using ICT, providing 24-hour services, and offering home healthcare and health support. High expectations are placed on pharmacies to serve as "family pharmacies" from which local residents can seek pharmaceutical advice on medicines without hesitation at any time and to carry out high-level pharmaceutical management. The direction that these policies are aiming for exactly aligns with the direction that the SUGI Pharmacy Group's Total Healthcare Strategy is aiming for. With interest in "health" growing throughout society, great business opportunities lie ahead of the SUGI Pharmacy Group.

Seen from a global perspective, an increase in the aging of the population is not unique to Japan. In the SUGI Pharmacy Group, we are making efforts in Japan to respond to the rise in the aging of the population and extend the healthy lifespan. If we can ensure that such efforts serve as a precedent model applicable to foreign countries, we might have opportunities to expand our business field in cooperation with local partners sharing the same ambition.

While striving to obtain growth opportunities with "health" as the keyword, we understand that it is important to identify business risks. The direction that the SUGI Pharmacy Group is aiming for basically aligns with that of the Japanese government. Still, a wide variety of risks are assumed, such as unexpected establishment of laws and regulations without involvement of the SUGI Pharmacy Group, mistakes due to human errors, long-term population decline, natural disasters, and acceleration of changes in society. At the SUGI Pharmacy Group, we will actively invest for our growth so that we can catch growth opportunities. At the same time, we believe that it is important to evaluate a wide variety of risks appropriately, identify a comprehensive balance between opportunities and risks from the perspective of management, and run the cycle of PDCA smoothly while ensuring that the checking function of governance works effectively.

## Q.

**Can you review the business results achieved in such an environment in the fiscal year ending February 2021 and give us your evaluation?**

**Sugiura:** In terms of numerical results, net sales, which continued to increase from our establishment in 1976, were 602.5 billion yen, up 11.2% from the previous year. Operating income increased to 33.7 billion yen, up 13.2% from the previous year, while profit attributable to owners of parent increased to 21.1 billion yen, up 1.6% year from the previous year. We cannot explain last year's business results without referring to the impact caused by COVID-19. As a result of an increase in demand due to the pandemic requiring people to stay home, sales of daily items and food products, which are consumed mainly at home, were higher than expected. On the other hand, sales of cosmetics were lower than expected. In addition, while a rise in the awareness of protection against the infectious disease led to an expansion in the sales of sanitary products, such as alcohol disinfectants and masks, less people caught a cold or enjoyed trips than usual, causing a shrink in the sales of cold medicine and motion sickness medicine.

To fulfill our responsibility of serving as infrastructure underpinning local residents despite the coronavirus pandemic, we continued to operate stores while introducing anti-infection measures promptly and flexibly, such as social distancing, droplet prevention screens, disinfection, and ventilation. There were times when customers needed to wait in line, when some products continued to be out of stock, and when we had no choice but to limit the number of products

that customers could buy. While causing such inconvenience to customers, we placed a heavy burden on employees, who needed to serve customers and operate stores in manners different from usual. Looking back on the past year, I find that there are some points to reflect on and improve especially in terms of well-tuned operations. However, given that the spread of the infection continued to change depending on the time and the area, each store did its best while checking the situation.

## Q.

**Has there been any change to the ongoing Mid-Term Management Plan 2022 due to the coronavirus pandemic?**

**Sugiura:** The Mid-Term Management Plan 2022 comes after the Consolidation of Our Foundation and Framework for Growth in FY 2015 and the Aggressive Management Approach in FY 2018. Setting the slogan "Enhancement of Our Corporate Value by Maximizing Customers' Lifetime Value," we are proceeding with a wide variety of measures from the two viewpoints of "growth strategy" and "reinforcement of the management foundation." Based on the growth strategy, we will strive to set up more than 120 new stores per year. In the field of prescription dispensing, we will set up not only "pharmacies with the function of prescription dispensing," which constitute an existing type, but also "pharmacies featuring medical malls or clinics," which serve as a one-stop medical care provider underpinning local medical care infrastructure, and "on-the-premises" pharmacies, which are located on the premises of medical institutions to support increasingly sophisticated medical care. By developing these three types of pharmacies, we will strive to establish a network of prescription dispensing and medical care. Moreover, we will provide a wide variety of products and services well-tuned to the needs of each customer in a timely manner both at physical stores and online, thereby striving to increase each customer's satisfaction and maximize our customers' lifetime value. Our quantitative targets to be achieved through these measures by the final year of FY 2022 are net sales of 710 billion yen and operating income of 37 billion yen. We will not revise these figures even during the coronavirus pandemic.

On the other hand, since the coronavirus pandemic is raising non-face-to-face needs, we will accelerate the reinforcement of DX ahead of the original plan. Furthermore, to ensure many more contact points with overseas customers when there is an ongoing decline in the number of visitors from abroad, we will also accelerate the formation of partnerships with a wide variety of companies.



Under the new management structure, we will continue to implement measures based on the direction and priority set by our predecessors. Regarding investment for growth, we will pay attention to ROI (return on investment) as one of the indexes. While ensuring efficiency in operations with an awareness of operating income margin, we will strive to increase sales and operating income and improve ROE.

## Q.

**Tell us your thoughts about human resources as one of the investment fields for growth.**

**Sugiura:** The SUGI Pharmacy Group's Management Philosophy states that "We help many more people smile, Hoping for the happiness

of each employee, Hoping for the happiness of each customer, and Hoping for the happiness of everybody.” This indicates our philosophy that we cannot make customers happy without making our employees happy and helping them smile. When employees of the SUGI Pharmacy Group realize sound growth, they can provide customers and patients with benefits. When they see that customers and patients are happy, they feel even more motivated. This “spiral of smiles” is the key to our HR strategies. Taking a wholistic view covering not only employment and education but also the use of digital technology, we will make HR investment to embody the SUGI Pharmacy Group’s Management Philosophy.

**Q.**

#### What are your thoughts about shareholder returns?

**Sugiura:** For the dividend to our shareholders in the fiscal year ending February 2021, the total of the interim dividend and year-end dividend was 80 yen per share, the same level of that of the previous year. When there are many more growth opportunities to expand our operations in a wide variety of fields with “health” as the keyword, we will invest in equipment, DX, personnel and other factors to real-

ize our growth. We believe that by doing so, we can contribute even more greatly to society and that such growth of our operations will enable our corporate value to be maximized. For shareholder returns, we will pursue the maximization of shareholder value with consideration given to balance with our investment for growth.

**Q.**

#### Tell us your thoughts about ESG and the SDGs.

**Sugiura:** The concepts of Environment, Social and Governance (ESG) and the Sustainable Development Goals (SDGs) are becoming known extensively in society. In my opinion, there are many exactly overlapping points between the concepts of ESG and the SDGs and what we have been doing since the establishment of the SUGI Pharmacy Group based on the philosophy of realizing our vision.

For example, approximately 80% of the stores of the SUGI Pharmacy Group are located in the suburbs, not in areas near stations. This is one of the SUGI Pharmacy Group’s features differentiating ourselves greatly from competitors. Behind this strategy of setting up stores in such locations is our community-oriented approach. In the SUGI Pharmacy Group, we strive to ensure that our stores serve as

infrastructure underpinning medical care infrastructure in their local communities and that such stores develop as a local base supporting safety and security for everyone. In addition, we place an emphasis on ensuring diversity in working styles so that each employee can work according to his/her life stage, such as parenting and elderly nursing care, without restrictions on working time or places. While introducing a local employment system, a working-hour option system, and a teleworking system, we ensure communication with those on leaves of absence on a continuing basis. We, thus, provide an environment and opportunities for each employee to fully demonstrate his/her ability, thereby ensuring excellent human resources. Based on our determination to contribute to society and local communities, we have been proceeding with various efforts so far, and they themselves are highly social efforts leading to an increase in the value of the “S (social)” element. To solve social problems and develop local medical care, it is necessary for a corporate group not to work alone but to strengthen cross-sectional cooperation with medical care institutions and administrative agencies.

This approach is also applicable to the element of “E (environment).” We are reducing the use of power and plastics at the headquarters and approximately 1,400 stores. To improve the global environment in a genuine sense, however, we need to ensure cross-sectional cooperation and work in tandem with outside companies and organizations. Seen from a bird’s-eye view, a supply chain consists of drugstores as retailers, wholesalers in the retailers’ upper stream, manufacturers in the wholesalers’ upper stream, and raw-material providers in the manufacturers’ upper stream. A positive impact on the environment is generated only if there is an extensive framework in which each of these elements constituting a supply chain cooperates with one another and considers the reduction of negative impact on the environment based on a wholistic view. Last year, the Japanese government declared that it will strive to achieve carbon neutrality by 2050. Specific measures toward reducing CO<sub>2</sub> emissions are now underway in a wide variety of industries. However, to reduce CO<sub>2</sub> emissions is a mere method for accomplishing an even greater contribution, namely the reduction of negative impact on the environment. It is important to work cross-sectionally while sharing the same ambition.

Another big social problem that we can address directly toward the solution is leftover medicine. It is estimated that the medicine unused by patients is equivalent to nearly 50 billion yen per year. The problem of leftover medicine contributes to a rise in medical care costs. If we can reduce this amount by at least 10% to 20% through our ef-

forts, it will mean that we can contribute greatly not only to improving patients’ health by ensuring that they take their medicine appropriately but also to reducing medical care costs and cutting CO<sub>2</sub> emissions generated at the time of disposing of leftover medicine as waste.

Toward solving environmental problems and social problems, it is, of course, necessary to proceed with measures in the SUGI Pharmacy Group. To make even greater contribution, however, the key lies in how to ensure cross-sectional cooperation and work in tandem with others. We are ready to talk to and cooperate with those who share the same ambition and want to work with us.

Another element that we need to focus on to ensure our sustainable growth as a private corporate group is “G (governance)” of ESG. Our corporate group was managed under the strong leadership of the founders through monolithic unity of the other members. Now that the founders have resigned from management, we have a new management structure. While inheriting the founders’ determination as an immutable cornerstone, we will reinforce our governance system and enhance the transparency and efficiency of our management. We have three outside directors and three outside auditors, who supervise and monitor the decision-making processes of the Board of Directors and the effectiveness of the Board of Directors from independent and objective positions. We also have the Nomination and Remuneration Committee, established on our own discretion, with outside directors constituting the committee’s majority. By implementing these measures, we intend to further improve our governance.

**Q.**

#### Can you conclude by giving a message to stakeholders?

**Sugiura:** To help extend each customer’s healthy lifespan and to realize our philosophy, namely to contribute to local communities, more dynamically, I believe that it is important to realize mutual cooperation and joint creation in tandem with a wide variety of local governments and companies sharing the same ambition with us under the keyword “health.” If not only customers and patients but also employees and local residents feel happy and if it consequently leads to an increase in corporate value of the SUGI Pharmacy Group and to the generation of sufficient shareholder returns, I’m convinced that we can create considerably great value in a wide variety of fields. Together with stakeholders, we will continue to work hard to achieve our vision of creating a future in which everybody will smile.



## To Protect People's Daily Lives from the Coronavirus Pandemic – Kind “Family Pharmacy” as Our Starting Point –

Amidst the ongoing global spread of the coronavirus infectious disease (COVID-19), the SUGI Pharmacy Group has continued store operations, filled with a sense of responsibility as a drugstore operator whose core lies in prescription dispensing services and support for home healthcare. By implementing the philosophy valued since our establishment, namely “a kind family pharmacy,” we have contributed to support for local communities and local medical care. We will continue to make utmost efforts in preventing the spread of the infectious disease and play a role as a local base supporting residents’ healthy lives and underpinning their safety and security.



## To Protect Customers and Employees' Safety

### Anit-Infection Measures at Stores

For store operations, we have placed the first priority on ensuring the safety of customers and employees. We have implemented a wide variety of measures, including social distancing. To reduce risks of droplet infection, we have set acrylic partitions on medication instruction counters. To enable pharmacists to speak with patients appropriately all the more for the coronavirus pandemic, we have reinforced our measures by introducing into Nagoya University's Hospital Store and some other stores of SUGI Pharmacy a heat detection system featuring thermal cameras and AERO SHIELD (germicidal irradiation equipment using UV-C, whose germicidal effect is reportedly the strongest of all types of UV, for disinfecting air).



Thermal camera



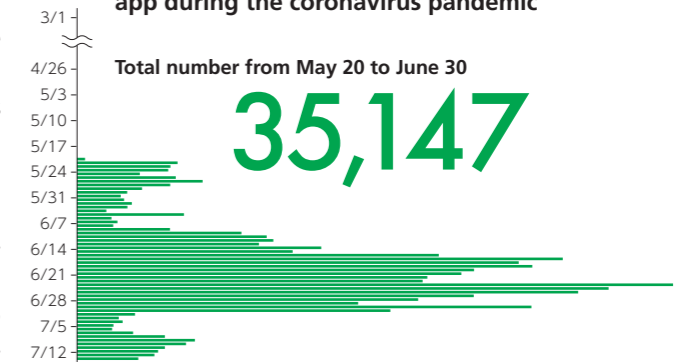
Medication instruction counter with AERO SHIELD and acrylic partitions

## To Protect the Health of Local Residents

### Free Online Service of Health Counseling from Doctors Provided

For about a month from May 20 to June 30, 2020, we provided a free online service of health counseling from doctors through the pedometer app SUGIsapo Walk. This enabled users not only to receive regular health counseling but also to seek chat counseling from doctors specializing in relevant fields to address a wide variety of medical and health questions and anxieties occurring during the prolonged coronavirus pandemic. We think that by handling a total of 35,147 cases, this counseling service contributed to reducing risks of secondary infection of the novel coronavirus and the burden on medical institutions.

Health counseling cases through the SUGIsapo app during the coronavirus pandemic



### “Protect Yourself from the New Coronavirus!!” Distributed as a Health Information Leaflet

Featuring “Protect Yourself from the New Coronavirus!!” a health information leaflet issued by the Sugiura Memorial Foundation was distributed at all the stores. The leaflet provides easy-to-understand explanations on five habits that you can try simply in order to protect yourself from the infectious disease. The leaflet also includes features on “What We Can Do Now” and “Take Care Not to Lead a Sedentary Life at Home.” We also strove to ensure that pharmacists could speak with patients all the more appropriately during the coronavirus pandemic, thereby raising local residents’ awareness of maintaining their good health.



### Special Allowance Provided to All Employees, including Part-time Workers

As essential workers, who continued to work at the front line despite risk of infection, our employees served many customers who needed masks and other sanitary products. To reward them, we provided a special allowance to all the employees, including part-time workers.

In addition, we dispatched staff from the main office to stores to reduce the burden of the stores’ staff. We, thus, rallied all our forces to continue store operations.



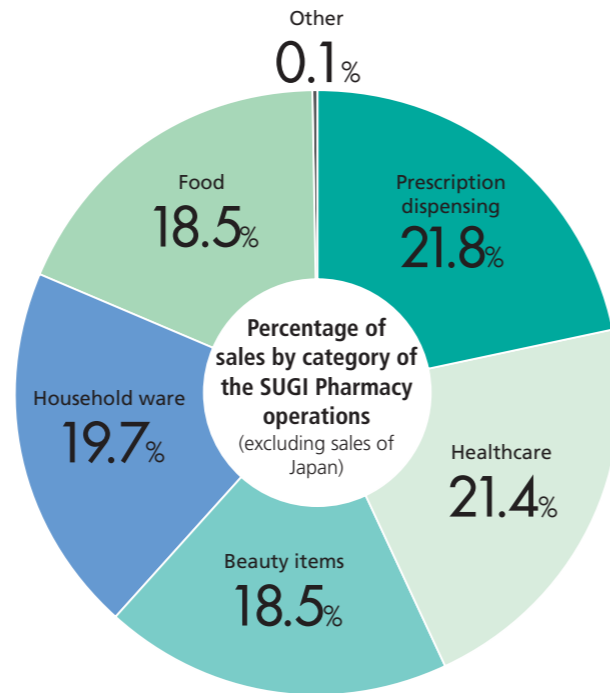
## Figures relating to the SUGI Pharmacy Group

Net sales on a consolidated basis

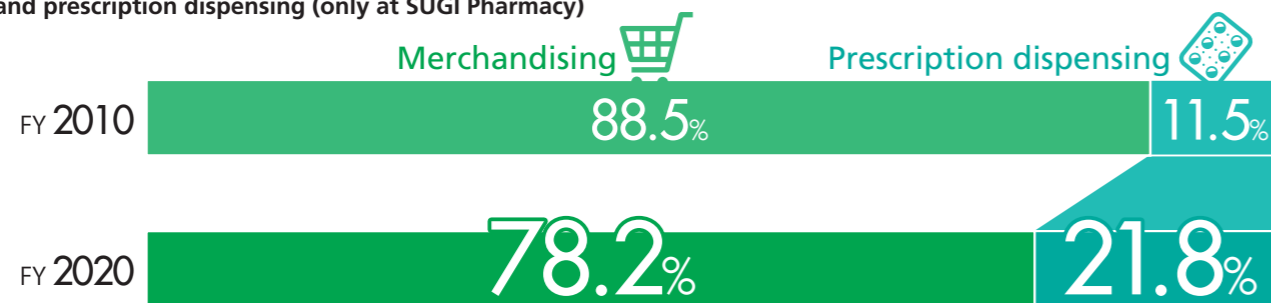
**602.5**  
billion yen  
Up +11.2% from the previous year

Operating income on a consolidated basis

**33.7**  
billion yen  
Up +13.2% from the previous year



Changes in the percentages of sales from merchandising and prescription dispensing (only at SUGI Pharmacy)



### Prescription dispensing

Sales of prescription dispensing

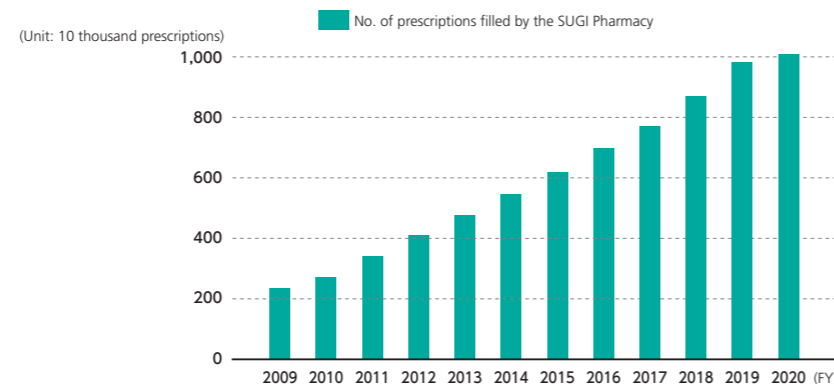
**117.5**  
billion yen  
Up +11.7% from the previous year

No. of prescriptions filled by us

**10.1** million  
Up +2.7% from the previous year

No. of medical institutions whose prescriptions are filled by us

**53,528**



### Stores

No. of stores

\*As of the end of February 2021

**1,391**  
stores

Newly established 121 stores  
Record-high number of newly established stores

Kanto area 375 stores Chubu area 505 stores Hokuriku area 34 stores Kansai area 477 stores

SUGI Pharmacy  
**1,267** stores  
(Including 1,050 prescription dispensing stores)

Percentage of prescription dispensing stores  
**82.9%**

Japan 111 stores Home-visit nursing stations 13 stations

### Customers

No. of annual visitors

**320**  
million visitors

SUGI Point membership

**18.04**  
million members



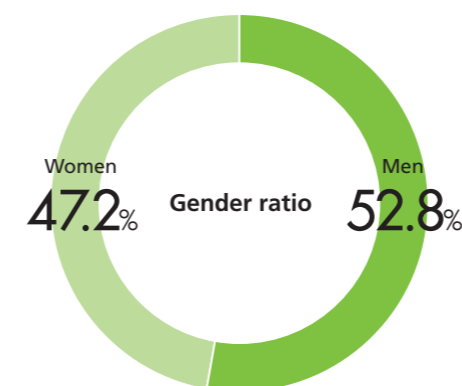
**7.72**  
million members

\*Total no. of downloads of SUGI Pharmacy app and SUGIsapo app, as well as registrations of SUGI Pharmacy as a "family pharmacy" through kakari, the "family pharmacy" app developed by MedPeer

### Employees

No. of employees \*No. of full-time employees

**6,710**



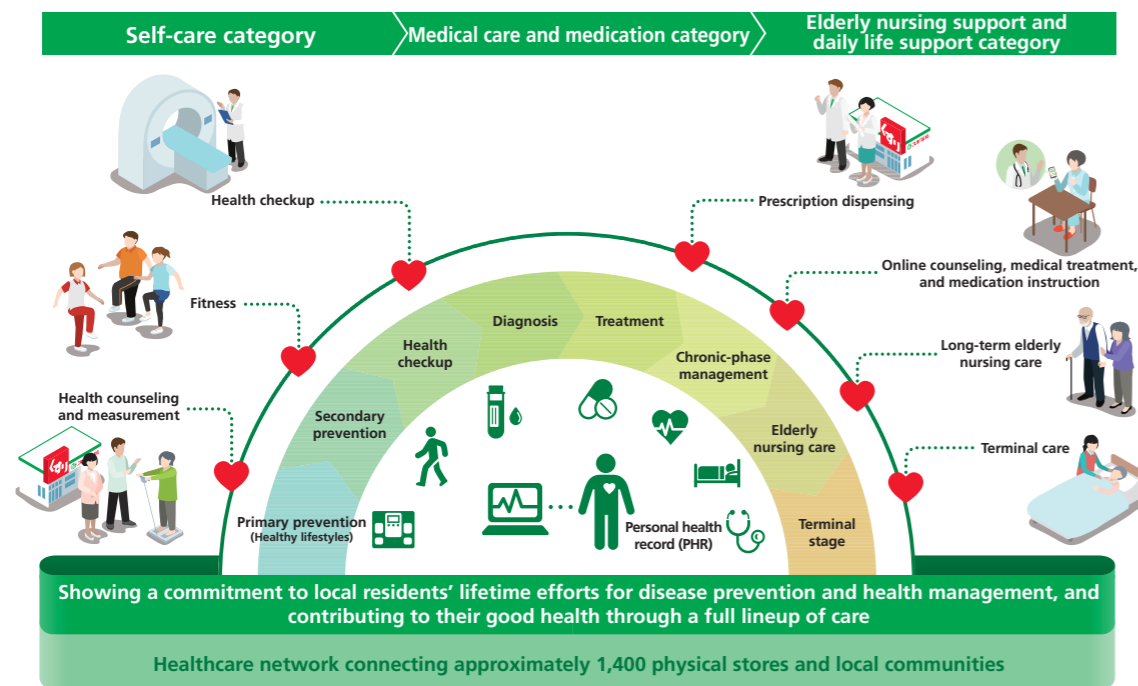
No. of experts \*Including partner employees

[Pharmacists]	[Beauty advisers]	
<b>3,025</b>	<b>1,208</b>	
[Nationally certified dietitians]	[Nurses]	[Registered pharmaceutical distributors]
<b>466</b>	<b>92</b>	<b>8,527</b>

## Ideal Vision

We are proceeding with the Total Healthcare Strategy as a business model with which we are striving to underpin every health stage of our customers and patients, ranging from self-care to medical care & medication to elderly nursing support & daily life support. By integrating our human resources and digital assets, we will continue to contribute to local communities and strive to implement the philosophy valued since our establishment.

