



39th Term

Results Presentation Meeting

AIN PHARMACIEZ Inc. (9627)

June 19, 2008



Section 1: Discussion of results

Consolidated P/L

Consolidated sales and profits both rose sharply in fiscal year ended April 2008, thanks to generally strong earnings at group companies, a full year's contribution from Daichiku (Niigata), and eight months of earnings at Asahi-Chozai (Saitama).

	FY ended April 2007	FY ended April 2008	Change	(¥ million) Year-on-year (%)
Net sales	81,307	106,231	24,924	130.7
Gross profit	10,858	13,648	2,790	125.7
% of net sales	13.4	12.8		
SG&A expenses	7,970	9,203	1,233	115.5
% of net sales	9.8	8.7		
Operating income	2,888	4,444	1,556	153.9
% of net sales	3.6	4.2		
Ordinary income	2,833	4,315	1,482	152.3
% of net sales	3.5	4.1		
Net income	1,010	1,615	605	159.9
Net income per share (¥)	89.34	142.36	53.02	159.3
Annual dividend (¥)	18.00	20.00	2.00	111.1

Parent P/L

Parent operating income declined to 87.2% year-on-year, owing largely to the accelerated disposal of inventories in the product sales segment. Parent net income declined to 71.5% year-on-year, to ¥389 million, reflecting the recording of costs associated with the CFS Corporation merger and, in the product sales segment, the disposition of point card-related reserves.

	FY ended April 2007	FY ended April 2008	Change	(¥ million) Year-on-year (%)	
Net sales	51,262	54,386	3,124	106.1	Pharmacy business ¥3,316 million Drug business ¥(183) million Other business ¥(9) million
Gross profit % of net sales	6,996 13.6	7,095 13.0	99	101.4	
SG&A expenses % of net sales	5,571 10.9	5,851 10.8	280	105.0	
Operating income % of net sales	1,425 2.8	1,243 2.3	(182)	87.2	Pharmacy business ¥150 million Drug business ¥(260) million Other business ¥(72) million
Ordinary income % of net sales	1,422 2.8	1,599 2.9	177	112.4	
Net income	544	389	(155)	71.5	Losses related to CFS merger ¥132million Point card-related reserves ¥270million Impairment loss ¥236million
Net income per share (¥)	48.18	34.30	(13.88)	71.2	

Pharmacy business (consolidated)

Net sales and operating income sharply (year-on-year 37.7% and 45.2%, respectively) thanks to strong earnings at group companies and the consolidation of Asahi-Chozai to the group.

	(¥ million)			
	FY ended April 2007	FY ended April 2008	Change	Year-on-year (%)
Net sales	66,785	91,989	25,204	137.7
Gross profit % of net sales	6,987 10.5	9,932 10.8	2,945	142.1
SG&A expenses % of net sales	2,905 4.3	4,005 4.4	1,100	137.9
Operating income % of net sales	4,081 6.1	5,926 6.4	1,845	145.2
Ordinary income % of net sales	4,104 6.1	6,018 6.5	1,914	146.6
No. of stores at end of fiscal year	247	356	109	144.1
No. of prescriptions (thousands)	6,738	8,757	2,019	130.0
Average price per prescription (¥)	9,801	10,283	482	104.9

Existing stores and full operation of stores opened in previous year	¥10,470 million
Newly-opened stores	¥1,973 million
Store closures and disposals	¥(357) million
Asahi-Chozai	¥11,631 million
Other	¥1,487 million

Parent	¥150 million
Asahi-Chozai	¥1,032 million
Other group companies	¥663 million

Product sales business (consolidated)

The segment incurred a loss as a result of efforts to optimize inventory levels and reexamine purchasing, with a view to improve earnings.

	FY ended April 2007	FY ended April 2008	Change	(¥ million) Year-on-year (%)	
Net sales	14,253	13,973	(280)	98.0	Existing stores and full operation of stores opened in previous year ¥145 million Newly-opened stores ¥186 million Closed stores ¥(611) million
Gross profit	3,943	3,792	(151)	96.2	
% of net sales	27.7	27.1			
SG&A expenses	4,204	4,273	69	101.6	
% of net sales	29.5	30.6			
Operating income	(260)	(481)	(221)	—	
% of net sales	N.A.	N.A.			
Ordinary income	(163)	(382)	(219)	—	
% of net sales	N.A.	N.A.			
No. of stores at end of fiscal year	43	45	2	104.7	
Gross floor space at end of fiscal year (m ²)	18,510	18,645	135	100.7	
Average customer spend (¥)	1,746	1,979	233	113.3	
No. of customers (thousands)	8,158	7,466	(692)	91.5	

Consolidated B/S

Total assets increased ¥7.7 billion owing to the growth of group companies. The company borrowed ¥8.0 billion from banks to acquire stock in Asahi-Chozai, but also worked to effectively utilize its capital by introducing a cash management system (CMS). As a result, net borrowings increased by only ¥74 million.

