

October 22, 2014
WELCIA HOLDINGS CO., LTD.
CFS Corporation
AEON CO., LTD.

Agreement for merger with Welcia Holdings Co., Ltd. and CFS Corporation for the purpose of establishing the “No.1 drugstore chain in Japan”

Welcia Holdings Co., Ltd. (hereinafter, “Welcia HD”), CFS Corporation (hereinafter, “CFS.” Also, Welcia HD and CFS is regarded as “both parties”) and Aeon Co., Ltd. (hereinafter, “Aeon”) concluded a master agreement for merger of the both parties and decided to start further discussion on the matter at the board of directors meeting by the parties resolved as of October 22, 2014, as shown below. The both parties will proceed to a discussion on the specific details of the merger on an equal footing.

As stated in the previously issued news release “Deepening of Operational and Capital Alliance Between Welcia Holdings Co., Ltd. and Aeon Co., Ltd” as of April 14 2014, Aeon, a consolidated parent company of CFS, agreed to and determined to fully support their initiative for the merger.

1. Background and purpose of merger

In rapidly-aging Japan caused by rapid decrease of birthrate, rising medical cost has been one of the important fiscal issues. Japanese government is making a big change in its health policy, shifting its goal from “an extension of average life expectancy” to “that of healthy life expectancy.”

“Extension of healthy life expectancy,” requires “self-medication” where a person takes care of injuries and diseases himself/herself utilizing drugs obtained via in-house prescription dispensing or at drugstores.

Upon the promotion of “self-medication,” drugstores are expected to play an important role as a convenient place to visit at any time of the day where specialists (pharmacists and registered sales clerks) take care of the customers in need. Additionally, with expansion of product mix (line robbing) from drugs, foods to household goods and enhanced convenience at similar levels to CVSs, drugstore business has been one of the few growing businesses in retail industry.

Anticipating that more and more customers will pursue maintenance and improvement of their own health, Aeon regards providing products and services for those purposes as another business opportunity. Aeon strongly believes that drug and pharmacy business, which has dealt with drugs and cosmetics, needs to be expanded into health and wellness business.

Especially, in addition to drugs and cosmetics products that drugstores have traditionally offered, health and wellness market will cover much wider market categories for maintenance and improvement of both mental and physical health, from health and organic foods to services for home nursing/treatment to fitness / beauty care machines.

Welcia HD is ① the first company to establish a business model (“Welcia model”) consist of drugstore combined with dispensing pharmacy (drug & dispensing),” “late-night service,” “consultation service” and “nursing,” ②and have extended the model to group companies, and ③have increased the number of stores through M&A and multiple store roll-out. With those measures, annual sales made a big leap from 19.3 billion yen as of August 2000 to 360.7 billion yen as of August 2014. In order to accelerate the growth further, Welcia HD integrated its drugstore subsidiaries into Welcia Pharmacy Co., Ltd. (hereinafter, “Welcia Pharmacy”) ,its wholly owned subsidiary by the HD. With regard to its core business model of “drug & dispensing,” Welcia HD holds over 660 stores with dispensing pharmacy. The ratio of drugstores with dispensing pharmacy to total drugstores is about 70%, which is one of the highest in the industry.

Meanwhile, consolidation of drugstore industry has been accelerated as the competition intensifies, and more and more medical/nursing services are making entry into the industry. Welcia HD sees these changes in the business environment as a chance for growth, and set a mid-term goal of “500 billion yen sales, with 4.0% ordinary income ratio and 1,500 stores in fiscal year ending August 2016.” Aiming to reach this goal and ultimately achieve the establishment of “No. 1 drugstore chain in Japan,” Welcia HD will accelerate its growth by conducting organizational restructuring and upgrading the “Welcia model” to a new generation model.

CFS, in 1976, developed a drug store as a new business format by introducing healthcare and beauty care to the business concept. Three years later, the company added home care function to form an original drugstore business model of today. The company continued to develop itself in accordance with the customers’ changing needs, to finally achieve the establishment of a drugstore combined with dispensing pharmacy. CFS now has over 100 stores with sales of dispensing pharmacy business amounting to 15% of the total sales. Additionally, CFS has provided a customized service by placing cosmeticians at each store and offering consultation. Due to these efforts, the company now has 308 stores, mainly in station buildings or around stations.

Furthermore, CFS is promoting in-house prescription dispensing, in response to the growing trend in in-house nursing/medical care rather than ambulatory care/hospital treatment, as more elderlies are in need of nursing. At present, the company provides the most appropriate/efficient/secure and the safest medication for approximately 3,000 patients and plans to expand the service for 10,000 patients by 2016.

As stated above, CFS has reinforced OTC (Over the Counter) sales at urban stores and dispensing pharmacy business (including in-house prescription dispensing), and is making steady progress to reach the set target of 120 billion yen sale in FY February 2015. Moreover, CFS aims to achieve 4% in ordinary income ratio at FY February 2017 (i.e. 3rd year of the current mid-term management plan of the company), in order to play a part in a community as a infrastructure, which it believes a mission of drugstores.

Since the launch of “Aeon Welcia Stores (current “Hapycorn”)” in January 2001, Welcia HD and CFS have worked together to today, with a common belief of “supporting health of local customers.” After building a solid trust with each other over the years, Welcia HD and CFS agreed on the recognition that they will cooperate to establish “No. 1 drugstore chain in Japan” with the best drugstore model. They will promote drugstores that serve dispensing pharmacy with enhanced expertise with a focus on the social significance of “dispensing pharmacy business” and its potential for the future business opportunity, and exchange their

know-hows; Welcia HD's experience in sub-urban area and that of CFS in OTC drug business at urban stores. Both parties agreed to start discussion for business merger on September 1, 2015.