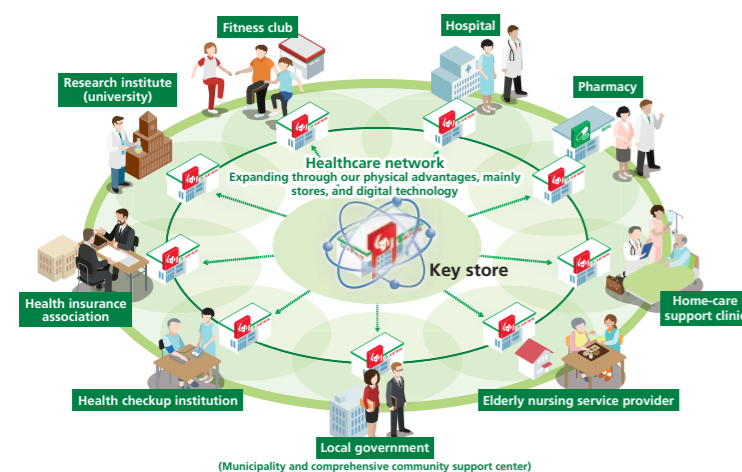
## From Self-Care to Medical Care & Medication to Elderly Nursing Support & Daily Life Support Contribute to Local Communities through Total Health Support



### Total Healthcare Strategy through the Integration of the Real and the Digital

In the Total Healthcare Strategy, people's lives, from their birth until the end, are divided roughly into the three stages covered by the self-care category, the medical care and medication category, and the elderly nursing support and daily life support category. The strategy is intended to ensure contact points with customers, regardless of their health condition, and provide optimum products and services appropriate for the condition of customers in different stages by integrating our physical advantages with digital technology.

To push forward with the strategy, we emphasize close ties and trust between local governments, companies and their health insurance associations, and medical and elderly nursing-care workers. By expanding our network even outside our corporate group, we are striving to become an operator of drugstores as an indispensable entity for local communities.



### Strategic Dominance of Setting Up New Branches around Key Stores

By proceeding with the development of solution-oriented "key stores," which underpin our strategic dominance, we place the emphasis of our store-opening strategy on the creation of hubs of healthcare networks evolving around our key stores.

\* Our key stores fulfill the enhanced function of health support expected to be provided by drugstores. The stores feature a self-service space for customers to take health measurements while providing health counseling, health instruction and prescription dispensing services. They also feature a medical institution, lease and sell welfare products, and provide home healthcare. In addition, they also have a community space where events by nationally certified dietitians and pharmacists hold events on a regular basis.

## Strategic Partnership for Proceeding with the Total Healthcare Strategy

In the SUGI Pharmacy Group, we work with companies featuring high-level expertise and advantages to realize mutual cooperation and joint creation, thereby promptly proceeding with our strategy for organically connecting physical and digital contact points with customers. We are proceeding with the Total Healthcare Strategy, designed to contribute to improving local residents' health through our commitment to their lifetime efforts for disease prevention and health management.

### Joint Development of SUGIsapo App Enabling Users to Continue Healthy Habits Easily

MedPeer Inc.



MedPeer Inc. operates an online doctor community site, in which 120,000 doctors are registered, and develops an online medical business and preventive care business through the use of IT. For the pedometer app SUGIsapo Walk, a result of our joint development project in the self-care business, the number of downloads has exceeded 1.5 million. We will continue to take advantage of SUGIsapo Walk/Eats/Deli to effectively provide services well-tuned for each customer's lifestyle and health problem.

Capital and business alliance concluded in March 2018  
<https://medpeer.co.jp>

### Approach to Customers in China through a Cross-border App

Inagora Holdings Co., Ltd.



Inagora operates Wando, a cross-border app, as a product in the inbound and cross-border business specializing in Japanese products. To reinforce the inbound business, we receive from the company its expertise on Chinese consumers' needs and consumption behavior, as well as marketing know-how. At the same time, through Wando, we approach to consumers which are sensitive to trends in China. The first joint effort is the launch of sales of the skin-care item Prieclat and other products privately developed by the SUGI Pharmacy Group through Wando in spring 2020.

Capital and business alliance concluded in January 2020  
<https://www.inagora.com>

SUGI Pharmacy Group

### Expansion of the Support Business for Preventing Lifestyle-related Disease from Becoming Severe

PREVENTS Inc.



PREVENTS Inc. provides health insurance associations with a program for preventing lifestyle-related disease from becoming serious in cooperation with doctors. In our joint project with this company, we will strive to expand the support business for preventing lifestyle-related disease from becoming serious through the use of SUGI Pharmacy's nationally certified dietitians and the introduction of each other's business partners. This alliance means that our business portfolio newly includes support for those at high risk to prevent their disease from becoming severe, enabling us to provide a full line of support, ranging from disease prevention to treatment. We will make further contribution by extending local customers and patients' healthy lifespans and making medical care costs more appropriate.

Business alliance: June 2020 <https://prevent.co.jp>

### Acceleration of Our Efforts to Set up Stores in Taiwan and Creation of Social Value in the Asia Area

Great Tree Pharmacy Co., Ltd.



Great Tree Pharmacy is a drugstore chain operator running approximately 200 stores in Taiwan. We will provide the company with our total healthcare business model established by the SUGI Pharmacy Group, as well as some of our products and trademarks. In addition, both parties share each other's management know-how. This will enable both of us to further proceed with our business development. Through the alliance with Great Tree Pharmacy, we will make attempts for new value creation, which will lead to creating not only "economic value" but also "social value" in the Asia area.

Business alliance: November 2020  
<https://www.greattree.com.tw>

# Growth Milestones

Partly because our founders Hirokazu Sugiura and Akiko Sugiura are both pharmacists, the SUGI Pharmacy Group displays a firm sense of determination especially in terms of prescription dispensing services. This has led us to take on the challenge of developing a chain of prescription dispensing drugstores, which were still rare in Japan at the time of our establishment. In addition, we have been working on the provision of home-visit prescription dispensing service since our early days in order to serve as local infrastructure in the super-aging society. Inheriting the determination valued since our establishment, we will continue to create value required by customers.

## Business Development

- 2001 ● Listed on the first section of the Tokyo Stock Exchange
- 2007 ● Acquired full ownership of Japan Co., Ltd.
- 2008 ● Changed the trade name Sugi Pharmacy Co., Ltd. to SUGI Holdings Co., Ltd.
  - Transferred to a holding-company system due to an incorporation-type company split, and newly established Sugi Pharmacy Co., Ltd. and SUGI Medical Co., Ltd.
  - Acquired full ownership of Izuka-yakuhin Co., Ltd.

- 2013 ● Established the first key store in Kumami
- 2016 ● Established the Obu Center as our own logistics center
- 2018 ● Concluded a capital and business alliance with the MedPeer Group
  - Established DCP Solution Co., Ltd. to provide support for doctors to open clinics
- 2019 ● Established Nagoya University Hospital Store as an "on-the-premises" pharmacy

- 2020 ● Concluded a capital and business alliance with Inagora Holdings Co., Ltd.
  - Established S Trading Co., Ltd. to supply products to both domestic and foreign markets
  - Concluded a business alliance with Great Tree Pharmacy Co., Ltd.

**1976** Launched as a "family pharmacy" in a small town of Nishio City, Aichi Prefecture



## Products and Services

- 2002 ● Launched a home-visit prescription dispensing service for individual patients
- 2003 ● Launched aseptic prescription dispensing in a clean room
- 2005 ● Launched facility-visit prescription dispensing services for facilities for senior citizens
- 2008 ● Launched home-visit nursing and elderly home-care services



- 2014 ● Launched rental and sales of welfare products
- 2018 ● Launched a shared pick-up and drop-off service
  - Launched the meal delivery service SUGIsapo Deli
- 2019 ● Launched a specific health guidance service by nationally certified dieticians
  - Released the pedometer app SUGIsapo Walk
  - Released the diet record app SUGIsapo Eats



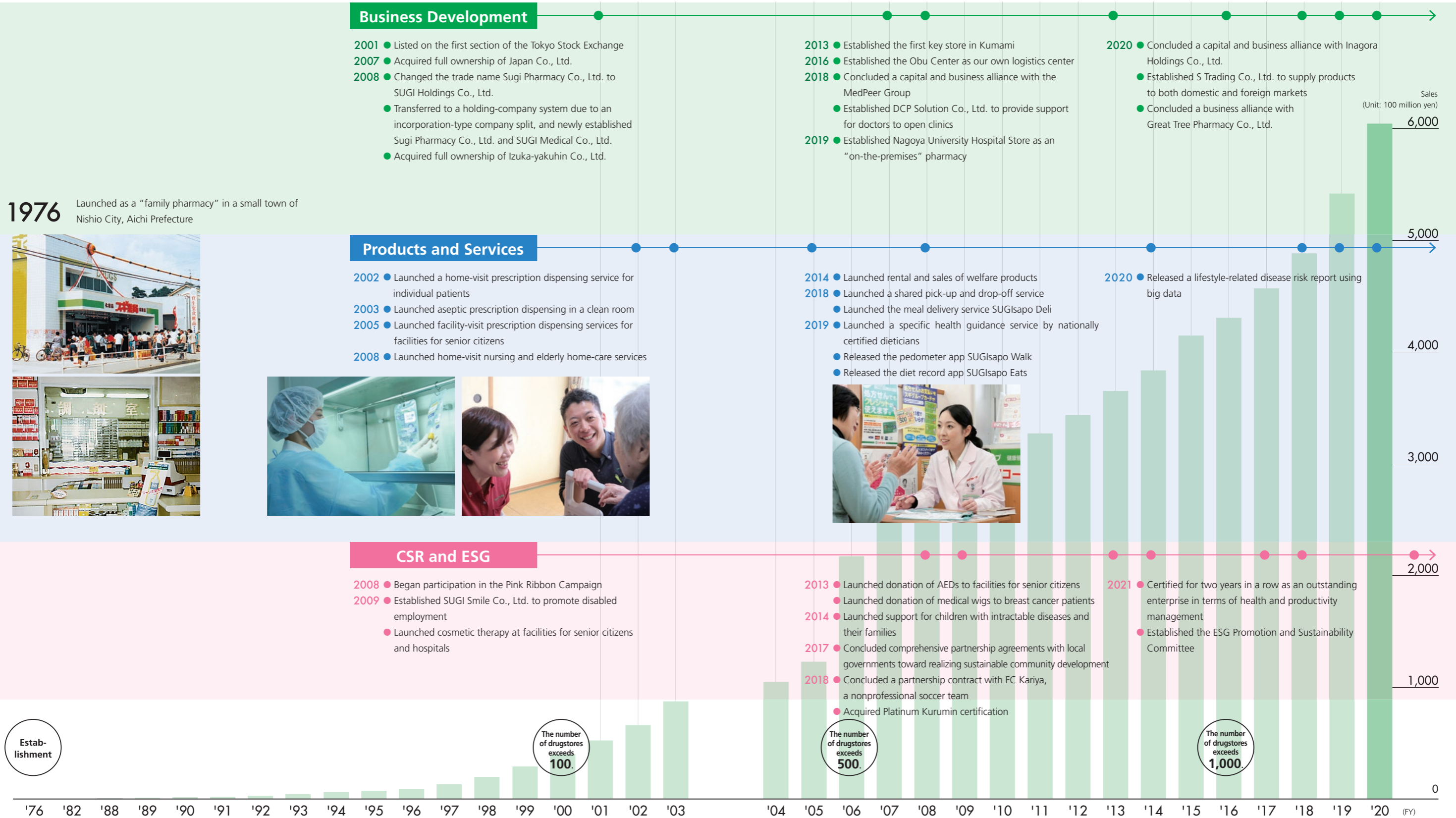
- 2020 ● Released a lifestyle-related disease risk report using big data

## CSR and ESG

- 2008 ● Began participation in the Pink Ribbon Campaign
- 2009 ● Established SUGI Smile Co., Ltd. to promote disabled employment
  - Launched cosmetic therapy at facilities for senior citizens and hospitals

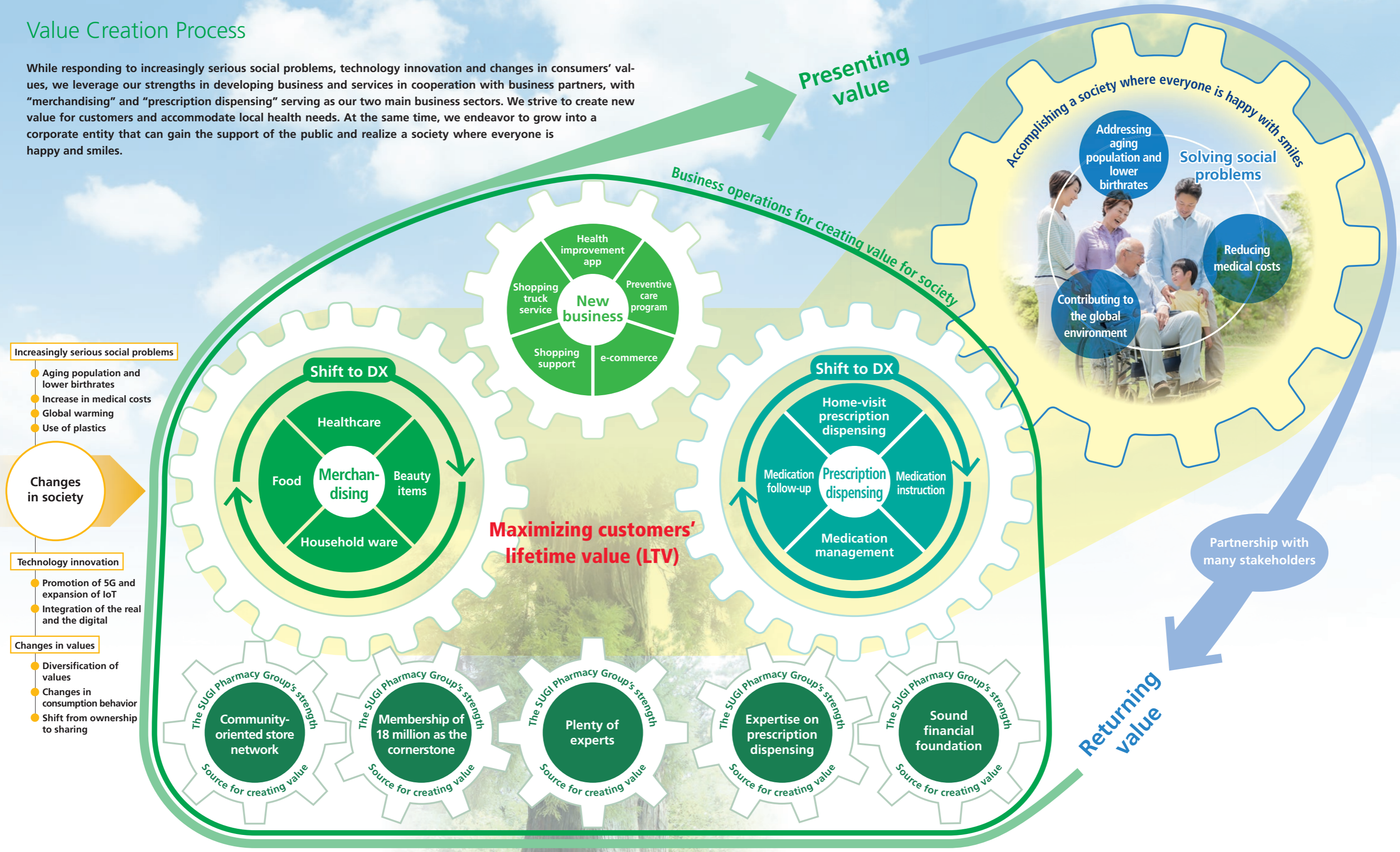
- 2013 ● Launched donation of AEDs to facilities for senior citizens
  - Launched donation of medical wigs to breast cancer patients
- 2014 ● Launched support for children with intractable diseases and their families
- 2017 ● Concluded comprehensive partnership agreements with local governments toward realizing sustainable community development
- 2018 ● Concluded a partnership contract with FC Kariya, a nonprofessional soccer team
  - Acquired Platinum Kurumin certification

- 2021 ● Certified for two years in a row as an outstanding enterprise in terms of health and productivity management
  - Established the ESG Promotion and Sustainability Committee



## Value Creation Process

While responding to increasingly serious social problems, technology innovation and changes in consumers' values, we leverage our strengths in developing business and services in cooperation with business partners, with "merchandising" and "prescription dispensing" serving as our two main business sectors. We strive to create new value for customers and accommodate local health needs. At the same time, we endeavor to grow into a corporate entity that can gain the support of the public and realize a society where everyone is happy and smiles.



Underpinning local medical care with **Kindness, Honesty and Trust**

Contributing to local communities

## Business Report (Sugi Pharmacy Co., Ltd.)



**Shinya Sugiura**

Managing Director of Sugi Pharmacy

Amidst drastic changes in people's lifestyles due to the coronavirus pandemic, we implement all possible anti-infection measures, thereby underpinning customers' and patients' safe and healthy daily lives at the front line in local communities.

In FY 2020, the spread of the novel coronavirus infectious disease drastically changed people's lifestyles. In this environment, to enable customers to shop at our stores without any worry, the SUGI Pharmacy Group implemented all possible measures, such as ensuring the wearing of a mask by all employees, installing disinfectant spray at store entrances, setting droplet prevention partitions on checkout counters, and ensuring distance between customers waiting in a checkout line. With our employees providing service with kindness, we continued regular operations to the extent possible in order to underpin customers' and patients' safe and healthy daily lives at the front line of local communities.

In the merchandising business, there was a decrease in the sales of cosmetics due to no sales to inbound tourists mainly in stores located in urban areas and a decline in frequency of wearing and coverage with makeup because of the establishment of the habit of wearing a mask. At the same time, there was a considerable increase in the sales

of masks, thermometers, and disinfection-related items purchased from the perspective of anti-infection. In addition, as a result of a rise in demand due to the pandemic requiring people to work from home or stay home due to school closure, there was a growing need for food items, leading to favorable merchandising results especially in stores located in the suburbs.