(¥ million)

FY ended April 2007			
Assets		Liabilities	
Current assets	21,251	Current liabilities	31,428
Cash on hand and in banks	4,186	Short-term debt	12,155
Fixed assets	28,597	Long-term liabilities	7,094
		Long-term debt	6,217
		Total net assets	11,326
Total assets	49,849	Total liabilities and net assets	49,849

(¥ million)

FY ended April 2008			
Assets		Liabilities	
Current assets	22,608	Current liabilities	32,570
Cash on hand and in banks	4,315	Short-term debt	7,377
Fixed assets	34,937	Long-term liabilities	12,268
		Long-term debt	11,198
		Total net assets	12,707
Total assets	57,546	Total liabilities and net assets	57,546

Financial indicators

Interest-bearing debt	18,373
Net interest-bearing debt	14,186

Financial indicators

Interest-bearing debt (Year-on-year)	18,575 +202
Net interest-bearing debt	14,260

Assets

Assets increased as a result of growth of group companies as well as the recording of Asahi-Chozai's ¥9.0 billion in total assets (¥7,184 million in current assets and ¥1,831 million in fixed assets).

	(¥ million)		
	FY ended April 2007	FY ended April 2008	Change
Cash on hand and in banks	4,186	4,315	128
Notes and accounts receivable	7,545	8,964	1,418
Inventories	5,497	5,355	(142)
Total current assets	21,251	22,608	1,357
Buildings and structures	5,072	5,794	721
Land	3,815	4,849	1,034
Total tangible fixed assets	9,788	11,562	1,774
Total intangible fixed assets	9,923	13,903	3,979
Investments in securities	2,011	1,964	(47)
Deferred tax assets	627	884	256
Deposits and guarantees	5,735	6,111	376
Total investments and other assets	8,885	9,472	586
Total fixed assets	28,597	34,937	6,340

Reflecting expansion of group companies

Inventory reductions at drug business

Reflecting goodwill associated with Asahi-Chozai, Sunwood acquisitions

Investments amounted to ¥1,951 million, depreciation and amortization costs totaled ¥871 million.

Liabilities and net assets

The company invested ¥8.0 billion in the acquisition of Asahi-Chozai, but thanks to the effective use of capital through CMS, interest-bearing debt rose by only ¥203 million.

	(¥ million)		
	FY ended April 2007	FY ended April 2008	Change
Accounts payable	14,325	18,576	4,250
Short-term debt	12,155	7,377	(4,778)
Total current liabilities	31,428	32,570	1,141
Long-term debt (incl. bonds)	6,217	11,198	4,981
Total long-term liabilities	7,094	12,268	5,174
Total liabilities	38,522	44,839	6,316
Common stock	3,395	3,424	28
Capital surplus	3,515	3,543	28
Retained earnings	3,815	5,207	1,392
Total shareholders' equity	10,722	12,171	1,449
Total net assets	11,326	12,707	1,381
Total liabilities and net assets	49,849	57,546	1,381

Reflecting expansion of group
 Amount borrowed to acquire stock repaid by aggregating group companies' capital
 Reflecting profit growth

Financial indicators

Cash flows from operating activities totaled ¥8.4 billion, which was allocated to reduction of interest-bearing debt, acquisition of shares in new subsidiaries, and opening of stores.

	(¥ million)		
	FY ended April 2007	FY ended April 2008	Change
Cash flows from operating activities	2,277	8,424	6,146
Cash flows from investing activities	(6,676)	(6,980)	(303)
Cash flows from financing activities	5,437	(1,429)	(6,866)
Shareholders' equity ratio (%)	21.5	20.9	(0.6)
Shareholders' equity ratio based on market value (%)	34.1	29.4	(4.7)
Debt redemption term (years)	8.1	2.2	(5.9)
Interest coverage ratio (times)	11.5	23.2	11.7
Return on assets (%) ROA	2.2	3.0	0.8
Return on equity (%) ROE	9.6	14.2	4.6
EV/EBITDA (times)	8.5	5.7	(2.8)

Pre-tax profit ¥3,710million
 Depreciation and amortization ¥968million
 Goodwill amortization ¥727million
 Inventory asset reduction ¥731million

■ EV/EBITDA multiple does not factor in goodwill.