2. Summary of expected business merger and schedule

(1) Schedule

Master Agreement Conclusion Date	October 22, 2014 (today)
Board of Directors' Resolution Date	October 22, 2014 (today)
Final Agreement Conclusion Date for Business Merger	Early April 2015 (TBD)
Shareholders' Meeting Resolution Date	2 nd half of May 2015 (TBD)
Merger Effective Date	September 1, 2015 (scheduled)

(2) Method for business merger

On assumption that the both parties shall obtain a permission in lieu of approval based on a resolution at the shareholders' meeting as well as all approvals required from concerned authorities for the merger by September 1, 2015, they proceed the merger by stock exchange; Welcia HD as "wholly owning parent company in share exchange" and CFS as "wholly owning subsidiary company in share exchange."

(3) Merger ratio

Merger ratio will be determined based on a due diligence and an evaluation of expected share price by a third party, by Conclusion Date of the finalized agreement for the merger.

(4) Management after the merger

Representative person and officers will be determined by Conclusion Date of the finalized agreement for the merger.

3. System of consideration of the business merger

Welcia HD, CFS and Aeon will establish a preparatory committee for the merger and discuss the following matters:

- i. Self-medication: create a concrete methods to realize local comprehensive care system through studying on ideal "family dispensary" as a local base for health information, promoting prevention of diseases and health care in cooperate with local medical facilities and in-house nursing service organizations
- ii. Innovation in dispensary business: In order to become No. 1 drugstore chain in sales and the number of stores in dispensing pharmacy business, improve the skill of a pharmacist while promoting computerization and digitalization of the dispensing work for better productivity.
- iii. Development of small urban stores: Develop new small store format for metropolitan area
- iv. Joint sourcing and MD development: Link the know-how and network of drugstore that Welcia HD and CFS have accumulated until today with Aeon's capabilities in merchandising sourcing and development, for innovative products.

Summary of the Both Parties

	Welcia HD	CFS				
Company name	WELCIA HOLDINGS CO. LTD.	CFS Corporation				
Address	1-9 Kanda Suda-cho, Chiyoda-ku, Tokyo, Japan	13-4 Hirokoji-cho, Mishima-city, Shizuoka, Japan				
Representative	Hideharu Mizuno, CEO & Representative Director	Yuji Miyashira CEO & Representative Director				
(4) Business	Management of subsidiaries/ group companies which operate drugstore chain w/ dispensing pharmacy	Drugstore business and in-house prescription dispensing				
(5) Capital	7,736 million yen	7,094 million yen				
(6) Foundation date	September 1, 2007	September 1, 1947				
(7) Number of outstanding shares	44,047,906 shares (As of September 1, 2014)	34,693,678 shares (As of August 31, 2014)				
(8) End of FY	End of August	End of February				
(9) Number of employees	4,180 (Consolidated) (As of August 31, 2014)	1,274 (Parent) (As of August 31, 2014)				
(10) Major clients	Paltac Corporation., Kao Customer Marketing Co., Ltd., PIP Co., Ltd.	Paltac Corporation., Kao Customer Marketing Co., Ltd., Alfresa Corporation.				
(11) Banking relationship with:	SUMITOMO MITSUI BANKING CORPORATION, Shizuoka Bank, Saitama Resona Bank	SUMITOMO MITSUI BANKING CORPORATION, Shizuoka Bank				
(12) Large shareholders & shareholding ratio (As of August 31, 2014)	AEON CO., LTD. 34.85% The Master Trust Bank of Japan, Ltd. (trust account) 5.21% TSURUHA HOLDINGS Inc 3.34% Asako Suzuki 3.32% Japan Trustee Services Bank, Ltd. (trust account) 3.05%	AEON CO., LTD. 50.03% Ishida Co., Ltd. 5.53% SURUGA Bank 3.19% CFS Corp. Kyoeikai 2.76% Takehiko Ishida 2.30%				
(13) Relationship of the both parties						
Capital	Welcia HD is Aeon's affiliated company accounted for by the equity-method, and holds CFS as a consolidated subsidiary					
HR	There is no direct human resource relationship between the both parties, but Tetsuo Imoto, Aeon's advisor, holds concurrent offices as corporate auditor of Welcia HD & chairman of board of directors of CFS					
Relationship	There is no remarkable transaction relationship between the both parties					
Transaction between related parties	N/A					
(14) Business performance and financial status in the past 3 years						
	Welcia HD (consolidated)			CFS (Note 2)		
	FY2012 End of Aug	FY2013 End of Aug	FY2014 End of Aug	FY2012 Feb 20	FY2013 End of Feb	FY2014 End of Feb
Net Assets	42,792	50,276	70,809	21,052	20,396	20,596
Total Assets	110,960	139,399	165,355	43,304	46,026	45,745
Net asset per share (¥)	1,119.96	1,303.67	1,617.75	607.02	588.04	593.71
Sales	293,378	334,393	360,797	105,649	112,614	117,544
Operating Income	11,488	12,607	14,207	2,107	1,037	2,326
Ordinary Income	12,292	13,811	14,973	2,475	1,527	2,553
Net Income	5,899	7,669	7,835	177	△500	419
Net Income per share (¥)	159.64	206.69	190.53	5.13	△14.44	12.12
Dividend per share (¥)	45.00	55.00	65.00	8.00	8.00	8.00

(Unit: million yen, excluding separately noted items)

(Note 1) Welcia HD executed a stock-split (1:2) for common shares, effective as of September 1, 2014. New assets per share (consolidate) and net income per share (consolidated) is calculated in a retrospective way.

(Note 2) CFS has not had consolidated financial statements since February 20, 2014

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