In the prescription dispensing business, the number of prescriptions filled by us decreased due to the coronavirus pandemic making people refrain from going out and requiring them to avoid the so-called 3Cs, leading to hesitation to go to medical institutions or the extension of prescription terms. Although the growth rate of sales of the prescription dispensing business became sluggish, we continued two-digit growth amid the difficulties by establishing new prescription dispensing stores toward further expanding our prescription dispensing business.

## Merchandising

At all stores, we strengthened the lineup of products that were typically purchased at drugstores and that would contribute to improving physical strength and immunity. Under the lead of registered pharmaceutical distributors, all our staff recommended nutritional drinks and other products to customers with anxiety about new coronavirus infection and called for them to take anti-infection measures. In addition, we reinforced our sales promotional measures by analyzing customer data to provide products, mainly in the fields of household ware, food, and sanitary products, at prices which comply with customer needs. Accordingly, we captured demand of customers who needed to stay home due to the coronavirus pandemic.

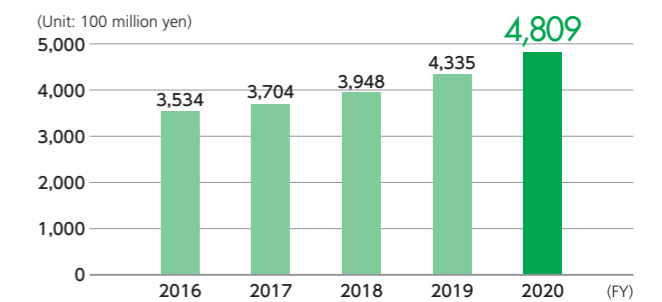
At stores located in the suburbs, we continued our efforts launched a few years ago. With the background of an increase in people's awareness of good health amidst the coronavirus pan-

demic, we strengthened the lineup of food items developed with the concept of health or beauty, such as specific health food and fermented food. We also ensured that the sales section could handle many more items, including not only vegetables and other ingredients but also frozen food, such as frozen side dishes, noodles and rice dishes, in order to accommodate customers' wide range of needs, from cooking to meals. In urban areas, we are proceeding with the development of next-generation stores, for example, by operating stores specializing in beauty items. At such stores, we handle cosmetics that were not available before at drugstores and incorporate social media as a promotional and sales tool.

As a result of customers' support of these efforts, we marked net sales of 480.9 billion yen (110.9% of the previous year's level). Despite the severe market environment amidst the coronavirus pandemic, we increased our business results considerably.



Sales (merchandising of Sugi Pharmacy Co., Ltd.)



## Prescription Dispensing

We spent the past year ensuring that our pharmacists could concentrate on providing patients with high-quality medication instruction by assigning medical office workers and proceeding with automation for prescription dispensing services.

While medical office workers assume responsibilities ranging from prescription acceptance and data entry to item picking and checkout, pharmacists provide patients with medication instruction during all that time. Although there used to be many complaints from customers about their waiting time, such time has now become possible to be used more effectively. Moreover, to provide support for patients from the time of their consultation at medical institutions to the next time, we focus on "prior counseling" at the time of our accepting prescriptions, "medication follow-up" during their time of taking medication, and "tracing reports" designed to provide obtained feedback to doctors. By doing so, we are improving our function as a "family pharmacy." Furthermore, we are increasing our presence in local communities by setting up stores focusing on home-visit services

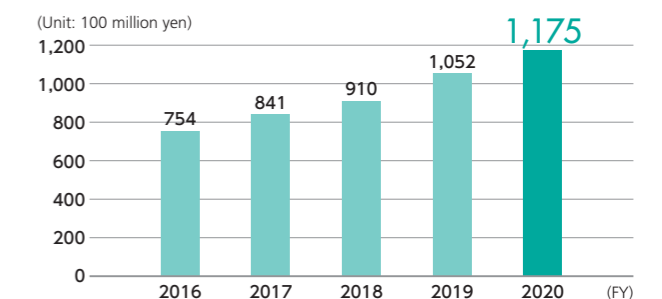
through integration of cross-functional partnership, an even more efficient delivery system, and online medication instruction.

We have introduced kakari, an app (developed by MedPeer) with the functions of sending prescriptions and searching for medicine and health consulting through chatting. In addition to increasing customers' convenience, this introduction has enabled us to provide medication follow-up through pharmacists even if the patients are not at our stores. We thus provide support so that patients can take medicine without any worry.

Greatly affected by the coronavirus pandemic, FY 2020 saw a drastic decline in the number of prescriptions filled in the entire market of prescription dispensing services. Many patients refrained from going to their medical institutions, while there was also a decline in the number of flu patients. In the SUGI Pharmacy Group, we filled 10.10 million prescriptions, 102.7% of the previous year's level, with sales in prescription dispensing services reaching 117.5 billion yen (111.7% of the previous year's level).

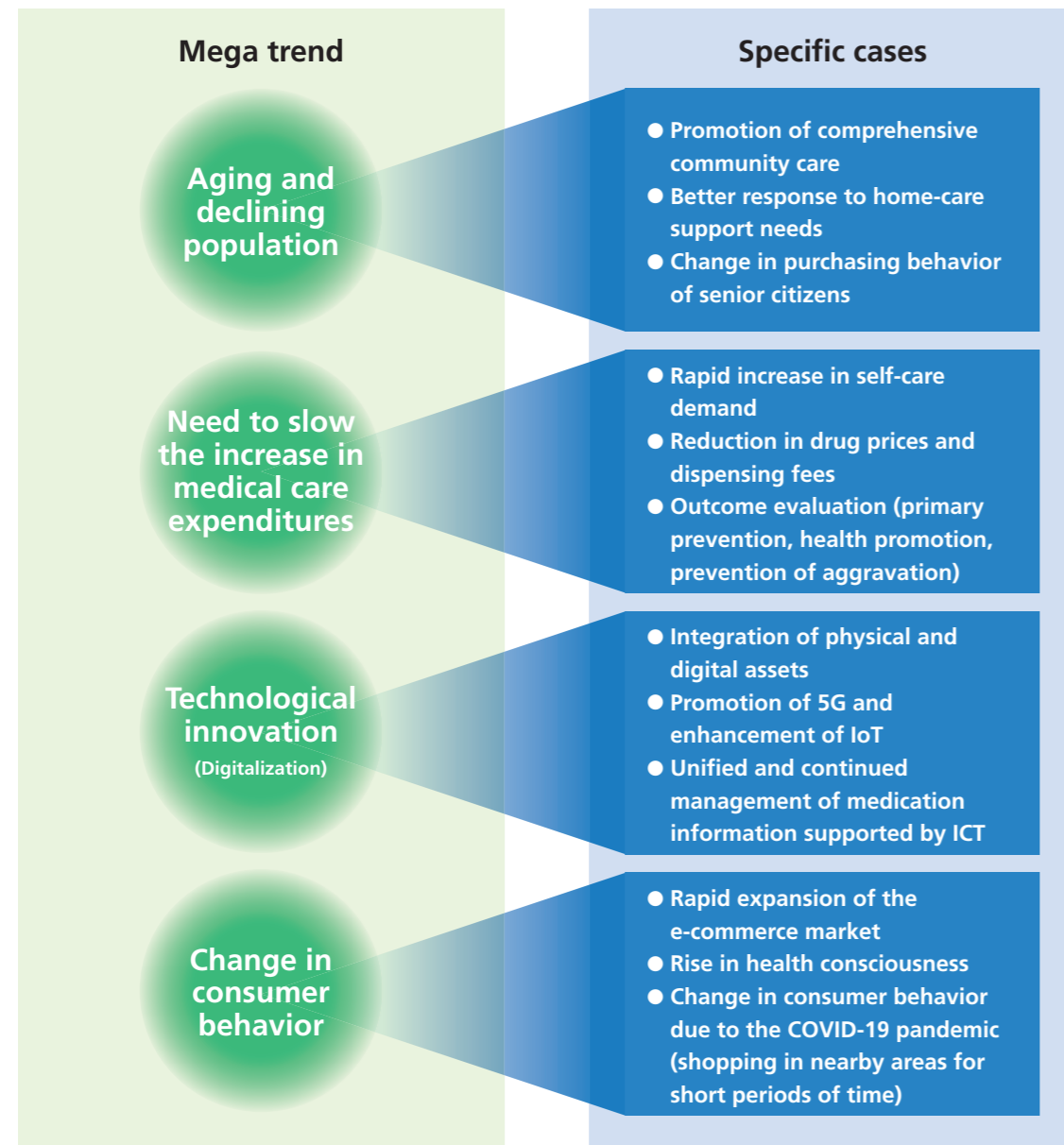


Sales (prescription dispensing of Sugi Pharmacy Co., Ltd.)

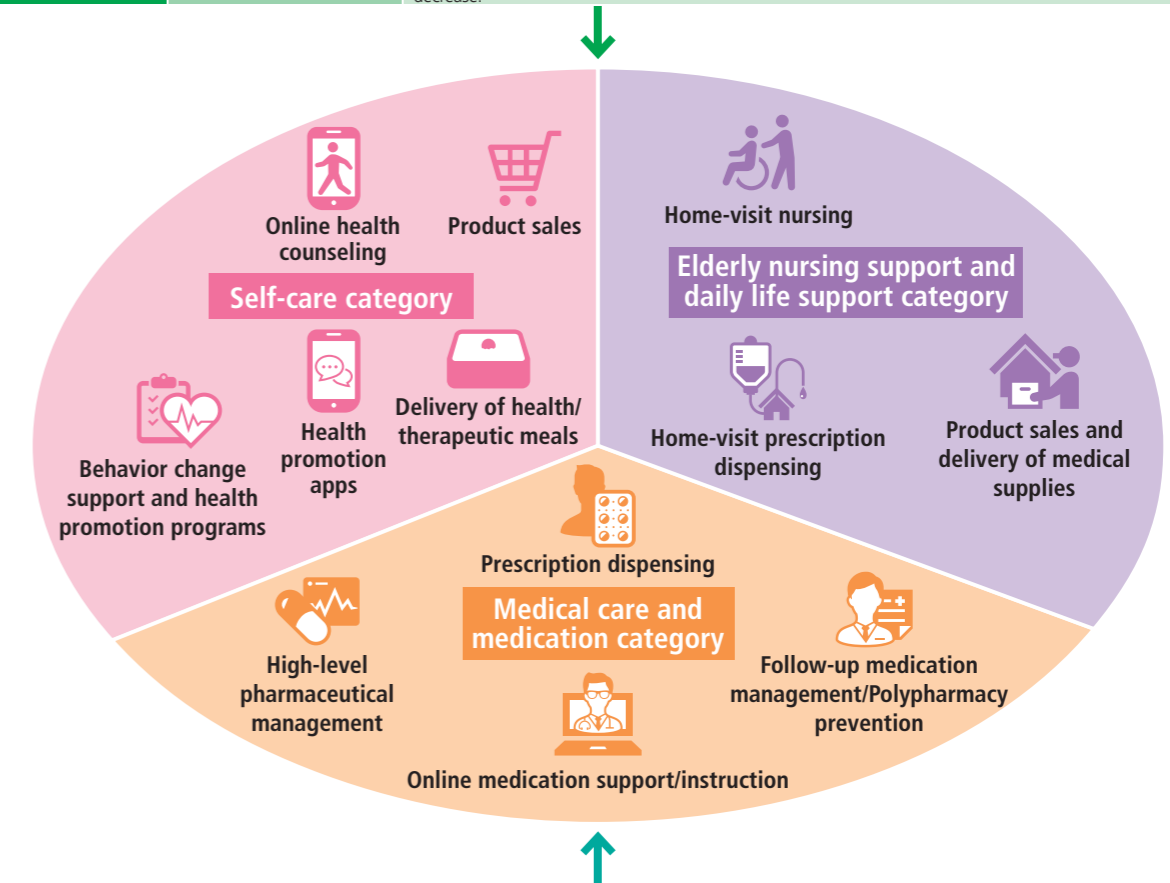


# Market Environment

What is required in solving challenges, such as the aging and declining population and the need to slow the increase in medical care expenditures, is total healthcare covering self-care, elderly nursing support, and daily life support focused on each customer. Drugstores overseas are undergoing accelerated digitalization in various forms, while in Japan, the Ministry of Health, Labour and Welfare is promoting policies to reorganize all pharmacies into “family pharmacies” by 2025.



Drugstore segment	Size of the drugstore market <sup>*1</sup>	2.7 trillion yen in 2000 → 8.3 trillion yen in 2020 → 10 trillion yen in 2025 (estimate)
	Population aged 65+ in Japan <sup>*2</sup>	22.04 million in 2000 → 33.87 million in 2015 → 39.21 million in 2040 (estimate)
	Trend	Demand in the self-care category, such as maintenance and promotion of health and disease prevention, and that in the life support category, such as meals and product sales for senior citizens, are increasing rapidly in accordance with the progress in population aging. One of the few growing industries in the era of population decrease.



Prescription dispensing segment	External prescription rate (Market size)	39% (2.7 trillion yen) in 2000 → 63% (6.1 trillion yen) in 2010 → 75% (7.7 trillion yen) in 2019 <sup>*3</sup>
	Size and share of the prescription dispensing market for drugstores <sup>*4</sup>	Prescription dispensing amount: 1.07 trillion yen in 2020 (+9.0% YoY) Prescription dispensing market share: 13.8% in 2019
	Trend	In the prescription dispensing market, a shift from pharmacies located near medical institutions to drugstores located in suburban areas is in progress following the Pharmacy Vision for Patients promoted by the Ministry of Health, Labour and Welfare. An important segment supporting the growth of drugstores.

\*1: "Fact-finding survey of drugstores in Japan" by the Japan Association of Chain Drug Stores  
 \*2: From materials of the National Institute of Population and Social Security Research  
 \*3: "Progress of separation of dispensing and prescribing functions (Trend in insurance dispensing)" by the Japan Pharmaceutical Association  
 \*4: Dorabizu on-line [Drugstore Association] Prescription dispensing at drugstores exceeds 1 trillion yen for the first time (Released April 16, 2021) <https://www.dgs-on-line.com/articles/877>

## Accelerated digitalization in drugstores overseas

Walgreens, a major U.S.-based drugstore chain with over 9,000 stores nationwide, provides a comprehensive healthcare service focused on customers and patients by connecting physical stores and apps.

In addition to providing one-stop healthcare service at community-based physical stores, they launched an electronic marketplace of multiple telemedicine services in July 2018, allowing users to select their preferred service at a single platform on the company's app.

## Outline of the Pharmacy Vision for Patients

In 2015, the Ministry of Health, Labour and Welfare released the Vision to demonstrate the future vision of family pharmacies toward realizing separation of dispensing and prescribing functions with the focus on patients, as well as to indicate the course of action to reorganize current pharmacies into family pharmacies from a medium- and long-term perspective toward 2025, when baby boomers reach the age of 75, and toward 2035, 10 years thereafter.

- 2015 The Ministry of Health, Labour and Welfare released the Pharmacy Vision for Patients**
  - Aiming to equip all pharmacies, including those located near medical institutions, with the function of family pharmacy
- 2016**
  - Themed pilot project to strengthen the function of family pharmacist/pharmacy
  - Fact-finding survey, study of the roadmap
- 2025 All pharmacies to become "family pharmacies"**
  - Use of ICT
  - Family pharmacy + health support functions
- 2035 Demonstration of the family pharmacy function in daily living areas**
  - Locations to be within the communities

# Mid-Term Management Plan 2022

We have been pushing forward with our growth strategies under the slogans of “Consolidation of our foundation and framework for growth” since FY 2015 and “Aggressive management approach” since FY 2018. We are accelerating the speed of our reforms to further enhance our corporate value by reviewing the Mid-Term Management Plan 2020 a year ahead of the original schedule and proceeding with our operations based on the new three-year mid-term management plan from FY 2020, which centers on “reinforcement of management with the focus on customers’ lifetime value” and “promotion of digital transformation in management.”

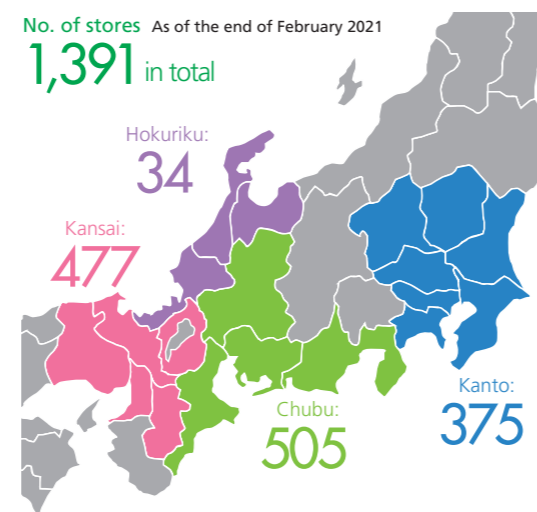
FY 2020 – FY 2022 Enhancement of our corporate value by maximizing customers’ lifetime value			
Growth strategy	1	Reinforcement of our sales power	<ul style="list-style-type: none"> <li>Reinforcing our operations in existing areas (opening stores, frequently-visited stores &amp; experience-oriented stores, dispensing prescriptions)</li> <li>Expanding into new growth areas (inbound tourists and overseas markets)</li> </ul>
	2	Reinforcement of management with the focus on customers’ LTV*1 pp. 29–30	<ul style="list-style-type: none"> <li>Proceeding with the Total Healthcare Strategy</li> <li>Enhancing customers’ LTV by integrating our physical and digital assets</li> </ul>
	3	Expansion of cooperation and collaboration	<ul style="list-style-type: none"> <li>Concluding alliances and M&amp;A transactions (within or outside the industry)</li> <li>Optimizing the entire value chain process through information sharing</li> </ul>
Reinforcement of the management foundation	4	Promotion of DX**2 in management pp. 31–32	<ul style="list-style-type: none"> <li>Presenting new forms of customer experience through the use of digital technology</li> <li>Optimizing our existing operations through the use of digital technology</li> </ul>
	5	Improvement of productivity	<ul style="list-style-type: none"> <li>Opening new stores with high investment efficiency and renovating existing stores</li> <li>Enhancing operational productivity (abolishing unnecessary tasks, employing part-time workers, and proceeding with automation)</li> </ul>
	6	Reinforcement of human resources and organizations	<ul style="list-style-type: none"> <li>Employing and training human resources to make our stores even more robust and fostering key players who will underpin the next generation</li> <li>Making our organizations more streamlined and less hierarchical toward increasing our productivity and expanding into new business fields</li> </ul>
FY 2022 Quantitative target		<ul style="list-style-type: none"> <li>Net Sales ¥710.0 billion, Operating profit ¥37.0 billion (Profit margin 5.2%)</li> </ul>	

\*1 LTV: Lifetime value \*2 DX: Digital transformation

## Reinforcement of our sales power (Strategy for opening new stores)

### Increasing regional shares by opening stores aggressively, and making our stores even more competitive

We intend to push forward with strategic dominance in the areas of Kanto, Chubu, Kansai, and Hokuriku. By the end of FY 2020, we have established 1,391 stores in total, featuring industry-leading regional shares in the Chubu and Kansai areas. Many of the stores are prescription dispensing drugstores in suburban areas focused on health and beauty items. However, we have recently been proactively promoting the establishment of stores focused on foods with enhanced convenience for consumers, stores in urban areas focused on beauty items, and stores featuring medical facilities.



### Establishing a prescription dispensing and medical care network by adopting three types of community healthcare stores

We will proceed with a combination of the three types of community healthcare stores: “pharmacies with the function of prescription dispensing,” “pharmacies featuring medical malls or clinics” and “on-the-premises” pharmacies. While achieving cooperation with local medical institutions, we are working to ensure that patient information is shared regardless of the type of pharmacy that the patients use, and establish a network of prescription dispensing and medical care to underpin local residents’ safe and secure daily lives.



“Pharmacies featuring medical malls or clinics”  
Reinforcing cooperation with medical institutions from the perspective of local medical infrastructure

“Pharmacies with the function of prescription dispensing”  
Expanding the standard model as an advantage that we have maintained since our establishment

Mutual sharing of patient information



“On-the-premises” pharmacies  
Reinforcing support for advanced medical care as an important base connecting core hospitals and local stores

## Featured store ① Shimizuyama Store

### Connects patients in the community to better healthcare as a store featuring a clinic

As one of the “pharmacies featuring medical malls or clinics” out of the three types of community healthcare stores, SUGI Pharmacy Shimizuyama Store (Midori-ku, Nagoya) invited Shimizuyama Skin Clinic (Director: Dr. Akinori Hayakawa, dermatologist) to the store’s premises. The clinic was opened adjacent to the store.