FY2009 plan (consolidated)

We expect to achieve record-high sales and profits in the fiscal year ending April 2009. Despite the negative impact of revisions to NHI treatment and drug prices, we expect the pharmacy business sales to exceed ¥100 billion (an industry first) thanks to the aggressive expansion of the store network.

	FY ended April 2008 actual	FY ended April 2009 plan	Change	Year-on-year (%)
	(¥ million)			
Net sales	106,231	120,600	14,369	113.5
Gross profit	13,648	15,120	1,472	110.8
% of net sales	12.8	12.5		
SG&A expenses	9,203	10,200	997	110.8
% of net sales	8.7	8.5		
Operating income	4,444	4,920	476	110.7
% of net sales	4.2	4.1		
Ordinary income	4,315	4,720	405	109.4
% of net sales	4.1	3.9		
Net income	1,615	2,108	493	130.5
Net income per share (¥)	142.36	179.40	37.04	126.0
Annual dividend (¥)	20.00	25.0	5.0	125.0

FY2009 plan (parent)

We foresee higher sales and profits in the fiscal year ending April 2009, with operating income and net income rising 36.8% and 77.4%, respectively, thanks to the opening of 28 new stores (23 pharmacies, 5 product sales) and to improved profits at the product sales segment.

	FY ended April 2008 actual	FY ending April 2009 plan	Change	(¥ million) Year-on-year (%)
Net sales	54,386	60,860	6,474	111.9
Gross profit	7,095	8,060	965	113.6
% of net sales	13.0	13.2		
SG&A expenses	5,851	6,360	509	108.7
% of net sales	10.8	10.5		
Operating income	1,243	1,700	457	136.8
% of net sales	2.3	2.8		
Ordinary income	1,599	1,810	211	113.2
% of net sales	2.9	3.0		
Net income	389	690	301	177.4
Net income per share (¥)	34.30	58.72	24.42	171.2



Section 2: Current management position and outlook

Results (consolidated)

The company lowered its targets in January 2008 to reflect the recording of expenses related to the merger with CFS Corporation, the shrinking of inventories in the product sales business, and the disposition of point card-related reserves. However strong earnings performance for consolidated subsidiaries supported results above targets for both operating income and ordinary income.

(¥ million)

	Initial targets	Revised targets	Actual earnings	Vs. targets	Year-on-year (%)
Net sales	105,260	106,400	106,231	99.8	130.7
Gross profit	13,660	13,260	13,648	102.9	125.7
% of net sales	13.0	12.5	12.8		
SG&A expenses	9,230	9,280	9,203	99.2	115.5
% of net sales	8.8	8.7	8.7		
Operating income	4,430	3,980	4,444	111.7	153.9
% of net sales	4.2	3.7	4.2		
Ordinary income	4,250	3,850	4,315	112.1	152.3
% of net sales	4.0	3.6	4.1		
Net income	1,850	1,450	1,615	111.4	159.9
Net income per share (¥)	163.43	127.65	142.36	111.5	159.3

Results (pharmacy business, consolidated)

Both operating income and ordinary income increased, thanks to a full year's earnings at stores opened in previous fiscal year and eight months of earnings at Asahi-Chozai, acquired in June 2007.

	Initial targets	Revised targets	Actual earnings	Vs. targets	(¥ million) Year-on-year (%)
Net sales	89,328	92,376	91,989	99.6	137.7
Gross profit	9,180	9,308	9,932	106.7	142.1
% of net sales	10.3	10.1	10.8		
SG&A expenses	3,940	3,993	4,005	100.3	137.9
% of net sales	4.4	4.3	4.4		
Operating income	5,239	5,315	5,926	111.5	145.2
% of net sales	5.9	5.8	6.4		
Ordinary income	5,182	5,269	6,018	114.2	146.6
% of net sales	5.8	5.7	6.5		

Results (product sales business, consolidated)

As a result of all-out efforts to reduce inventories, gross profit and purchasing rebates fell sharply, and the segment incurred a loss in the fiscal year ended April 2008. The company expects the segment to return to profitability in fiscal year ending April 2009 thanks to product-mix improvements.