Patients at the clinic can visit Shimizuyama Store immediately after receiving diagnosis and treatment to have their prescriptions dispensed. In addition, as the store offers a number of hygiene items for patients with skin diseases, such as gauze, they can select items in accordance with their symptoms. Moreover, for the many patients interested in beauty, the store provides substantial counseling services, including suggestion of supplements and dietary guidance.



## Featured store ② Shinjuku 3-chome Store

### Developed into a beauty-focused store through integration of physical and digital assets

SUGI Pharmacy Shinjuku 3-chome Store boasts the great size of its area for beauty products among the SUGI Pharmacy Group. It is one of the largest drugstores around the Shinjuku 3-chome area, having two floors of sales space. The store’s greatest advantage is having a prescription dispensing pharmacy, in addition to the large selection of health and beauty items. Customers can fulfill their wishes to become healthier and more beautiful.

The store focuses on offering customer experiences through the contact points featuring the integration of physical and digital assets. It makes suggestions to customers according to their preferences through the apps and adds to their interest using digital signage; features a collaborative on-site shopping area allowing customers to purchase items of brands only available through one of Japan’s most popular cosmetic shopping apps NOIN (this is the first project as a drugstore); and organizes live events featuring Instagram.



## Expansion of cooperation and collaboration

### Inagora

Inagora Holdings Co., Ltd.

We collaborate with Inagora, whose business includes the operation of Wandou, one of the largest inbound/cross-border e-commerce platforms featuring Japanese items for Chinese customers. They are engaged in the business for Chinese people planning to visit Japan through Chinese social media Weibo and Redbook, and the cross-border e-commerce business through live stream sales on WeChat, one of the most widely-used apps in China.



## Reinforcement of human resources and organizations

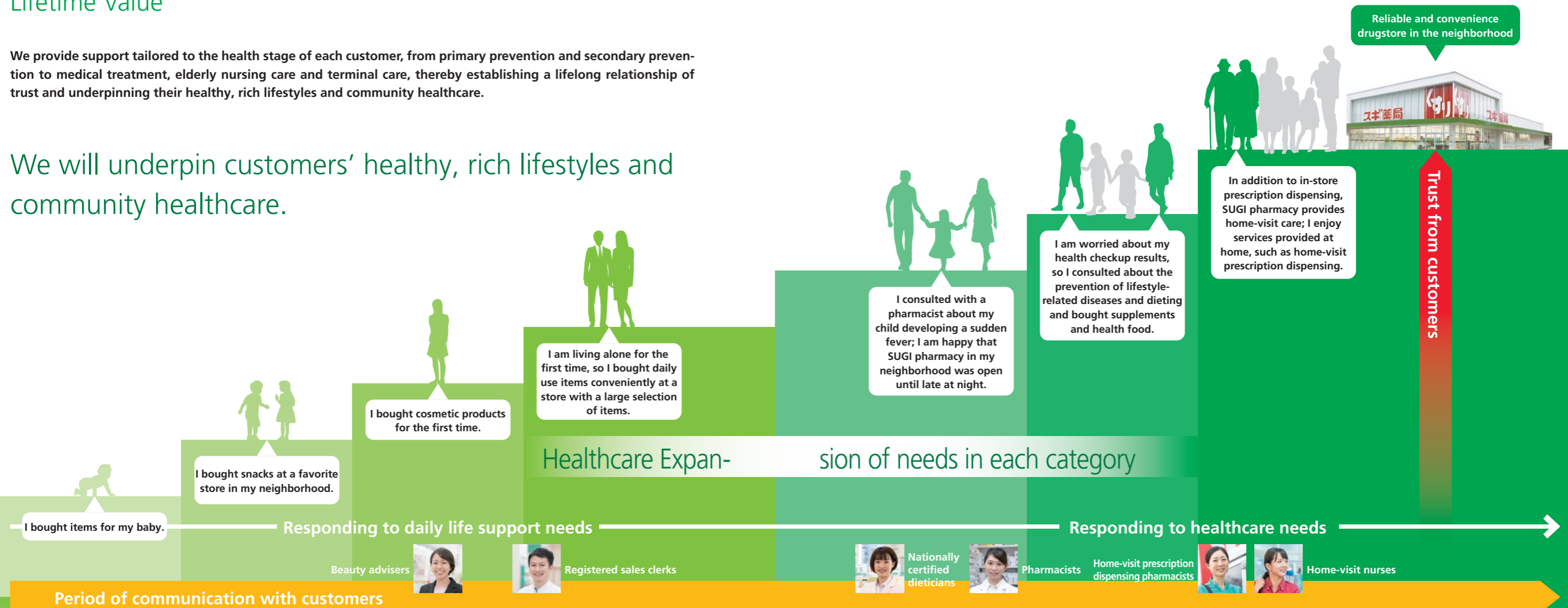
The basic principle for our human resource strategy is: “To be a company that considers human resources as an asset, and allows each employee to achieve growth, feel job satisfaction, and continue working without worries.” Based on this, we promote our human resources strategy with the three pillars of “human resources development,” “securing human resources,” and “reform in human resources management.” By fostering and protecting our employees as an asset, we will realize our management philosophy and growth strategies.



# Lifetime Value

We provide support tailored to the health stage of each customer, from primary prevention and secondary prevention to medical treatment, elderly nursing care and terminal care, thereby establishing a lifelong relationship of trust and underpinning their healthy, rich lifestyles and community healthcare.

We will underpin customers' healthy, rich lifestyles and community healthcare.



## Digital contact point (Gateway to the services)



<b>SUGIsapo Walk</b> A pedometer app that allows users to earn SUGIsapo Miles, which can be exchanged with SUGI Points	<b>SUGIsapo Eats</b> A diet recording app that allows users to earn SUGIsapo Miles just by taking photos of their meals	<b>SUGIsapo Deli</b> A meal delivery service under the supervision of nationally certified dietitians
<b>Joint campaign with business partners</b> We gather and offer various information based on the needs of each customer.	<b>Exchange with SUGI Points</b> Redeeming the points for rewards is also available on the app.	<b>kakari</b> An electronic prescription notebook app on which you can register your family pharmacy

<b>Hosting seminars and events</b> 	<b>Value creation from stores</b> <b>Community space</b> A wellness space where we provide customers and patients with more detailed counseling on meals and exercise and suggest solutions. Here we make commitments to people at various health stages through our experts, such as pharmacists and nationally certified dietitians, and a wide variety of products and services.	<b>Continuance</b> <b>Lifestyle-related Disease Risk Report</b> Diabetes Prevention Support Program
<b>Introducing devices that inspire new awareness</b> 	<b>Expansion</b> <b>Oh! Tassha-juku</b> A three-month class on preventive care, where participants can learn how to build a body that requires no long-term care	



# Promotion of DX\* and Future Vision

\* Digital transformation

Through integration of the physical and digital assets, we will effectively provide services tailored to the lifestyle habits and health challenges of each customer.

## In-store communication

### More effective counseling supported by digital tools

Based on the product purchase history and other information collected through digital tools, we will provide counseling tailored to the needs of each customer, thereby providing them with optimal value.

#### Counseling by experts



Pharmacists



Beauty advisers

#### Digital tools



We provide medication instruction of higher quality, utilizing diagnostic inference based on the prescription information from the next-generation receipt computer PHARLO.



Personal cosmetics record



Skin analyzer

We provide appropriate counseling by using the product purchase history gained from electronic record of cosmetics purchases and information gained from skin analyzers.

Providing new forms of customer experience

## Online communication

### Providing customer-oriented services anytime, anywhere

Establishment of a relationship of trust with customers leads to their frequent visits, and makes it possible for us to utilize accumulated data and contact points for in-store counseling services.

#### Counseling by experts



Pharmacists

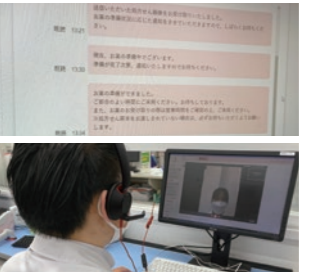


Nationally certified dieticians

#### Digital tools



kakari



Family pharmacy support app kakari  
\* Produced by MedPeer, Inc.

It helps follow-up by pharmacists after medication and online medication instruction.



eats

It provides an AI-based calorie calculation service and a chat consultation by nationally certified dieticians.

Providing new forms of customer experience

## Expansion of in-store and online communication

### Prescription dispensing

Establishing an environment allowing pharmacists to focus on communication with customers by computerizing the prescription dispensing process



Providing efficient, safe and secure prescription dispensing services by introducing picking support systems and powder medicine checking systems



Productivity improvement

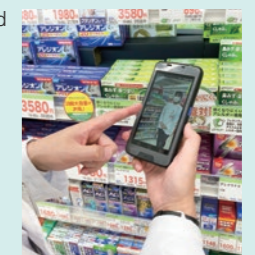
## through productivity improvement by DX

### Product sales

Contributing to the streamlining of order placing, stock control, and point redeeming operations by introducing portable information devices and connecting them to various systems



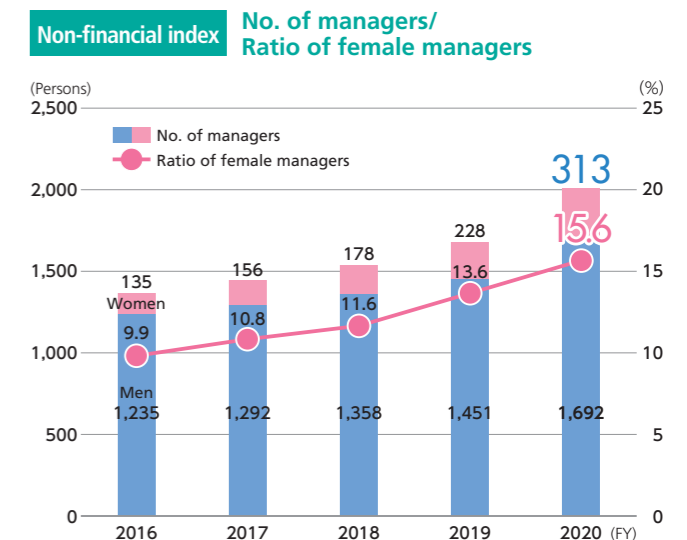
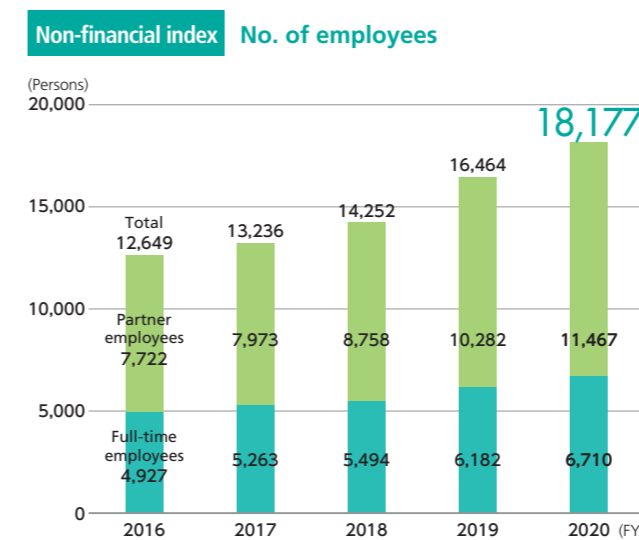
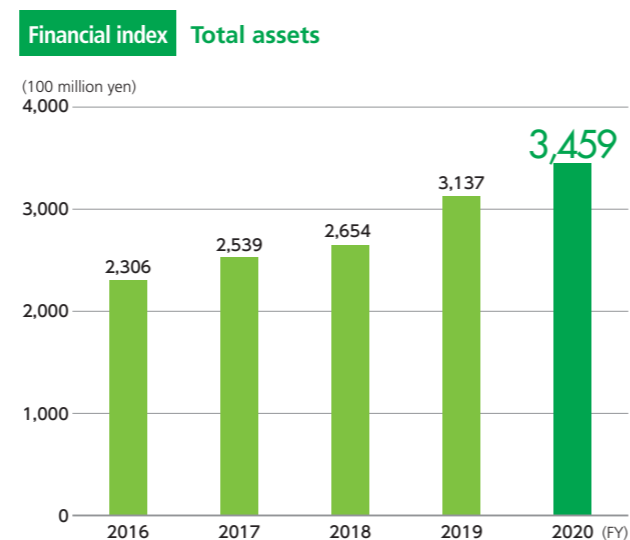
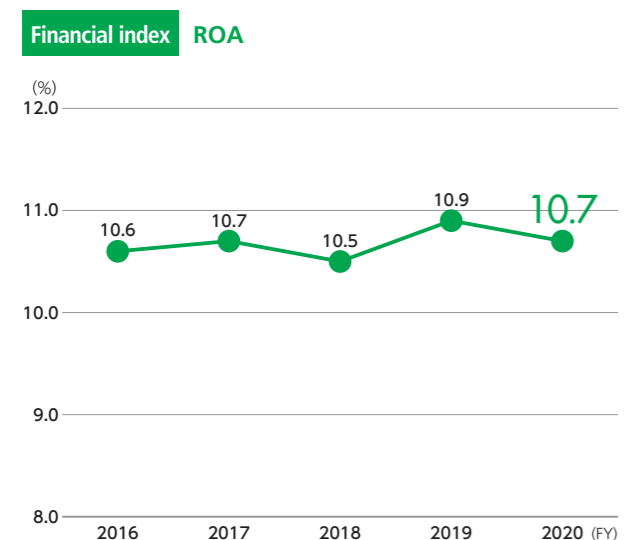
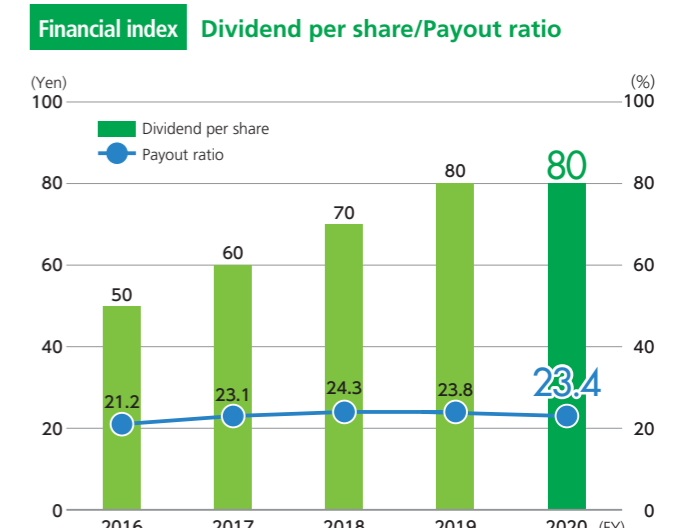
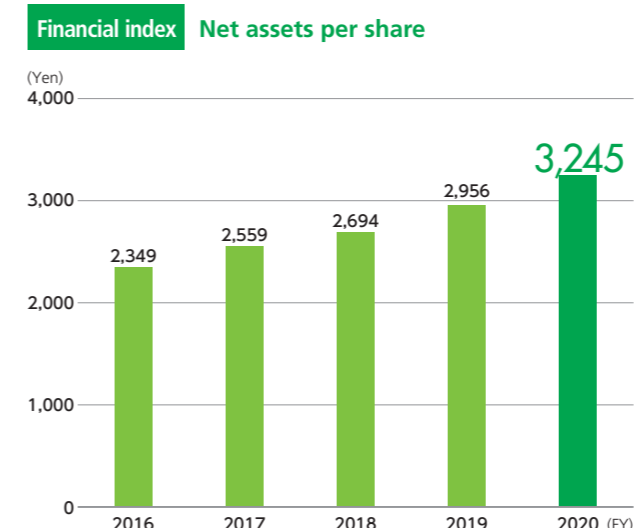
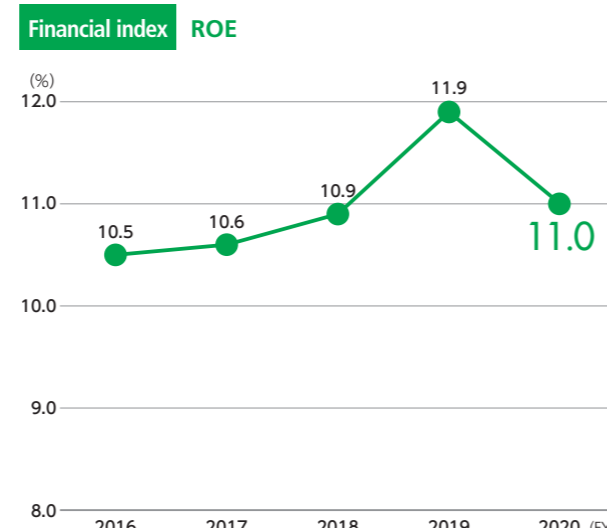
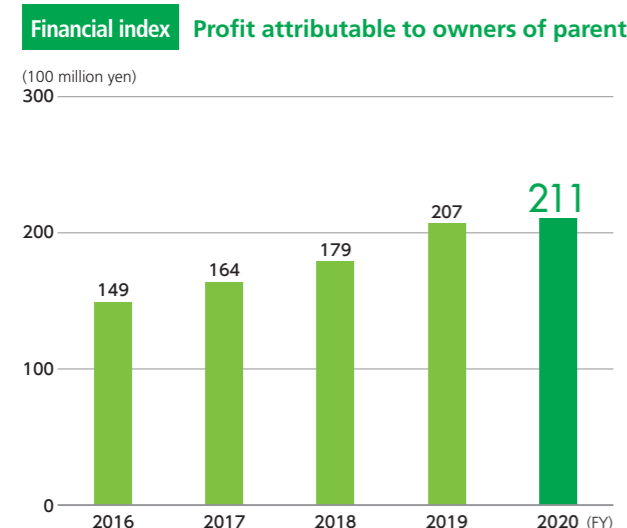
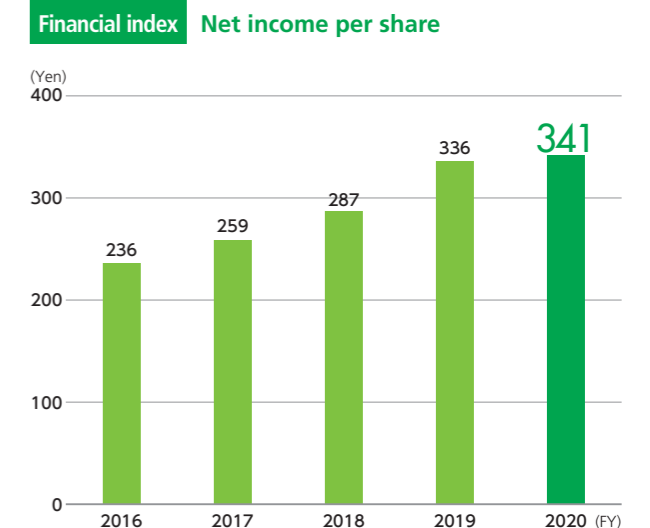
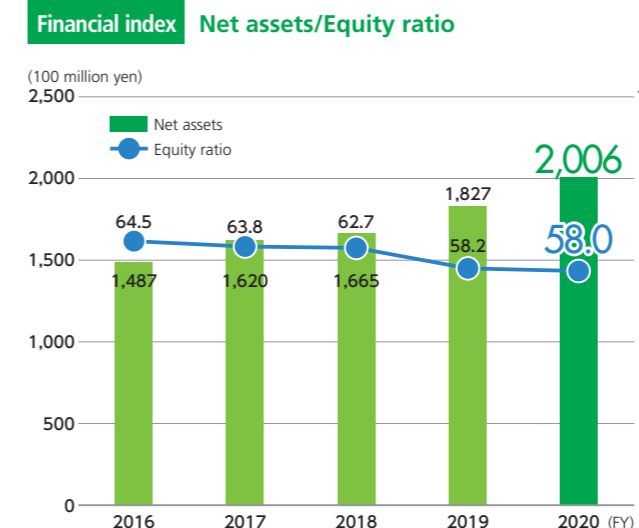
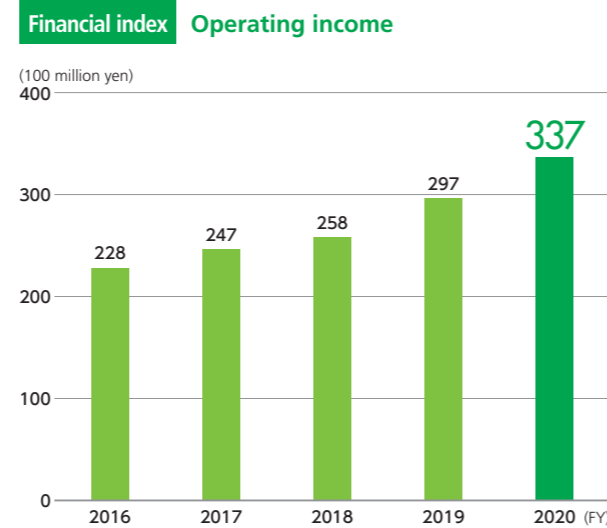
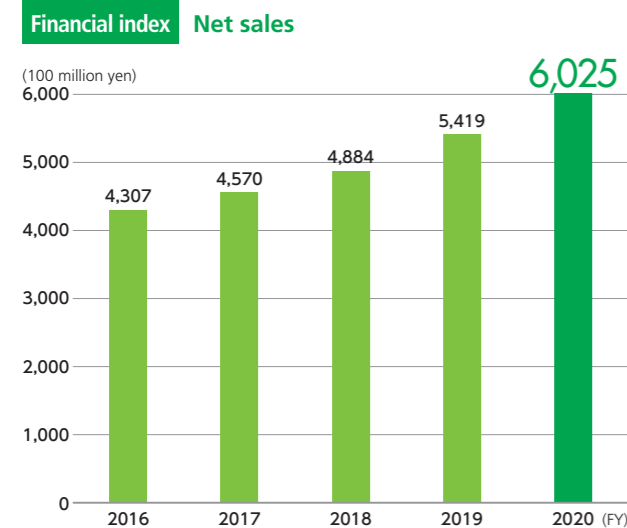
Achieving information sharing and productivity improvement at the same time by introducing an app that allows users to refer to video manuals and record files for store operation anytime, anywhere within the stores



Productivity improvement

# Financial/Non-financial Highlights

Based on ensuring financial soundness, we implement “medium- to long-term improvement of ROE,” “continuous and stable return to shareholders,” and “investment for growth.” In addition, with a view to achieving sustainable growth, we also focus on support for the establishment of healthy local communities, eco-friendly initiatives with business partners, establishment of a healthy working environment, contribution to the global environment, and reinforcement of corporate governance.



\* Number of partner employees converted into the number of 8-hour workers

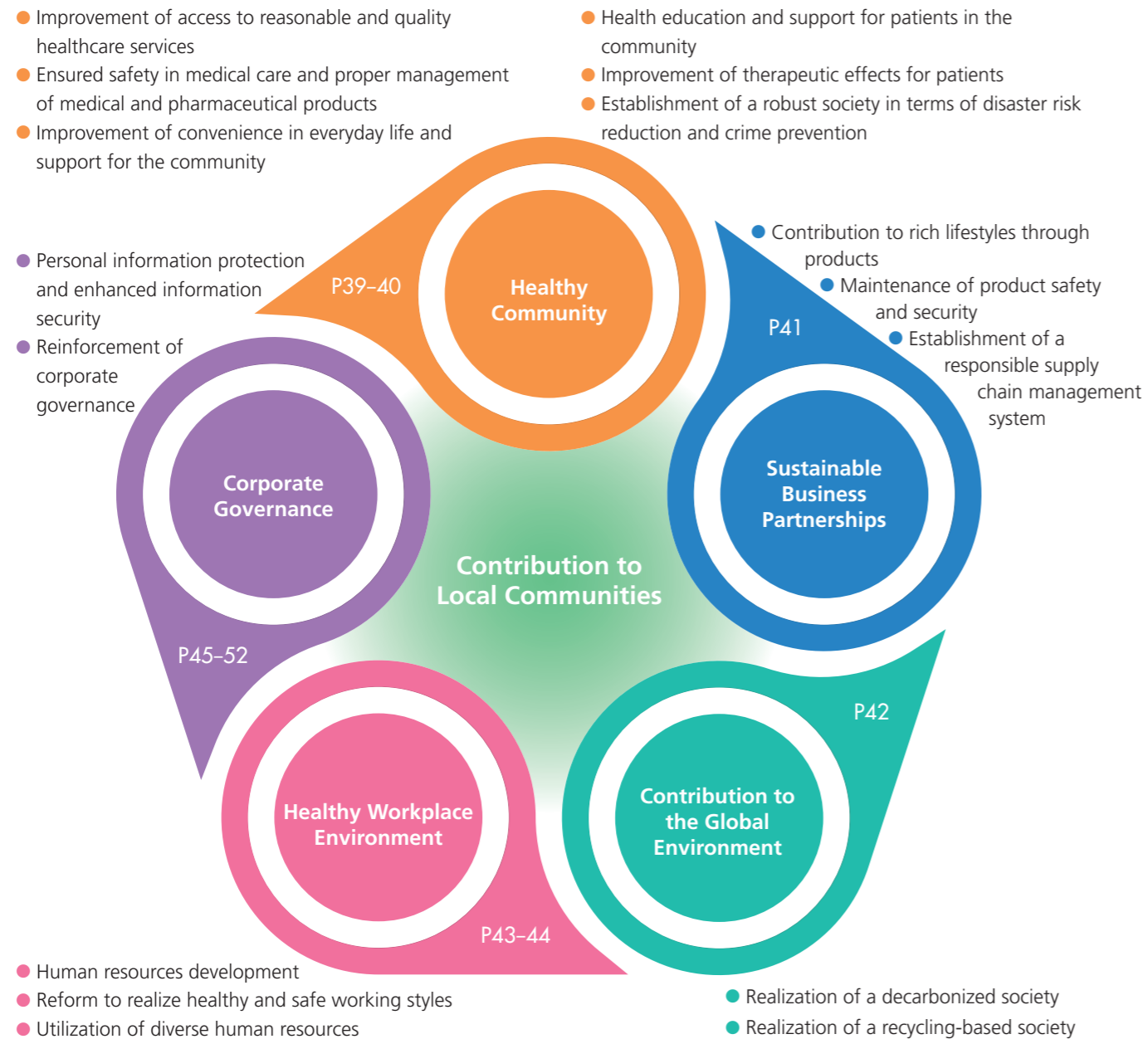
## Priority Issues (Issues of Materiality)

As a corporate group closely related to the lives of people in local communities, the SUGI Pharmacy Group believes that sustainable corporate growth will be achieved by solving social issues to contribute to the establishment of a sustainable society and by sequentially realizing our management philosophy. In 2021, we reviewed our priority issues (issues of materiality) and specified five themes.

**Sustainability Basic Policy**

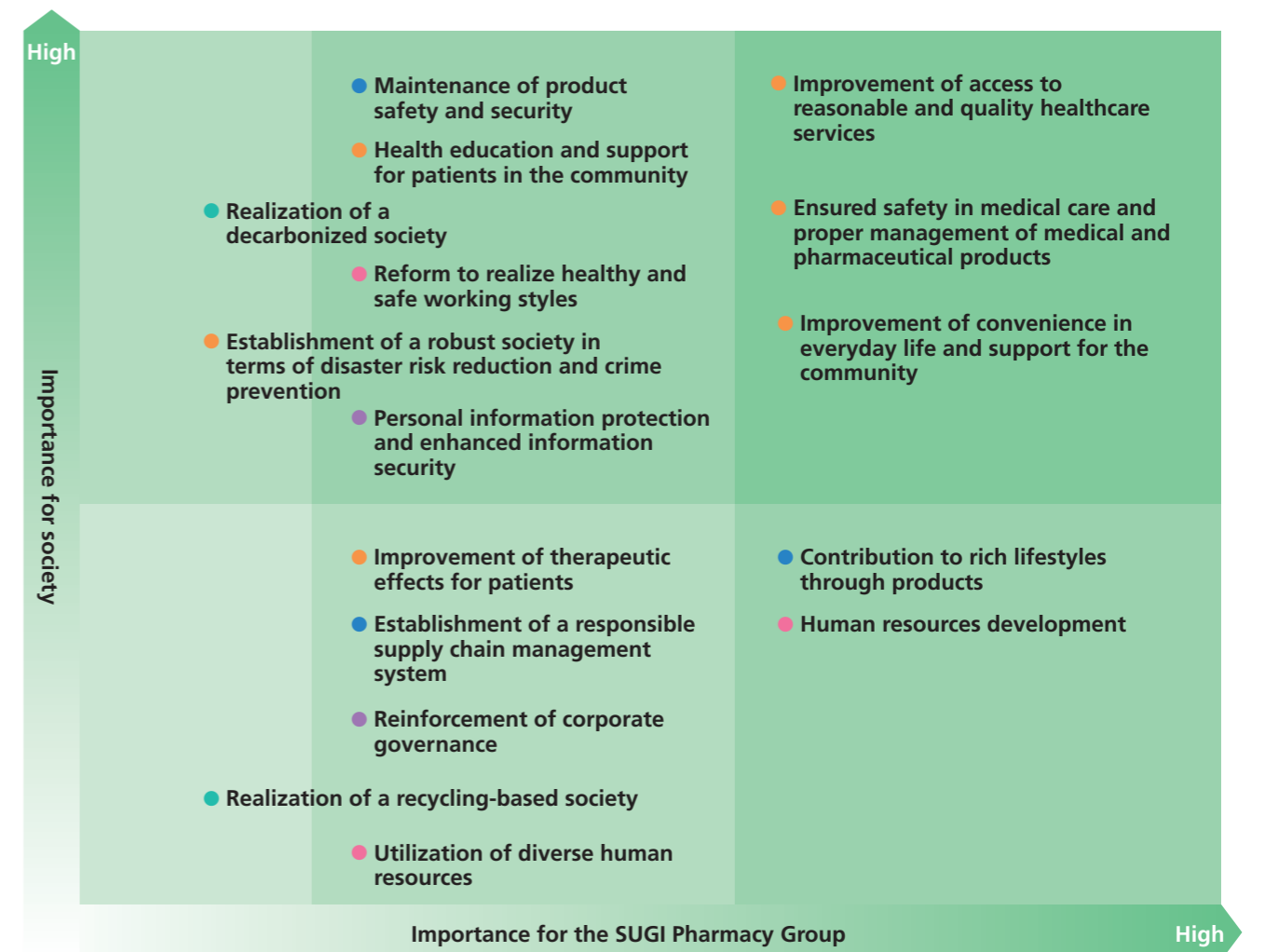
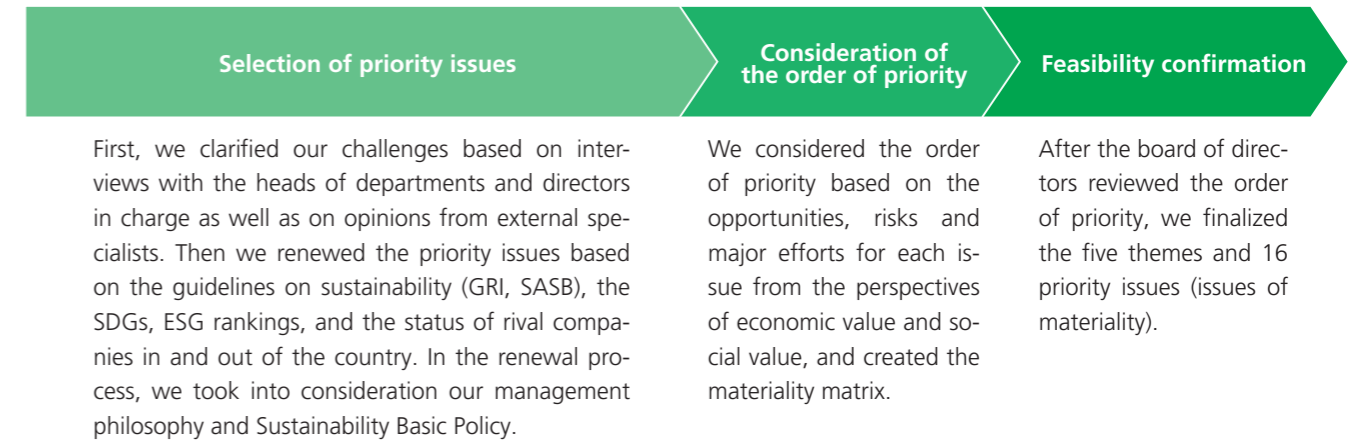
The SUGI Pharmacy Group aims to contribute to the sustainable development of local communities through cooperation with stakeholders, in order to realize a vigorous society by seriously addressing a wide variety of environmental and social issues and increasing the number of healthy and energetic people through corporate activities.

### Five themes and 16 priority issues (issues of materiality)








### Process for identifying priority issues (issues of materiality)

We identified our priority issues (issues of materiality) through the process below. We will flexibly review them as necessary, in accordance with changes in our business and the external environment.



### Five themes and priority issues (issues of materiality)

Themes and issues of priority		Opportunities and risks		Major efforts		Related SDGs
Healthy Community	Improvement of access to reasonable and quality healthcare services	Opportunity	Capturing growing markets	<ul style="list-style-type: none"> <li>Increasing the number of stores with counseling function</li> <li>Enhancing online services</li> </ul>	<ul style="list-style-type: none"> <li>Providing data-based healthcare services</li> </ul>	
		Risk	Customer retention by rival companies			
	Ensured safety in medical care and proper management of medical and pharmaceutical products	Opportunity	Increase in customer satisfaction	<ul style="list-style-type: none"> <li>Collecting near-miss cases and sharing them for training and infrastructure development</li> <li>Safely collecting medical and pharmaceutical products and medical equipment</li> </ul>	<ul style="list-style-type: none"> <li>Providing information on medical and pharmaceutical products using digital tools</li> </ul>	
		Risk	Deterioration of brand value / Decrease in the number of patients			
	Improvement of convenience in everyday life and support for the community	Opportunity	Capturing growing markets / Improvement in brand value	<ul style="list-style-type: none"> <li>Improving access to products and services</li> <li>Enhancing medical and elderly nursing-care services for in-home patients</li> </ul>	<ul style="list-style-type: none"> <li>Supporting activities by local communities and organizations</li> </ul>	
		Risk	Customer retention by rival companies / Shrinking of the market			
	Health education and support for patients in the community	Opportunity	Increase in customer satisfaction	<ul style="list-style-type: none"> <li>Providing more information to promote prevention and care</li> <li>Providing information to and raising awareness of patients and their families</li> </ul>	<ul style="list-style-type: none"> <li>Supporting patients and their families</li> </ul>	
		Risk	Customer retention by rival companies			
	Improvement of therapeutic effects for patients	Opportunity	Increase in customer satisfaction / Increase in dispensing fees	<ul style="list-style-type: none"> <li>Improving medication adherence by implementing follow-up medication management</li> <li>Improving therapeutic effects by preventing polypharmacy</li> </ul>	<ul style="list-style-type: none"> <li>Improving therapeutic effects by providing information to medical institutions</li> </ul>	
		Risk	Reduction in dispensing fees			
	Establishment of a robust society in terms of disaster risk reduction and crime prevention	Opportunity	Improvement in brand value	<ul style="list-style-type: none"> <li>Establishing robust stores and infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Supporting disaster-affected people in local communities</li> </ul>	
		Risk	Suspension of operation due to natural disasters, etc. / Deterioration of brand value			
Sustainable Business Partnerships	Contribution to rich lifestyles through products	Opportunity	Capturing growing markets / Improvement in brand value	<ul style="list-style-type: none"> <li>Providing health-conscious products</li> </ul>	<ul style="list-style-type: none"> <li>Focusing on the development of high value-added products</li> </ul>	
		Risk	Rival companies capturing growing markets			
	Maintenance of product safety and security	Opportunity	Improvement in brand value	<ul style="list-style-type: none"> <li>Establishing a product quality assurance system</li> <li>Disclosing information appropriately</li> </ul>	<ul style="list-style-type: none"> <li>Focusing on the development of ethical products</li> </ul>	
		Risk	Customer defection			
	Establishment of a responsible supply chain management system	Opportunity	Cost reduction / Improvement in brand value	<ul style="list-style-type: none"> <li>Managing supply chains appropriately</li> </ul>	<ul style="list-style-type: none"> <li>Promoting smooth communication with suppliers</li> </ul>	
		Risk	Customer defection			
Contribution to the Global Environment	Realization of a decarbonized society	Risk	Cost increase due to carbon taxes / Deterioration of brand value	<ul style="list-style-type: none"> <li>Shifting to renewable energy</li> <li>Reducing greenhouse gas emissions</li> </ul>	<ul style="list-style-type: none"> <li>Reducing environmental burden through the entire life cycle</li> </ul>	
		Opportunity	Improvement in brand value / Cost reduction			
	Realization of a recycling-based society	Opportunity	Improvement in brand value / Cost reduction	<ul style="list-style-type: none"> <li>Promoting store development aimed at conserving water resources</li> <li>Promoting recycling through the cooperation of manufacturing, distribution and sales sectors</li> </ul>		
		Risk	Deterioration of brand value			
Healthy Workplace Environment	Human resources development	Opportunity	Inspired innovation	<ul style="list-style-type: none"> <li>Improving capacity development training for employees</li> <li>Shifting to a job-focused human resources system</li> </ul>	<ul style="list-style-type: none"> <li>Proactively providing fields and opportunities for demonstrating abilities</li> </ul>	
		Risk	Deterioration of competitiveness			
	Reform to realize healthy and safe working styles	Opportunity	Enhanced recruiting capability / Inspired innovation	<ul style="list-style-type: none"> <li>Promoting health and productivity management</li> <li>Promoting establishment of a workplace environment in consideration of employees' safety</li> </ul>	<ul style="list-style-type: none"> <li>Promoting work-style reforms</li> </ul>	
		Risk	Employees leaving the company / Deterioration of brand value			
	Utilization of diverse human resources	Opportunity	Accelerated store launch / Inspired innovation	<ul style="list-style-type: none"> <li>Preparing fields and opportunities with a focus on diversity</li> </ul>	<ul style="list-style-type: none"> <li>Developing systems that support diverse working styles</li> <li>Fostering a corporate culture that respect diversity</li> </ul>	
		Risk	Slowing store launch / Deterioration of brand value			
Corporate Governance	Personal information protection and enhanced information security	Opportunity	Improvement in corporate value	<ul style="list-style-type: none"> <li>Strengthening efforts for personal information protection and providing thorough training</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening the information security system and providing thorough training</li> </ul>	
		Risk	Occurrence of risks in business continuity / Deterioration of corporate value			
	Reinforcement of corporate governance	Opportunity	Improvement in corporate value	<ul style="list-style-type: none"> <li>Improving board effectiveness</li> <li>Providing thorough compliance training</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening the risk management system</li> </ul>	
		Risk	Occurrence of risks to business continuity / Deterioration of corporate value			

# Healthy Community



Since the company's establishment, we have developed the drugstore model of "pharmacies with the function of prescription dispensing" aimed at contributing to local communities, ahead of our rivals. At present, we have evolved it into a new business model covering self-care, elderly nursing care and terminal care based on our Total Healthcare Strategy.

## Improvement of access to reasonable and quality healthcare services

### Increasing the number of stores with counseling function

In this era of digitalization, the importance of counseling by experts at physical stores is increasing. The SUGI Pharmacy Group is now working to integrate the records of customers and patients, including product purchase information, counseling history, and lifestyle-related records obtained through our apps, including the number of daily steps and meals. Using this information, we are striving to increase the number of stores that can provide satisfactory counseling services based on the needs and issues of each person.



dispensing and increase the number of stores providing the service. Thus we will proceed on the development of local alliance pharmacies, which can share detailed information with medical institutions at the time of patients' admission and discharge and can serve as a local healthcare hub to provide comprehensive support in the phases of elderly nursing care and terminal care.

We will also make efforts to serve as "pharmacies allied with specialized medical institutions" with high-level pharmaceutical management functions that provide training for specialized pharmacists in the field of oncology and work in close cooperation with medical institutions providing specialized medical services.

### Enhancement of the digital membership base

The number of our digital app members (SUGI Pharmacy app, SUGIsapo Walk, SUGIsapo Eats, kakari (by MedPeer, Inc.)) is the base for a variety of digitalized healthcare services and sales promotion tailored to individual needs. In FY 2020, we focused on the promotion of each app and achieved 7.72 million downloads. With the goal of a total of 15 million downloads of our digital apps (by the end of FY 2023), we will enhance our digitalized healthcare services and sales promotion tailored to individual needs.

### Serving as "local alliance pharmacies" and "pharmacies allied with specialized medical institutions"

We will focus on serving as "local alliance pharmacies" and "pharmacies allied with specialized medical institutions," both of which will be promoted as a national initiative.