	Initial targets	Revised targets	Actual earnings	Vs. targets	Year-on-year (%)
					(¥ million)
Net sales	15,634	14,396	13,973	97.1	98.0
Gross profit	4,525	3,969	3,792	95.5	96.2
% of net sales	28.9	27.6	27.1		
SG&A expenses	4,429	4,417	4,273	96.7	101.6
% of net sales	28.3	30.7	30.6		
Operating income	95	(447)	(481)	—	—
% of net sales	0.6	—	—		
Ordinary income	139	(370)	(382)	—	—
% of net sales	0.9	—	—		

Revision of dispensing fees (1)

The FY2008 revision to medical fees increased the average treatment fee by 0.38% (including a 0.17% increase to the average dispensing fee) and lowered the average drug price by 1.2% (5.2% on a drug price basis), and lowered overall medical fees by 0.82%

(points)

Item	Before revision	After revision	Impact
Breakdown of dispensing fees			
Basic dispensing fee	Revisions 42[19]	40[18]	(2) [(1)]
Generic drug dispensing preparation addition	Introduction —	4	4
Divided dispensing of long-term dosage	Introduction —	5	5
Drug history management fee	Abolition 22	0	(22)
Drug instruction addition	Abolition 22	0	(22)
Drug history management instruction fee	Introduction —	30	30
Drug history management instruction fee for elderlies	Introduction —	35	35
(Elderlies) Drug information fee	Abolition 15	0	(15)
Drug packaging fee	Revisions 97	89	(8)
After-hours addition	Introduction —	40	40
Fee to support outpatient drugs	Introduction —	185	185
Drug management instruction fee of home medical care patient (patient at nursing home)	Introduction —	350	350

Revision of dispensing fees (2)

As a result of the April 2008 revisions, we expect drug sales and technical fees to fall by 5.2% and 1%, respectively. The transition period is through May, so we think technical fees will not decline during this period, minimizing the decline in gross profit.

Breakdown of dispensing fees	March 2008	(¥ million)	
		April 2008	May 2008
Basic dispensing fee	158		
Generic drug dispensing preparation addition	0	158	157
Divided dispensing of long-term dosage	0		
Drug history management fee	96	0	0
Drug instruction addition			
Drug history management instruction fee	—	91	91
Drug history management instruction fee for elderlies			
Drug information fee	21	14	14
Drug packaging fee	54	80	81
Technical fee (¥ million)	713	721	707
Average price per prescription (¥)	10,611	10,578	10,446

■ Parent data (excluding locations opened in April 2008)

Revision of dispensing fees (3)

We examined the impact per prescription of the revision of dispensing fees. The total average prescription price declined, but the average technical fees increased.

	March 2008	May 2008
■ Breakdown of fees per prescription		
Basic dispensing fee	459	
Generic drug dispensing preparation addition	0	464
Divided dispensing of long-term dosage	0	
Drug history management fee	278	0
Drug instruction addition		
Drug history management instruction fee	—	270
Drug history management instruction fee for elderlies		
Drug information fee	62	40
Drug packaging fee	157	241
Average prescription price	10,611	10,464
Drug fee	8,550	8,369
Technical fee	2,062	2,095