As the SUGI Pharmacy Group has focused on the home-visit prescription dispensing service ahead of its rivals, we will utilize the accumulated know-how on home-visit prescription

## Ensured safety in medical care and proper management of medical and pharmaceutical products

### Introducing error prevention systems in prescription dispensing

We have installed picking support systems and powder medicine checking systems at all of our stores that provide prescription dispensing service, and will make sure that all new stores will have the same systems. Moreover, by proceeding with the introduction of one dose package checking systems, we will support pharmacists in concentrating on communication with customers and establish a safe pharmaceutical environment.



## Improvement of convenience in everyday life and support for the community

### Home-visit prescription dispensing and nursing services as a framework underpinning the comprehensive community care system

"Helping local residents maintain their own lifestyles in familiar surroundings" is the basic concept of the comprehensive community care system. To achieve this, we have provided home-visit prescription dispensing, home-visit nursing, and life support (product sales and meal support) services to in-home patients. In particular, we aim at providing home-visit prescription dispensing service by pharmacists (the service we pioneered in the industry) to a yearly total of 250,000 people by 2025, along with home-visit nursing and life support services.

Status of home-visit prescription dispensing and home-visit nursing service provision (as of February 2021)

Home-visit prescription dispensing	No. of service stores	541
	No. of users (monthly average)	12,233
Home-visit nursing	No. of users (yearly total)	146,794
	No. of service centers	13
Home-visit nursing	No. of users (monthly average)	1,216
	No. of users (yearly total)	14,590

## Health education and support for patients in the community

### Providing healthcare seminars by pharmacists



Study meeting for medical and nursing care personnel in the community



Study meeting for local residents



Online session in the COVID-19 pandemic

### Providing specific health guidance at stores in local communities



### Supporting children with intractable diseases and their families



## Improvement of therapeutic effects for patients

### Implementing follow-up medication management and providing information to medical institutions

By adopting preliminary counseling (providing medication instruction to patients when they present prescriptions at the counter), we aim to encourage pharmacists to concentrate on communication with customers, which is their primary role. In addition to detailed instruction to patients at the store, pharmacists also provide follow-up medication management service via smartphones after the patients return home and take the drugs, thereby dealing with their problems anytime, anywhere. In addition, we are making efforts to maximize the therapeutic effects by providing information on the medication status of patients to medical institutions through the tracing reports.

### Strengthening cooperative framework to prevent polypharmacy

Polypharmacy (multiple medication use causing harmful effects) is a social issue primarily related to senior citizens. To prevent this, we are undertaking joint research with the National Center for Geriatrics and Gerontology on an operation model featuring enhanced cooperation between doctors and pharmacists at hospitals and pharmacists at pharmacies. We are working to eliminate polypharmacy by encouraging smooth cooperation between doctors and pharmacists at hospitals and pharmacists at pharmacies after patients' discharge (which is usually difficult), thereby increasing the effectiveness and safety of the medical therapy.

## Establishment of a robust society in terms of disaster risk reduction and crime prevention

### Installing AEDs at many more of our stores

We are proceeding with the installation of AEDs primarily at stores with a high risk of accidents involving senior citizens and those located in regions where the local governments request us to do so.

AEDs are installed at 130 stores (approx. 10% of the total) as of the end of February 2021 and we are planning to increase the rate to 20% by the end of FY 2025.



Concluded a comprehensive agreement with Aichi Prefecture on the achievement of "regional revitalization SDGs" (March 24, 2021)

### Supporting local disaster risk reduction efforts by local communities

We are implementing various initiatives to solve challenges of local communities by concluding comprehensive agreements with local governments. Regarding disaster response and disaster risk reduction, we are planning to provide support by offering disaster relief goods, offer evacuation areas and supplies at the stores for stranded commuters in an emergency, and cooperate with the local communities in implementing disaster drills.

Contribution to the enhancement of community safety and security	Achievements by FY 2020
Total number of agreements	53
Comprehensive agreements	13
Agreements on services not covered by health insurance	2
Watching-over agreements	9
Disaster risk reduction agreements	29



## Sustainable Business Partnerships



We will develop systems and promote initiatives to fulfill our responsibilities for the entire supply chain. Moreover, through the procurement and development of safe and secure products, we will contribute to the rich lifestyles of people in local communities. By sharing information and strengthening cooperation among manufacturing, distribution and sales sectors, we will promote streamlining of the entire supply chain, such as reduction of product returns and disposal and new product development based on the data of each.

### Contribution to rich lifestyles through products

#### ● Focusing on the development of high value-added products

We are proceeding with the enhancement and update of the product lineup of our private brand featuring the three categories of royal, middle and basic. In particular, we focus on the development of high quality and high value-added products. In the royal category, we will proactively promote the

development of makeup and skincare items as well as products that satisfy the needs of customers suffering from sleep disorder amid the COVID-19 pandemic, and those suffering from high blood pressure, elevated blood sugar, and musculo-skeletal deterioration reducing locomotive ability in the aging society. We will also develop products to enhance inner beauty, supporting users' beauty from inside of their body.

Two kinds of horse placenta extracts with excellent health- and beauty-promoting effects, which are used for various supplements and beauty care products, are abundantly contained in this product: 50,000 mg\* per bottle.

The pleasant flavor of La France Pear helps you continue to drink it. This is recommended for you if you wish to lead a vibrant life or are interested in beauty care from inside of your body.

\* Horse placenta extract 20,000 mg, concentrated powder of fermented and aged placenta extract 150 mg (equivalent to 30,000 mg of fermented and aged placenta extract)



Getting beautiful skin is the wish of all women. Our original skin-care brand series Prieclat, developed to make your skin moisturized, clear and firm, has sold 300,000 bottles in a year after the product launch. In FY 2020, we released the rich beauty cream "Cream W" that contains Nano Fiber Gel®.



### Maintenance of product safety and security

#### ● Establishing a product quality assurance system

In FY 2020, we started reviewing the specifications of our private brand products to develop and increase sales of safe and quality products. In FY 2021, we will improve the rate of compliance with specifications in cooperation with our business partners.

#### ● Increasing the lineup of eco-friendly\* and community- and society-oriented products

In FY 2021, we will start the development of an eco-friendly private brand. Materials are selected from those contributing to environmental conservation. We will also make efforts to acquire certification of various kinds. From now on, we will strive to increase the ratio of eco-friendly products to the entire private brand products.

\* We are planning to achieve eco-friendliness by using FSC certified paper, biomass plastic, vegetable ink, etc.

### Establishment of a responsible supply chain management system

#### ● Managing supply chains appropriately

To achieve coexistence and co-prosperity with our business partners and address various social challenges, we hold briefing sessions to explain annual policies and plans of the SUGI Pharmacy Group to our business partners. By promoting their understanding and cooperation, we expect to receive their support for our business, such as the improvement of products and services and streamlining of operations, and advance environmental conservation and other initiatives to realize a sustainable society.



## Contribution to the Global Environment



A sustainable global environment is essential for us to continue our business and store operations. Therefore, we have been promoting environmental and other measures to realize a recycling-based society and a decarbonized society.

### Realization of a decarbonized society

In FY 2021, we will reinforce our efforts to realize a decarbonized society.

We will visualize our CO<sub>2</sub> emissions and formulate a plan based thereon so that we can reduce our CO<sub>2</sub> emissions in stages every year. We consider formulating medium- to long-term goals while observing administrative trends.

#### ● Shifting to renewable energy

We will consider introducing a solar panel-based power generation system into stores to encourage the shift to renewable energy.

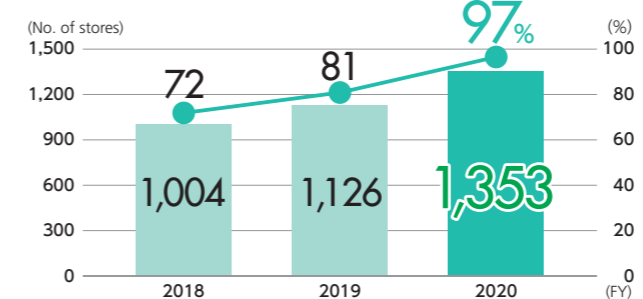
#### ● Disclosing information appropriately

We will advance appropriate information disclosure using the TCFD\* framework.

#### ● Reducing greenhouse gas emissions and power consumption (energy saving)

At our stores, headquarters and offices, we strive to reduce power consumption mainly through careful temperature control, air-conditioner cleaning on a regular basis, and changing lighting-up hours. In addition, we are proceeding with the replacement of conventional lighting with LEDs at all of our stores.

#### Stores with LED lighting



Governance	We will establish a sustainability committee led by the President, regularly report the initiatives and outcomes to the board of directors, and develop a monitoring system by the board of directors.
Strategy	To assess the impact of climate change on our operations, we will start scenario analysis and conduct impact evaluation of significant risks and opportunities.
Risk management	We will break down our business activities, estimate the financial impact of each, and develop countermeasures.
Indices and goals	We will develop indices for evaluating risks and opportunities, and assess the progress toward the goals.

\* Task Force on Climate-related Financial Disclosures

### Realization of a recycling-based society

We are taking environmental measures through the efforts of reduction, reuse, and recycling (of waste) at our stores, headquarters and logistics centers. In addition, we started the efforts of "refusing" the things that may produce waste.

#### ● Reducing the use of plastic

Since July 2020, we have charged for plastic checkout bags and also made efforts to introduce plastic bags containing biomass materials.

#### No. and weight of used checkout bags

	FY 2019	FY 2020
No. of used bags (unit: 1 million bags)	262	144
Weight of used bags (unit: ton)	2,000	1,100

Rate of customers refusing checkout bags  
From July 2020 onwards

74.6%

Nearly halved



## Healthy Workplace Environment



Considering employees as an important asset that supports the company and improves our corporate value, we are developing systems to ensure diverse careers and working styles, creating a workplace environment where employees can work healthily and happily, and fostering a corporate culture accepting human resources with diverse backgrounds.

### Human resources development

● **Improving capacity development training for employees**

We clarify the “required skills” for each task and role as well as for in-house certification, and provide training for employees to obtain such skills and demonstrate them on-site. We will increase the average time of training provided to each employee to promote human resources development.



● **Shifting to a job-focused human resources system**

To train the management team, we have started reforms of the human resources system for managers. We are making a shift to the job-focused evaluation system, under which evaluations are made based on the level of achievement of required roles.

### Reform to realize healthy and safe working styles

● **Promoting health and productivity management**  
—Certified again in 2021 as an outstanding enterprise in terms of health and productivity management—

The SUGI Pharmacy Group was certified as a 2021 outstanding enterprise (in the large-enterprise division) in terms of health and productivity management. We were selected as such jointly by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi, in recognition of our strategic efforts concerning health and productivity management, based on the stance of viewing the enhancement of employees’ health as a management issue.

Aiming to enhance employees’ health literacy and support their active efforts for health improvement, we are encouraging those who are likely to develop lifestyle-related diseases in the future to improve their lifestyle habits to prevent diabetes and other such diseases.

Moreover, we will make efforts to further increase the rate of full-time employees who have undergone specific health guidance by FY 2023.



—Certified as a Platinum Kurumin company—

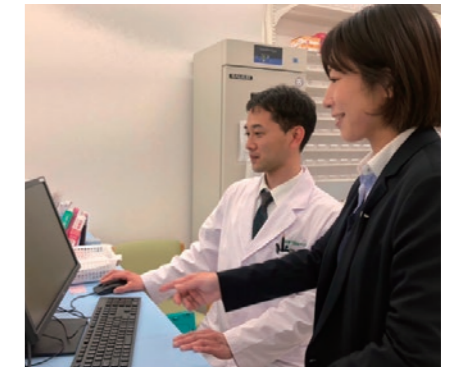
SUGI Pharmacy is the first in the drugstore industry to be certified as a Platinum Kurumin business operator. This certification is granted to general employers that conform to the designated standards regarding parenting support. In FY 2020, 697 employees (651 women and 46 men) took parenting leave, with the percentage of those returning to work after their leave reaching 94%.



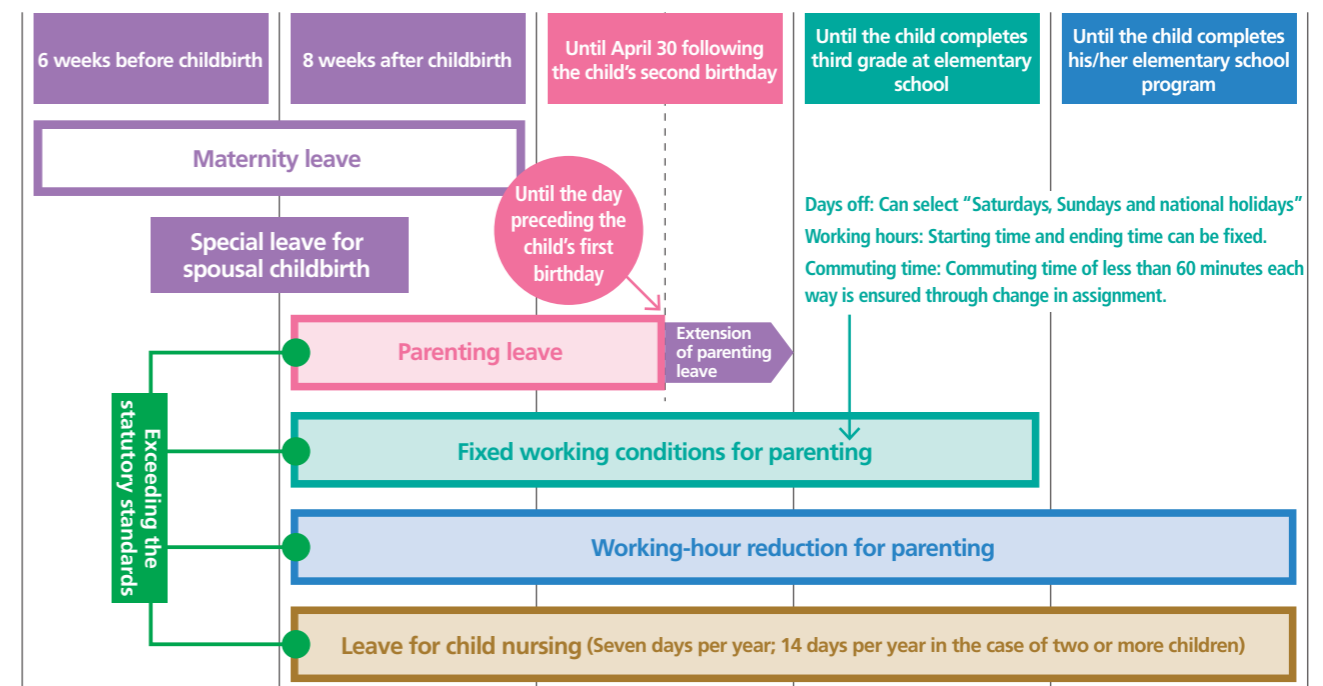
### Utilization of diverse human resources

● **Preparing fields and opportunities with a focus on diversity**

We are strengthening our efforts for human resources development and improvement of the workplace environment so as to increase the ratio of female managers to 30% by the end of FY 2029. Regarding human resources development, we train employees to obtain and practice the skills to discover and resolve essential challenges, communication and leadership skills, knowledge on products, specialized and managerial knowledge, and technical skills. Regarding the improvement of the workplace environment, we focus on improving the benefits package and encouraging each employee to present their opinions to the company, thereby reinforcing support for employees. We will also promote work-style reforms to support a better work-life balance.



—Comprehensive parenting support—



—SUGI Smile's efforts—

Twelve in-house job coaches and 29 career counselors provide operational guidance and daily support to 370 employees with disabilities working at seven offices nationwide. At stores, these employees do cleaning and arrange products onto shelves, while at our headquarters, they sort mail, do cleaning, and ship products to support logistics.

Percentage of employees with disabilities (FY 2020)

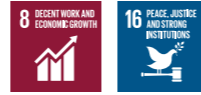
2.36%





## Corporate Governance

To become a company required by society, the Company has been working on achieving sustainable growth and the improvement of medium- to long-term corporate value in collaboration with our stakeholders. To that end, we continue to strengthen our corporate governance by improving the soundness and transparency of management.



### Board of Directors / Board of Auditors

#### ● Composition of the Board of Directors

The Board of Directors consists of diverse directors in terms of backgrounds such as expertise, experience and gender. The number of directors is maintained at an appropriate level in accordance with the provision of the Articles of Incorporation to fully perform the function of the Board of Directors most effectively and efficiently from the following viewpoints.

- (1) Sufficient diversity should be secured to conduct decision-making and supervision of management.
- (2) Discussions including concerns raised by the Independent External Directors at the Board of Directors' meetings should be activated.

In principle, not less than one-third of the Directors are Independent External Directors in order to make use of their abundant experience and expertise outside the Company for the management of the Company, and at the same time to strengthen the supervisory function of the Board of Directors and improve the transparency of management.

Number of Directors	6
Number of External Directors	3
Number of External Directors appointed as independent directors	3

#### ● Composition of the Board of Auditors

The number of auditors is as provided for in the Articles of Incorporation, and a majority of auditors shall be external auditors. Persons with the insight, a high level of ethics, objectivity and integrity required for auditors will be appointed. In particular, one or more persons with expertise in finance, accounting and legal matters will be selected.

Number of auditors	3
Number of External Auditors	3
Number of External Auditors appointed as independent officers	3

#### ● Roles of the Board of Directors

The Board of Directors performs its supervisory functions by realizing highly effective corporate governance. In addition, it pursues the sustainable growth of corporate value by making the best decisions using objective judgment and appropriately exercising its authority.

- (1) The Board of Directors makes important managerial decisions in accordance with laws, ordinances, the Articles of Incorporation and internal rules, and supervises business execution.

- (2) Upon precisely understanding the cost of capital of the Company, the Board of Directors formulates management strategies and management plans taking into consideration the management philosophy and changes in the external environment. The outline will be disclosed. As for the formulated management strategies and management plans, the Board of Directors annually checks and analyzes the status of progress, reviews the business portfolio, and revises, as needed, the management resources distribution plans including new investments, establishment of new stores, system investments, and investments in human resources development.
- (3) The Board of Directors proactively commits itself to finding capable directors and top management in subsidiaries, and formulating and operating an educational program aiming to cultivate human resources. Furthermore, based on the management philosophy and management strategies, the Board of Directors appropriately supervises the content of the same program, and subsequent allocation and appointment of the participants in the program.
- (4) The Board of Directors delegates its decision-making to the Representative Director in terms of business execution of matters other than those to be decided by the Board of Directors in accordance with laws, ordinances, the Articles of Incorporation and internal rules.
- (5) Directors and Auditors shall secure an 80% or higher attendance rate of Board of Directors' meetings.

#### ● Roles of the Board of Auditors

As an organization independent from the management team, the Board of Auditors performs audits concerning the Directors' business execution, the internal control system, accounting and other matters.




- (1) The Board of Auditors prepares a standard for appropriate evaluation of the accounting auditor. On an annual basis, the independence and expertise of the accounting auditor is evaluated based on the said standard, and decides the details of the proposal for the general meeting of shareholders in terms of appointment or dismissal of the accounting auditor.
- (2) The Board of Auditors secures sufficient cooperation with External Directors so that they can smoothly collect information by maintaining their independence.
- (3) The Board of Auditors collects necessary and sufficient information to perform appropriate audits by securing cooperation with the Internal Audit Department, Finance and Accounting Department, Legal Department and other related departments.

## Career Summary and Reasons for Appointment of Directors (As of May 19, 2021)

<p><b>Eiichi Sakakibara</b> Representative Director &amp; Chairperson Date of birth: August 14, 1956</p>	<p>September 1986: Joined the Company September 2008: Managing Director, Sugi Pharmacy Co., Ltd. March 2011: Representative Director &amp; President, Sugi Pharmacy Co., Ltd. March 2017: Representative Director &amp; Chairperson, Sugi Pharmacy Co., Ltd. (to date) May 2017: Representative Director &amp; President, SUGI Holdings Co., Ltd. May 2021: Representative Director &amp; Chairperson, SUGI Holdings Co., Ltd. (to date)</p>	<p>Mr. Eiichi Sakakibara has extensive experience and profound insights regarding group management and the drugstore industry, and has fulfilled his responsibilities such as management restructuring including reinforcement of corporate governance as well as implementing reinforcement of the revenue base of the pharmacy business and drug store business, which are the core businesses. Based on the above, we have judged that he is the person most appropriate for implementing the corporate philosophy which is the sustainable increase of corporate value as well as management of the Group, and thus reappointed him as Director.</p>
<p><b>Katsunori Sugiura</b> Representative Director &amp; President Date of birth: October 14, 1978</p>	<p>March 2006: Joined the Company March 2011: Managing Director, Sugi Pharmacy Co., Ltd. March 2014: Representative Director &amp; President, SUGI Smile Co., Ltd. (to date) March 2017: Representative Director &amp; President, Sugi Pharmacy Co., Ltd. (to date) May 2018: Representative Director &amp; Senior Vice President May 2021: Representative Director &amp; President, SUGI Holdings Co., Ltd. (to date) Director, SUGI Medical Co., Ltd. (to date)</p>	<p>Mr. Katsunori Sugiura, as Representative Director of Sugi Pharmacy Co., Ltd., has been involved in management, and has extensive experience and profound insights in group management. He has fulfilled his responsibilities by implementing business development and development of business collaboration, overseas projects, DX (digital transformation), and ESG to realize the "total health care strategy" that is the business strategy of the Group. Based on the above, we have judged that he is the person who is appropriate for executive officer of the Group, which is aiming for the sustainable increase of corporate value, and thus reappointed him as Director.</p>
<p><b>Shinya Sugiura</b> Director Date of birth: November 30, 1979</p>	<p>April 2004: Joined the Company March 2010: Director and General Manager, Home Healthcare Sales Division, Sugi Pharmacy Co., Ltd. March 2011: Director, SUGI Medical Co., Ltd. March 2017: Managing Director, Sugi Pharmacy Co., Ltd. (to date) May 2017: Director, SUGI Holdings Co., Ltd. (to date) May 2021: Representative Director &amp; President, SUGI Medical Co., Ltd. (to date)</p>	<p>Mr. Shinya Sugiura, as Managing Director of Sugi Pharmacy Co., Ltd. and Representative Director &amp; President of SUGI Medical Co., Ltd., has professional insights in medical, living-related service and product sales, and has fulfilled his responsibilities through reinforcement of the pharmaceutical business, which is the core business of the Group, cooperation in community-based health care and growing the revenue base of the drug store business. Based on the above, we have judged that he is the person who is appropriate for exercising leadership over the business development of the Group, which is aiming for the sustainable increase of corporate value, and thus reappointed him as Director.</p>
<p><b>Shigeyuki Kamino</b> External Director Date of birth: May 23, 1947</p>	<p>April 1970: Joined Nagoya Railroad Co., Ltd. May 2007: Representative Director, Mie Sangyo Co., Ltd. (to date) June 2008: Representative Director &amp; Senior Vice President, Nagoya Railroad Co., Ltd. April 2009: Representative Director &amp; President, MEITETSU Department Store Co., Ltd. May 2012: Chairperson, Chubu Department Store Association May 2015: Director, SUGI Holdings Co., Ltd. (to date)</p>	<p>Mr. Shigeyuki Kamino has been involved in the management of other companies for many years. Based on his abundant experience in, and knowledge of, management, he has actively made remarks and recommendations during deliberations of the Board of Directors' meetings, and has also served as Chair of the Nominating/Remuneration Committee. We expect from Mr. Kamino appropriate supervision and advice from a broad perspective based on his profound insights and supervisory capabilities relating to corporate management, and thus reappointed him as External Director.</p>
<p><b>Yoshiko Hayama</b> External Director Date of birth: October 7, 1959</p>	<p>April 1983: Joined The Fuji Bank, Limited. (currently, Mizuho Bank, Ltd.) March 1994: Registered as a Certified Public Accountant January 2015: Representative, Yoshiko Hayama Certified Public Accountant Office (to date) May 2016: Director, SUGI Holdings Co., Ltd. (to date) August 2016: Fellow Member, The Japanese Institute of Certified Public Accountants (to date) June 2017: External Director, COCO'S JAPAN CO., Ltd. May 2018: External Director, Adastria Co., Ltd. (to date) March 2020: External Director, Dynac Holdings Corporation (Member of the Audit and Supervisory Committee) (to date) June 2020: External Director, Zensho Holdings Co., Ltd. (to date)</p>	<p>Ms. Yoshiko Hayama has abundant experience and professional knowledge developed by serving as a certified public accountant, and an external director and external auditor of listed companies. She has also actively made remarks and recommendations during deliberations of the Board of Directors' meetings. We expect from Ms. Hayama high levels of expertise in terms of business management and appropriate supervision and advice from the viewpoint of an independent officer, and thus reappointed her as External Director.</p>
<p><b>Michiko Hori</b> External Director Date of birth: February 19, 1954</p>	<p>April 1977: Drug Information Office, Faculty of Pharmacy, Meijo University February 1980: Drug Information Office, Faculty of Pharmaceutical Science, Teikyo University April 1998: Executive Director, Japan Pharmaceutical Association May 1998: Director, SIC Co., Ltd. (to date) April 2002: Member of the Board, The Japanese Clinical Nutrition Association (to date) September 2007: Director, Pharmaceutical Research Institute, Japan Pharmaceutical Training Center (to date) September 2015: Chairperson, Japan Ladies Independent Pharmacy Association (JLIPA) (to date) May 2020: Director, SUGI Holdings Co., Ltd. (to date)</p>	<p>Ms. Michiko Hori has a high level of professional knowledge in the medical field and extensive management experience at another company that provides medical information, also serving as a director at various institutions. She has also actively made remarks and recommendations during deliberations of the Board of Directors' meetings. We expect from Ms. Hori appropriate supervision and advice based on her profound insights into corporate management and high level of expertise in the medical field, and thus reappointed her as External Director.</p>



## Career Summary and Reasons for Appointment of Auditors (As of May 19, 2021)

	<p><b>Toshihiko Sakamoto</b> External Auditor</p> <p>Date of birth: October 25, 1946</p>	<p>October 2001: General Manager, Finance and General Affairs Division, Nagoya Branch, ITOCHU Corporation</p> <p>June 2006: Representative Director &amp; President, C&amp;S Co., Ltd.</p> <p>June 2009: Senior Managing Director in charge of human resources, finance and accounting and information systems, ITOCHU Sugar Co., Ltd.</p> <p>May 2012: Auditor, SUGI Holdings Co., Ltd.</p> <p>March 2017: Auditor, Sugi Pharmacy Co., Ltd. (to date)</p> <p>May 2017: Full-time Auditor, SUGI Holdings Co., Ltd. (to date)</p>	<p>Mr. Toshihiko Sakamoto has been involved in business management at other companies, and has abundant experience in, and knowledge of, management. Furthermore, he took office as a full-time Auditor of the Company in May 2012, and is familiar with the business of the Company. We have judged that he is capable of strictly auditing the Company's business from an objective viewpoint by applying his profound insights concerning corporate management and knowledge of the overall management of the Company, and thus reappointed him as External Auditor.</p>
	<p><b>Kana Yasuda</b> External Auditor</p> <p>Date of birth: April 10, 1969</p>	<p>October 1993: Joined KPMG Century Audit Corporation (currently, Ernst &amp; Young ShinNihon LLC)</p> <p>April 1997: Registered as a Certified Public Accountant</p> <p>March 2000: Established Yasuda Tax &amp; Accountant Office, Director (to date)</p> <p>March 2004: Registered as a Certified Public Tax Accountant</p> <p>September 2009: External Auditor, Simpo Co., Ltd. (to date)</p> <p>May 2010: Auditor, SUGI Holdings Co., Ltd. (to date)</p> <p>June 2016: External Director, GEO HOLDINGS CORPORATION (to date)</p> <p>June 2019: External Director, Chuo Spring Co., Ltd. (to date)</p> <p>June 2020: External Director (Member of Audit and Supervisory Committee), KONDOTEC INC. (to date)</p>	<p>Ms. Kana Yasuda has engaged in a wide range of business fields including accounting audit for business corporations as a certified public accountant and a certified public tax accountant, also serving as external auditor and external director for listed companies, etc. We have appointed Ms. Yasuda as External Auditor, expecting from her strict auditing based on her professional insights into accounting and taxation, and abundant experience.</p>
	<p><b>Makoto Kamiya</b> External Auditor</p> <p>Date of birth: January 7, 1964</p>	<p>August 1988: Joined Tohmatsu &amp; Co. (currently, Deloitte Touche Tohmatsu LLC)</p> <p>March 1993: Registered as a Certified Public Accountant</p> <p>May 2002: Partner, Tohmatsu &amp; Co. (currently, Deloitte Touche Tohmatsu LLC)</p> <p>April 2004: Registered as a Certified Public Tax Accountant</p> <p>October 2005: Representative Partner, Tohmatsu Tax Co. (currently, Deloitte Tohmatsu Tax Co.)</p> <p>July 2007: Managing Partner of Nagoya Office, Tohmatsu Tax Co. (currently, Deloitte Tohmatsu Tax Co.)</p> <p>May 2020: Director, Kamiya Makoto Certified Public Accountant, Certified Public Tax Accountant Office (to date)</p> <p>May 2020: Auditor, SUGI Holdings Co., Ltd. (to date)</p> <p>May 2020: Auditor, Mizkan Asset Co., Ltd. (to date)</p> <p>June 2020: Auditor, Yamazaki Mazak Capital Co., Ltd. (to date)</p>	<p>Mr. Makoto Kamiya has professional knowledge and abundant experience developed as a certified public accountant and certified public tax accountant. We have judged that he is capable of appropriately fulfilling the duties of External Auditor by applying a high level of expertise and from his independent standpoint, and thus appointed him as External Auditor.</p>

### Skills Matrix

	Name	Corporate Management	Business Strategy	Organization / Human Resources	Legal / Compliance / Risk Management	Finance / Accounting	Healthcare
Director	Eiichi Sakakibara	●	●				●
	Katsunori Sugiura	●	●				●
	Shinya Sugiura	●	●				●
	Shigeyuki Kamino	●	●	●			
	Yoshiko Hayama				●	●	
	Michiko Hori	●		●			●
Auditor	Toshihiko Sakamoto				●	●	
	Kana Yasuda				●	●	
	Makoto Kamiya				●	●	

### ● Educational program (for officers including those of the major subsidiaries)

We continuously provide opportunities for External Directors and External Auditors to share our management philosophy, management plan, business overview, finance, organization, etc.

We offer educational programs for Directors, Auditors and Directors of the major subsidiaries concerning relevant laws, finances, corporate governance, risk management, etc. when they newly take office.

After they take office, we continuously provide or mediate educational programs according to their duty, capability and experience and offer them financial support for the cost.

### Content of the educational programs (FY 2021)

Program	Study session
Legal and corporate governance	Domestic and overseas economic status
Management and Finance	Corporate governance code
Compliance	ESG
Organization and human resource management	Trend of capital markets
Management strategy	Trend of medical systems
Digital transformation	Corporate management
Session with managers	Accounting and taxation

## Remuneration System for Directors and Auditors

### ● Remuneration System for Directors and Auditors

Under the remuneration system for Directors and Auditors, basic amounts are fixed for each title and position using remuneration data and materials disclosed by specialized external organizations while considering the remuneration levels of same-industry and same-size companies. The composition of the remuneration varies depending on whether Internal Director, External Director or Auditor.

### ● Structure percentage of basic compensation and performance-linked compensation

The remuneration for Directors consists of basic compensation (fixed) and performance-linked compensation in which the contribution to the increase in corporate value by achieving the business target is considered.

The remuneration for External Directors and Auditors is composed only of basic compensation (fixed) from the viewpoint of their roles and independency.

The structure percentage of remuneration for Directors is decided each time it is paid considering by verifying the remunerations of other companies of the same industry and the same size and taking into consideration the business results of the Company. The structure percentages of remuneration paid to Internal Directors, External Directors and Auditors for the fiscal year under review are indicated below.

Category	Basic compensation (fixed)	Performance-linked compensation
Internal Directors	67%	33%
External Directors and Auditors	100%	—

### ● Nomination and Remuneration Committee

As an advisory organization of the Board of Directors, we established a voluntary Nomination and Remuneration Committee, a majority of which is composed of external officers (External Directors and External Auditors).

The remuneration for Directors is decided by the Representative Director who is delegated by the Board of Directors following the deliberation of the Nomination and Remuneration Committee within the limit of the remuneration amount as resolved by the general meeting of shareholders.

The remuneration for Auditors is decided in the discussion by the Board of Auditors following the deliberation of the Nomination and Remuneration Committee within the limit of the remuneration amount as resolved by the general meeting of shareholders.

### ● Calculation method of performance-linked compensation

According to the degrees of achievement of the budget of consolidated ordinary income for each business year, we have set the basic amounts for each title and position, to which the degree of contribution by each Director is added. Then, the Representative Director who is delegated by the Board of Directors decides the amount to be paid following the deliberation of the Nomination and Remuneration Committee.

The reason for using consolidated ordinary income as the index to calculate the performance-linked compensation is because we consider that the improvement of comprehensive profitability including financial activities is critical.

### ● Calculation method of basic compensation (fixed)

The amount of basic compensation (fixed) is deliberated by the Nomination and Remuneration Committee, and that for Directors is decided by the Representative Director who is delegated by the Board of Directors whereas that for Auditors is decided by deliberation of the Board of Auditors.

### Total amount of remunerations for the fiscal year under review including remuneration for Directors and Auditors

Category	Number of persons	Basic compensation (millions of yen)	Bonus (millions of yen)	Total amount (millions of yen)
Director (of which, External Directors)	5 (3)	109 (14)	47 (—)	157 (14)
Auditor (of which, External Auditors)	4 (4)	17 (17)	— (—)	17 (17)
Total (of which, External Directors and External Auditors)	9 (7)	127 (31)	47 (—)	174 (31)

Notes: 1. Total amount paid to Directors, etc. excludes the portion of employee's salary for Directors who concurrently serve as employees.

2. The upper limit on remuneration for Directors was resolved at 400 million yen per year (not including employee salaries) at the 25th general meeting of shareholders held on May 24, 2007.

3. The upper limit on remuneration for Auditors was resolved at 30 million yen per year at the 25th general meeting of shareholders held on May 24, 2007.

4. The above-mentioned figures include the remuneration paid to one External Auditor who resigned at the end of the 38th general meeting of shareholders held on May 20, 2020.

## Effectiveness Evaluation of the Board of Directors

### ● Effectiveness evaluation of the Board of Directors

For the purpose of securing further effectiveness and improving the functions of the Board of Directors, we implement an effectiveness evaluation of the Board of Directors.

We conducted a written questionnaire survey and held interviews on the self-evaluation with all Directors and Auditors concerning the effectiveness of the structure, operation and agenda of the Board of Directors, the systems to support the Board of Directors, management strategy and challenges.

Based on the results of the questionnaire survey, we implemented constructive discussions for future initiatives by sharing the current survey results within the Board of Directors.

### ● Outline of the evaluation results

The effective evaluation conducted in the fiscal year ended February 2021 indicated that effectiveness of the en-

tire Board of Directors was secured at a high level.

Furthermore, in this survey, constructive opinions were submitted in order to secure higher effectiveness such as further improvement of discussion concerning managerial opportunities and risks from the long-term perspective, improvement of educational programs for Directors and candidates for Directors, and further information sharing for monitoring by the Board of Directors. The Board of Directors also discussed those opinions.

### ● Future initiatives

In order to secure higher effectiveness, we endeavor to consider long-term strategies to respond to changes in the external environment such as the economy, the environment, medical system, etc. in the long run, improve educational programs for Directors and candidates for Directors, and share the latest information including revisions to laws and systems.

## Relationships with Shareholders

### ● Securing shareholders' rights

As to all shareholders, including minority shareholders and foreign shareholders, we are determined to appropriately act to treat them substantially equally according to the number of shares held, and secure shareholders' rights as represented by the exercise of voting rights at the general meeting of shareholders.

In the case where we are to implement a capital policy that may cause a change of control or a large-scale dilution, we will resolve the matter by fully discussing the necessity and rationality at the Board of Directors before providing sufficient explanation to shareholders from the perspectives of fulfilling fiduciary duties for shareholders.

### ● Constructive dialogues with shareholders and investors

We endeavor to improve medium- to long-term corporate value through constructive dialogues with shareholders and investors.

- (1) We will focus on the improvement of IR activities to gain understanding concerning our corporate philosophy, management strategy, financial strategy, management plan, business results and our concept of sustainability.
- (2) The Representative Director and President will supervise all aspects of dialogue, and consultation will be provided by the relevant departments, if necessary.
- (3) As for individual face-to-face meeting with shareholders and investors, the IR department will serve as the con-

tact point, and the matter will be appropriately handled within the reasonable scope based on the requests of, and the purpose of the meeting with, the shareholders and investors.

- (4) In order to promote constructive dialogues with shareholders and investors, the IR department and other related departments will periodically exchange opinions and share information based on professional viewpoints and respond to the matter in cooperation with each other.
- (5) Useful opinions and requests expressed in dialogues with shareholders and investors will be provided to the Board of Directors, etc. as necessary.
- (6) The composition of shareholders will be checked periodically, based on which communication will be improved in an appropriate manner in line with shareholders and investors.
- (7) In carrying out dialogues with shareholders and investors, we will comply with laws and ordinances and other related rules, and manage insider information properly.

### Status of dialogues with investors (FY 2020)

Financial briefing for institutional investors and analysts (1H and full-year)	Twice
Financial briefing small meetings for institutional investors and analysts	25 times
Conference hosted by securities companies	6 times
Individual meetings for institutional investors (face-to-face meetings and interviews by phone)	133 times

### ● Cross-shareholding

- (1) In principle, we will not hold shares under a cross-shareholding policy toward the improvement of corporate value except for a case of strategically important collaboration and a case where the maintenance and development of trading relationships are confirmed.
- (2) As for shares held, we will periodically verify the rationality of holding the shares, and the Board of Directors will check it on an annual basis, the details of which will be disclosed. We will gradually sell the shares which we considered less significant for continuing to hold while checking the status of the relevant issuer.
- (3) As for the exercise of voting rights of the shares held, we will comprehensively determine by confirming in each agenda whether it will contribute to the increase in corporate value from medium- to long-term perspectives while respecting the management policy of the relevant issuer.

### ● Disclosure

We appropriately disclose information on a timely basis in compliance with laws, ordinances and related regulations toward the realization of fair and highly transparent management.

- (1) We will proactively disclose both financial and non-financial information if such information is considered useful for shareholders and other stakeholders to deepen their understanding of the Company.
- (2) Disclosure will be made in such a manner that our shareholders and other stakeholders can easily access it.
- (3) From the viewpoint of information disclosure particularly to overseas investors, we will prepare materials in English concerning the Company profile, management strategy, medium-term management plan, budget, trend of business results, notice of convocation of the general meeting of shareholders, corporate governance basic policy and ESG. Those materials will be posted on the website of SUGI Holdings Co., Ltd.

## Basic Views on Corporate Governance

Based on our management philosophy, we believe that we should contribute to society by effectively utilizing assets and resources borrowed from society such as people, products, stores, money and information, and returning profits to society. To that end, we position the enhancement of corporate governance as one of the highest priorities of our management. We have also established a basic policy for the purpose of being a sound and highly transparent listed company that provides accurate information to all stake-

holders and promoting profitable and effective management. We also endeavor to improve and further develop our corporate governance by continuously examining the content of the basic policy.

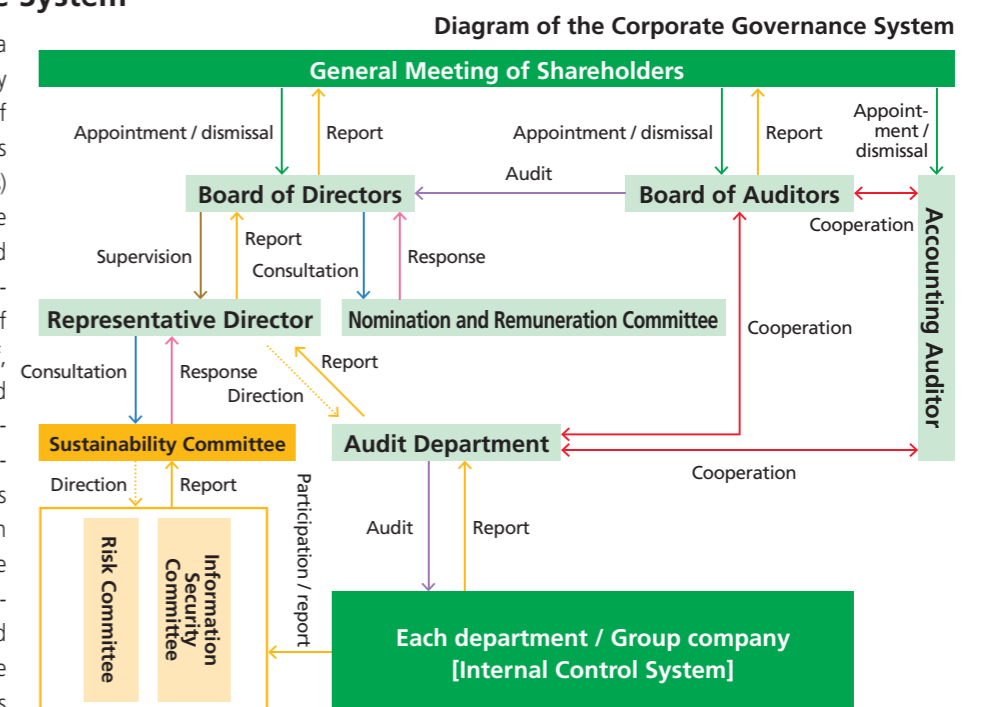
Visit our website for the basic policy of corporate governance of the SUGI Pharmacy Group.