■ Parent data

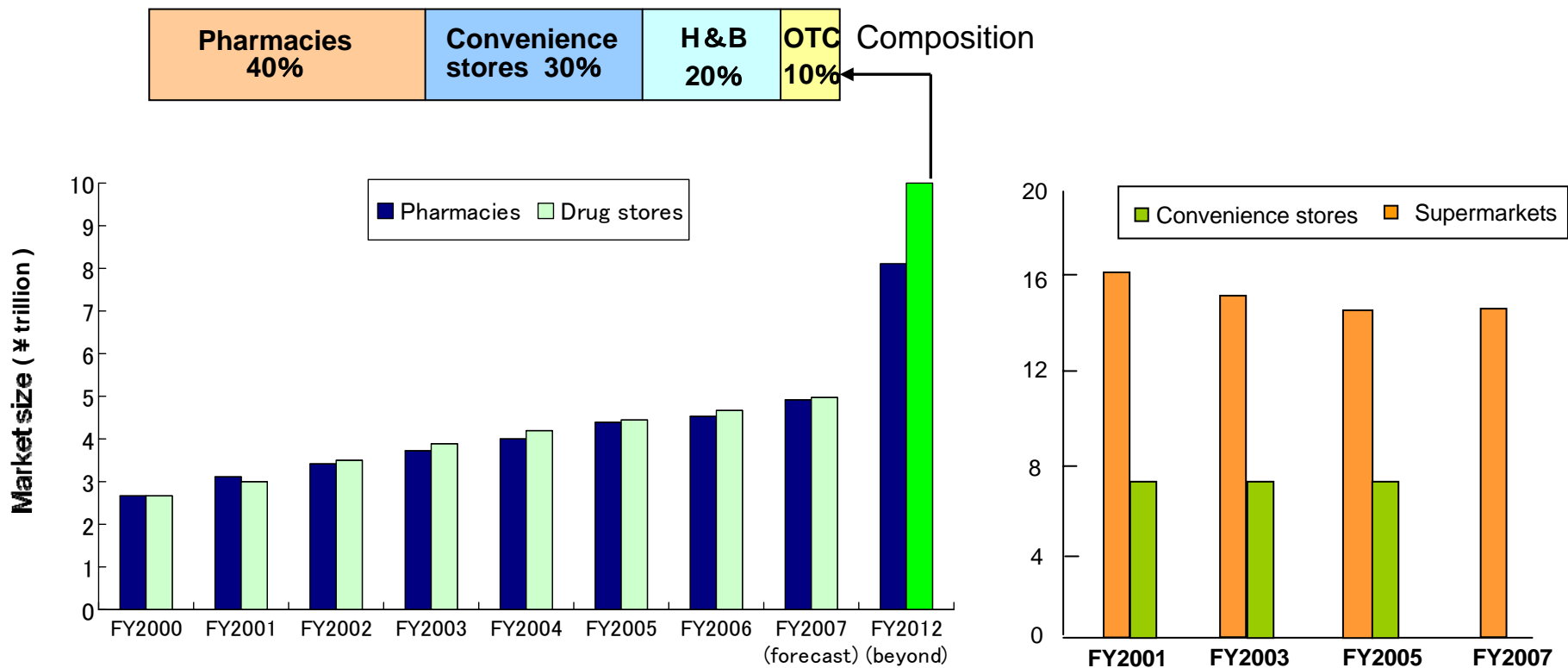
■ ■ ■ Current issues

The company's strategic objective is to establish a commanding lead over its competitors in the pharmacy business, both in quality and quantity. We think the ground is ready for achieving this objective, and look for **average ordinary income growth of 19%** over the medium term.

- **Aiming to be Japan's clear leader in the dispensing pharmacy business**
- **Personnel, store locations, capital —the keys to achieving this goal**
- **Wholesale Stars to power AIN's growth**
- **Targeting average ordinary income growth of 19% for the pharmacy business segment from FY2009 through FY2011**

Market size comparison

The size of the dispensing pharmacy market in 2006 was **¥4.5 trillion**, versus ¥4.7 trillion for drug stores, ¥14.0 trillion for supermarkets, and ¥7.4 trillion for convenience stores. We think the dispensing pharmacy market has the potential to grow by 60-70% (to ¥7.0-8.0 trillion).