URL: [https://www.sugi-hd.co.jp/corporate\\_governance/basic\\_policy.pdf](https://www.sugi-hd.co.jp/corporate_governance/basic_policy.pdf)

## Corporate Governance System

The Company has shifted to a Company with Audit and Supervisory Board. In addition to the Board of Directors comprising six Directors (including three External Directors) and the Board of Auditors, we have established the Nomination and Remuneration Committee as an advisory organization to the Board of Directors concerning nomination of, and remuneration for, Directors and Auditors. We also separated the functions of decision-making and supervision of management from business execution, thus enhancing flexibility in business execution by delegating the authority to the management team except for the matters to be determined by the Board of Directors in accordance with laws and regulations, the Articles of Incorporation and internal rules.



## Establishment of the Sustainability Committee

With the aim of promoting sustainability management, we have established the Sustainability Committee as an advisory organization to the Representative Director & President.

- ① The Sustainability Committee discusses the sustainability strategy and initiatives for the entire Group, and reports and make proposals to the Representative Director & President.
- ② The Sustainability Committee consists of members appointed by the Representative Director and President as appropriate in light of the purpose of the committee.
- ③ The Risk Committee and the Information Security Committee have been established inside the Sustainability Committee as the bodies that manage relevant risks and perform tasks assigned by the Sustainability Committee.

## Risk Management

For the purpose of promoting sound, highly transparent and efficient management, the Board of Directors will improve the systems concerning compliance, appropriateness of financial reporting, risk management and others seeking more effective functions in the internal control system from the perspectives of group management. And their operation status will be supervised by utilizing the internal audit section. In order to enhance the accuracy of internal control, we endeavor to minimize the managerial risks through documenting and monitoring the details of job duties of each Group company, assumed risks and their countermeasures. The Representative Director & President established the Risk Committee and the Information Security Committee inside the Sustainability Committee to control high-risk fields in the management, thus quickly improving relevant works and preventing accidents.

The Risk Committee prevents risks from occurring by evaluating and identifying serious risks concerning corporate management such as business strategy, natural disasters and infectious diseases, and by taking actions beforehand. In the event of a crisis, we are prepared to immediately establish a separate "emergency task force" to act quickly and appropriately.

### ● Inner Reporting System

For the purpose of preventing and correcting systematic or individual's violation of laws and ordinances or misconduct, we have established a compliance counseling system, enabling employees to seek counseling anonymously. The Inner Reporting System is operated in accordance with the internal rules, and contact points are set within the Group and in external law offices.

In order to prohibit disadvantageous treatment of informants, and increase the profile and understanding of the above-mentioned system, we have ensured that contact information for the system is displayed at our stores and offices, and have also distributed the Compliance and Disaster Countermeasure Pocket Book. By doing so, we endeavor to establish a sound reporting system.

### Examples of the major risks to be managed

Risk	Examples of the major risks
<b>1. Risks concerning business strategy</b>	
1-1 Business environment	Intensified competition with industry peers and different industries Industrial reorganization and oligopoly through large-scale M&A
1-2 Related laws and regulations, etc.	Drastic reductions of drug prices and dispensing fees Revisions to related tax systems and accounting standards
1-3 Investments	Failure in investments in new stores Failure in M&A investments
<b>2. Risks relating to natural disasters and infectious diseases, etc.</b>	
2-1 Large-scale disasters	Stagnant economic activities Suspension of business activities due to damage to stores, offices, systems and employees Damage to properties held and repair costs arising from it
2-2 Climate change	Damage to stores and facilities due to typhoons, heavy rains, etc. Introduction of a carbon tax, etc. due to the strengthening of regulations
2-3 Infectious diseases	Stagnant economic activities Self-restraint and suspension of business activities at stores Suspension of business activities due to infection of employees

Risk	Examples of the major risks
<b>3. Risks relating to corporate management</b>	
3-1 Wrongdoing and accidents	Occurrence of serious mistakes in prescription dispensing Fraudulent activities by directors or employees Defective products, foreign substance mixing, and inappropriate labeling
3-2 Information security	System failures caused by accidents, defects, etc. Illegal invasion and unauthorized access from external network Virus infection Leakage of customer information
3-3 Human rights	Worsening of work environment and safety and health Act of human right violation (harassment and discriminatory practices)
3-4 Human resources	Shortage of managerial human resources Intensified competition for hiring capable human resources
3-5 Supply chain	Human rights and environmental issues concerning supply chain Changes in purchase prices

### ● Information Security Basic Policy

We have been engaging in management to contribute to society by effectively utilizing assets and resources borrowed from society (people, things, money, information, etc.) and continuing to provide profits to society. To realize this, we understand that it is our managerial top priority issue to strengthen information security of the entire Group by protecting our customers' personal information and other information assets owned by us from various threats including unauthorized access and cyber attacks.

Based on this concept, we established "Information Security Basic Policy." Going forward, we will endeavor to maintain and improve information security through compliance with, and proper handling of, the aforementioned policy and "Handling of Personal Information (Privacy Policy)" by the directors and employees.

Visit our website for the Information Security Basic Policy.



URL: [https://www.sugi-hd.co.jp/information\\_security/basic\\_policy.pdf](https://www.sugi-hd.co.jp/information_security/basic_policy.pdf)

#### Take-out and loss of data



Reinforcing the prohibition on the connection of in-house PCs to external equipment

#### Misdirection of email



- Establishing an investigation system in case of information leakage
- Ensuring evidence for follow-up

#### Unauthorized access from outside



- Installing a firewall
- Preventing virus emails from being received

- We have security rooms and security cameras.
- We strive to increase our in-house security by distributing security cards to employees and granting them the necessary access authority depending on their roles. In addition, we focus on training employees, as needed, for example by calling attention to the inadvisability of posting improper messages on social media.

## Financial Indices

(Millions of yen)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Net sales	430,795	457,047	488,464	541,964	602,510
Operating income	22,832	24,760	25,817	29,762	33,701
Ordinary income	23,875	25,900	27,237	31,473	35,333
Profit attributable to owners of parent	14,947	16,411	17,940	20,782	21,120
Depreciation	5,599	6,455	7,389	8,412	9,940
Cash flows from operating activities	16,912	27,564	22,894	45,353	34,027
Cash flows from investing activities	(18,439)	(17,911)	(22,362)	(18,422)	(29,254)
Cash flows from financial activities	(3,506)	(3,401)	(13,897)	(4,895)	(5,274)
Cash and cash equivalents	41,425	47,676	34,311	56,347	55,845
<b>End of consolidated fiscal year</b>					
Net assets	148,782	162,046	166,563	182,750	200,629
Total assets	230,664	253,989	265,481	313,757	345,933
<b>Per share information</b>					
Net income (yen)	236	259	287	336	341
Net asset (yen)	2,349	2,559	2,694	2,956	3,245
Dividend (yen)	50	60	70	80	80
<b>Management indices (%)</b>					
Equity ratio	64.5	63.8	62.7	58.2	58.0
Return on equity (ROE)	10.5	10.6	10.9	11.9	11.0
Return on total assets (ROA)	10.6	10.7	10.5	10.9	10.7
Payout ratio	21.2	23.1	24.3	23.8	23.4
<b>Annual sales growth rate (%)</b>					
All stores: Corporate group as a whole	+3.8	+6.0	+6.9	+11.0	+11.2
All stores: SUGI Pharmacy operations*	+5.8	+8.3	+9.9	+13.8	+12.7
Existing stores: Corporate group as a whole	+0.6	+2.3	+2.2	+5.1	+4.3
Existing stores: SUGI Pharmacy operations*	+1.1	+2.7	+2.6	+5.9	+4.7
<b>Prescription dispensing information</b>					
Sales from prescription dispensing	75,484	84,108	91,074	105,279	117,597
Number of prescription sheets filled by us	6,982	7,704	8,698	9,833	10,101
Prescription cost (yen)	10,810	10,917	10,471	10,707	11,642

\*“SUGI Pharmacy operations” presents only the number of stores of SUGI Pharmacy.

## Non-financial indices

	FY 2018	FY 2019	FY 2020
<b>Numbers representing the Company</b>			
Number of stores	1,190	1,287	1,391
Number of new stores	102	116	121
Year-end total square meters of sales floor	722,317	781,303	847,543
<b>Numbers relating to customer base</b>			
Number of visitors per year	245,658,072	269,803,126	316,850,068
Number of SUGI Pharmacy point members	15,154,963	16,459,486	18,042,809
Number of SUGI Pharmacy app downloads <sup>*1</sup>	–	3,506,481	6,018,926
Number of SUGI Sapo app downloads <sup>*2</sup>	–	611,625	1,549,738
Number of kakari app downloads	–	–	161,060
<b>Numbers relating to prescription dispensing</b>			
Number of prescription dispensing pharmacies	833	930	1,050
Percentage of prescription dispensing stores (%)	78.4	80.0	82.9
Number of prescription sheets filled by us (thousands)	8,698	9,833	10,101
<b>Numbers relating to function updates for aging society</b>			
Number of stores providing home-visit prescription dispensing services	447	487	541
Total number of customers who used home-visit prescription dispensing services	115,326	128,880	146,794
Number of home-visit nursing stations	9	11	13
Total number of customers who used home-visit nursing services	11,645	12,453	14,590
<b>Numbers relating to contribution to the enhancement of community safety and security</b>			
Total number of partnership agreements concluded	–	53	58
Total number of stores where AEDs are installed	27	47	130
<b>Basic numbers relating to employees</b>			
Number of full-time employees	5,494	6,182	6,710
Men	3,074	3,340	3,540
Women	2,420	2,842	3,170
Percentage of women	44.0	46.0	47.2
Percentage of partner employees (converted into the number of 8-hour workers)	61.5	62.5	63.1
Number of new graduates hired	568	590	726
<b>Numbers relating to diversity and work style</b>			
Number of managers	1,536	1,679	2,005
Percentage of female managers (%)	11.6	13.6	15.6
Percentage of disabled employees (%)	2.47	2.54	2.36
Percentage of those returning to work after parenting leave (%)	90.1	93.4	93.7
<b>Numbers relating to safety and health (%)</b>			
Regular health checkup rate	92.7	99.7	99.6
Specific health guidance rate (completion rate)	7.9	88.4	82.2
<b>Numbers relating to the environment</b>			
Electric power consumption (thousand KWH)	240,121	250,121	To be fixed.

\*1 This is the number since the revamp of the app in October 2018. \*2 This is the total number of downloads of the Walk app and the Eats app.

## Consolidated Balance Sheet

	(Millions of yen)		(Millions of yen)	
	As of the end of FY 2019 (Feb. 29, 2020)	As of the end of FY 2020 (Feb. 28, 2021)	As of the end of FY 2019 (Feb. 29, 2020)	As of the end of FY 2020 (Feb. 28, 2021)
<b>Assets</b>			<b>Liabilities</b>	
Current assets			Current liabilities	
Cash and deposits	81,347	86,845	Accounts payable - trade	82,479
Accounts receivable – trade	28,211	31,655	Income taxes payable	5,220
Securities	10,000	9,000	Provision for bonuses	1,955
Inventory	63,668	71,165	Others	26,123
Others	13,669	15,207	Total current liabilities	115,779
Allowance for doubtful accounts	(13)	(1)	Fixed liabilities	
Total current assets	196,883	213,871	Retirement benefit liability	6,379
Fixed assets			Asset retirement obligations	5,517
Tangible fixed assets			Others	3,330
Buildings and structures	88,705	101,330	Total fixed liabilities	15,228
Accumulated depreciation	(36,711)	(41,419)	Total Liabilities	131,007
Buildings and structures (net)	51,994	59,910	<b>Net Assets</b>	
Land	7,858	8,517	Shareholders' equity	
Construction in progress	4,822	2,861	Capital stock	15,434
Others	31,346	35,963	Capital surplus	24,632
Accumulated depreciation	(21,745)	(25,043)	Retained earnings	151,807
Others (net)	9,601	10,919	Treasury stock	(9,297)
Total tangible fixed assets	74,276	82,209	Total shareholders' equity	182,577
Intangible assets	3,542	5,326	Accumulated other comprehen- sive income	
Investments and others			Valuation difference on avail- able-for-sale securities	317
Investment securities	3,342	6,032	Remeasurements of defined benefit plans	(144)
Long-term loans receivable	4	4	Total accumulated other com- prehensive income	172
Deferred tax assets	8,603	9,839	Total Net Assets	182,750
Guarantee deposits	22,861	25,747	<b>Total Liabilities and Net Assets</b>	313,757
Others	4,265	2,938		345,933
Allowance for doubtful accounts	(23)	(36)		
Total investments and others	39,054	44,527		
Total fixed assets	116,874	132,062		
<b>Total Assets</b>	313,757	345,933		

## Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

	(Millions of yen)	
	FY 2019 (Mar. 1, 2019 to Feb. 28, 2020)	FY 2020 (Mar. 1, 2020 to Feb. 28, 2021)
<b>Consolidated Statement of Income</b>		
Net sales	541,964	602,510
Cost of sales	379,782	421,219
Gross profit	162,182	181,291
<b>Selling, general and administrative expenses</b>		
Salaries, allowances and bonuses	54,708	60,524
Provision for bonuses	1,934	2,576
Retirement benefit expenses	1,131	1,081
Rent expenses	25,926	30,122
Others	48,718	53,284
Total selling, general and administrative expenses	132,420	147,590
Operating income	29,762	33,701
<b>Non-operating income</b>		
Interest income	93	88
Dividend income	6	60
Gain on donation of non-current assets	595	439
Rental income	1,660	1,801
Commission income	566	464
Subsidy income	–	550
Others	381	302
Total non-operating income	3,304	3,708
<b>Non-operating expenses</b>		
Interest expenses	22	21
Rental costs	1,142	1,425
Loss on retirement of non-current assets	249	135
Others	178	493
Total non-operating income	1,592	2,075
Ordinary income	31,473	35,333
<b>Extraordinary losses</b>		
Impairment loss	1,546	3,812
Total extraordinary losses	1,546	3,812
Profit before income taxes	29,926	31,521
Income taxes – current	10,496	12,355
Income taxes – deferred	(1,352)	(1,955)
Total income taxes	9,144	10,400
Net income	20,782	21,120
Profit attributable to owners of parent	20,782	21,120
<b>Consolidated Statement of Comprehensive Income</b>		
Net income	20,782	21,120
<b>Other comprehensive income</b>		
Valuation difference on available-for-sale securities	66	1,890
Remeasurements of defined benefit plans	(25)	(185)
Total other comprehensive income	41	1,705
Comprehensive income	20,823	22,825
(Breakdown)		
Comprehensive income attributable to owners of parent	20,823	22,825

# Consolidated Statement of Cash Flows

(Millions of yen)

	FY 2019 (From Mar. 1, 2019 to Feb. 29, 2020)	FY 2020 (From Mar. 1, 2020 to Feb. 28, 2021)
<b>Cash flows from operating activities</b>		
Profit before income taxes	29,926	31,521
Depreciation	8,412	9,940
Impairment loss	1,546	3,812
Increase (decrease) in provision for bonuses	610	643
Increase (decrease) in retirement benefit liability	646	644
Increase (decrease) in allowance for doubtful accounts	(14)	0
Interest and dividend income	(100)	(149)
Gain on donation of non-current assets	(397)	(271)
Interest expenses	22	21
Loss on retirement of non-current assets	45	10
Decrease (increase) in trade receivables	(8,391)	(3,443)
Decrease (increase) in inventories	(4,099)	(7,445)
Increase (decrease) in trade payables	24,225	8,586
Others	2,417	1,081
Sub-total	54,851	44,952
Interest and dividends received	29	84
Interest paid	(18)	(17)
Income taxes paid	(9,508)	(10,993)
Net cash provided by (used in) operating activities	45,353	34,027
<b>Cash flows from investing activities</b>		
Payments into time deposits	(62,000)	(67,000)
Proceeds from withdrawal of time deposits	66,000	63,000
Purchase of securities	(37,000)	(32,000)
Proceeds from redemption of securities	42,000	31,000
Purchase of property, plant and equipment	(19,389)	(18,627)
Purchase of intangible assets	(998)	(2,936)
Purchase of investment securities	(2,011)	(43)
Collection of loans receivable	1	0
Payments of guarantee deposits	(4,659)	(2,505)
Proceeds from refund of guarantee deposits	488	267
Others	(853)	(408)
Net cash provided by (used in) investing activities	(18,422)	(29,254)
<b>Cash flows from financial activities</b>		
Purchase of treasury shares	(0)	(1)
Repayments of finance lease obligations	(244)	(328)
Dividends paid	(4,634)	(4,944)
Others	(15)	(0)
Net cash provided by (used in) financial activities	(4,895)	(5,274)
<b>Net increase (decrease) in cash and cash equivalents</b>	22,035	(502)
<b>Cash and cash equivalents at beginning of period</b>	34,311	56,347
<b>Cash and cash equivalents at end of period</b>	56,347	55,845

# Corporate Profile and Stock Information

(As of February 28, 2021)

## Corporate Profile

Trade name: SUGI Holdings Co., Ltd.  
 Established: March 8, 1982  
 Capital: 15,434,588,000 yen  
 Number of employees: 6,710 (on a consolidated basis)  
 Major operations: Control and management of companies operating in such fields as prescription dispensing, drugstores, and home-visit nursing stations  
 Headquarters: 62-1, Shin'e, Yokone-machi, Obu-City, Aichi Prefecture 474-0011  
 Main store: 1-8-4, Mikawa Anjo-cho, Anjo City, Aichi Prefecture 446-0056  
 Number of stores: 1,391 (Total of the Group)  
 - Sugi Pharmacy: 1,267  
 - Japan: 111  
 - SUGI home-visit nursing stations: 13

Directors (as of May 19, 2021)

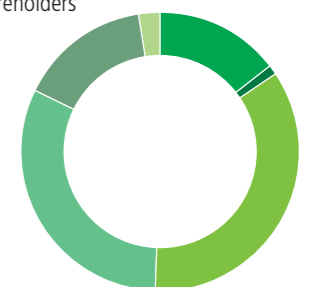
Representative Director & Chairman: Eiichi Sakakibara  
 Representative Director & President: Katsunori Sugiura  
 Director: Shinya Sugiura  
 External Director: Shigeyuki Kamino  
 External Director: Yoshiko Hayama  
 External Director: Michiko Hori  
 External Full-time Auditor: Toshihiko Sakamoto  
 External Auditor: Kana Yasuda  
 External Auditor: Makoto Kamiya

## Stock Information

Total number of shares authorized to be issued by the Company: 200,000,000  
 Total number of issued shares: 63,330,838  
 Number of shareholders: 27,585

Share distribution according to shareholders

Financial institutions: 14.46%  
 Financial instrument business operators: 1.12%  
 Other domestic corporations: 35.21%  
 Foreigners: 31.67%  
 Individuals and others: 15.14%  
 Treasury shares: 2.40%



Major shareholders (Top 10)

Name	Number of shares held (Unit: thousand)	Shareholding ratio (%)
Sugi Shoji Co., Ltd.	20,605	33.33
The Master Trust Bank of Japan (trust account)	3,878	6.27
Katsunori Sugiura	1,892	3.06
Shinya Sugiura	1,892	3.06
Custody Bank of Japan, Ltd. (trust account)	1,658	2.68
THE BANK OF NEW YORK MELLON 140051	1,472	2.38
Tsuruha Co., Ltd.	1,272	2.05
STATE STREET LONDON CARE OF STATE STREET BANK AND TRUST, BOSTON SSBTC A/C UK LONDON BRANCH CLIENTS- UNITED KINGDOM	1,199	1.94
STATE STREET BANK AND TRUST COMPANY 505223	1,086	1.75
THE BANK OF NEW YORK MELLON 140042	1,015	1.64

(Notes) 1. We possess 1,517,115 treasury shares, but exclude ourselves from the above list of the major shareholders.  
 2. The shareholding ratio is calculated after excluding our treasury shares.

## Share Price Chart

\*Adjusted prices after stock split are shown.



\*1. FY 2001 represents the period from August 1, 2001 to February 28, 2002. \*2. FY 2021 represents the period from March 1, 2021 to May 7, 2021.