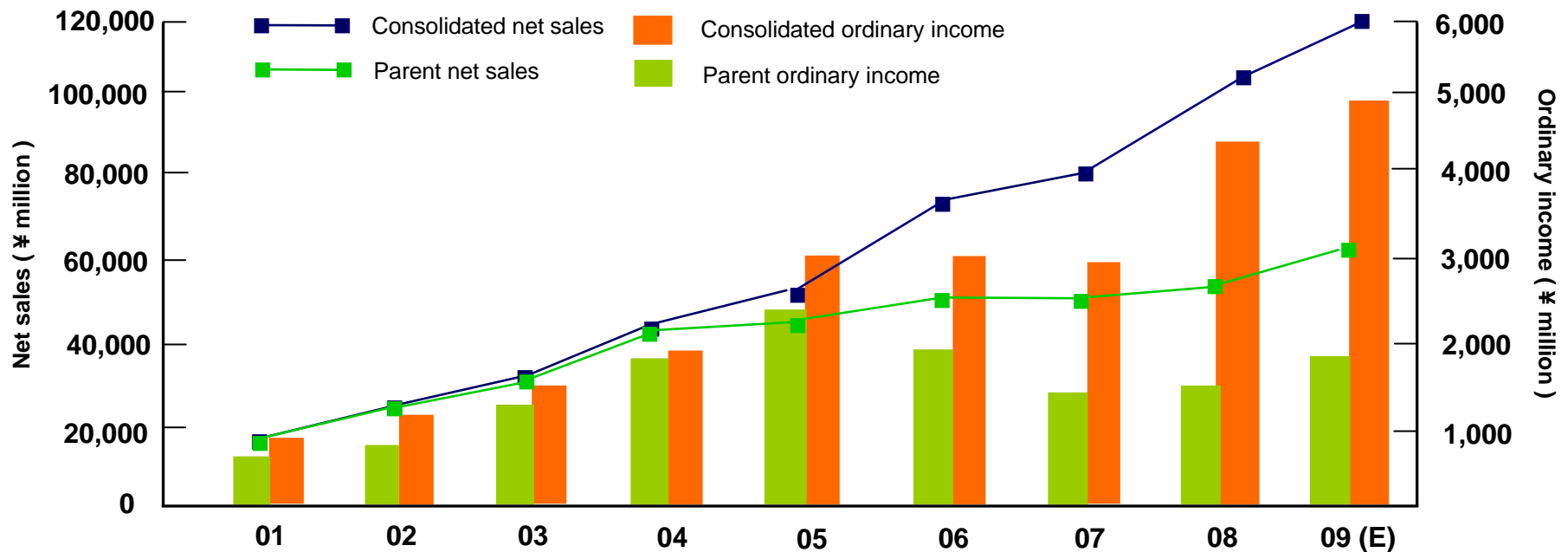
Source: Japan Pharmaceutical Association
 Japan Association of Chain Drug Stores
 Japan Franchise Association

Growth over time

Medical fees and drug price were revised three times in the FY2002-FY2008 period. However, the company overcame this, achieving **average annual ordinary income growth of 25.7%**.

	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Revisions		Revision of medical fees -1.3% Drug price revision -6.3%		Revision of medical fees ±0 Drug price revision -4.2%		Revision of medical fees -3.0% Drug price revision -6.7%		Revision of medical fees +0.17% Drug price revision -5.2%
M&As		Merger with Imagawa Yakuin Nov. 2002		AIN TOKAI May 2004 AIN MEDICAL SYSTEMS Dec. 2004	Rejoice Rejoice Pharmacy Apr. 2005	MEDICAL HEARTLAND Apr. 2006 Daichiku Jan. 2007	Asahi-Chozai Jun. 2007	Sunwood Nov. 2007

Sales and profit



■ ■ ■ **Keys to growth in pharmacy business**

The core operations of the company's pharmacy business are establishing a nationwide chain of stores located next to hospitals, working to increase the skills of its pharmacists, and providing a variety of high-quality services.

■ **Shifting from specializing in stand-alone pharmacies to meeting customer needs**

The company is flexibly adapting to the maturation of the market by establishing smaller pharmacies and operating stores in "medical malls" in addition to its core large-scale stand-alone pharmacies.

■ **Chain development**

Developing store chains will help achieving economies of scale in the purchasing of drugs and consumables, as well as in the development of pharmacy equipment. With a view toward preventing dispensing errors, the company is also standardizing workflows.

■ **Hiring and training pharmacists**

Securing talented personnel and establishing a continuing training system is vital to growth.

■ **Aggressive M&As**

In the past five years, the company has acquired eight companies that now account for 54% of total pharmacy sales.

Locations in medical malls

In 1993, the company began luring pediatric clinics to mid-sized shopping malls, opening drug store locations in conjunction with them. The company has three such locations at present. It has also opened 11 stores in medical malls, or malls that house various clinics. Such locations do not have the earnings-generating power of large-scale pharmacies located next to hospitals. However, increasing societal needs are putting pressure on the company to establish facilities in medical malls. At the request of **East Japan Railway subsidiary JR East Station Retailing**, Ain Pharmaciez participated in the planning of a medical mall located within the Tachikawa Station complex, and with the support of mall management, opened a pharmacy there. Together with subsidiary Mediwel, Ain Pharmaciez will aggressively participate in such projects going forward.

Medical mall

Customer traffic
forecast (initial year)
100-150/day

Sales target (initial year)
¥15-20 million/month

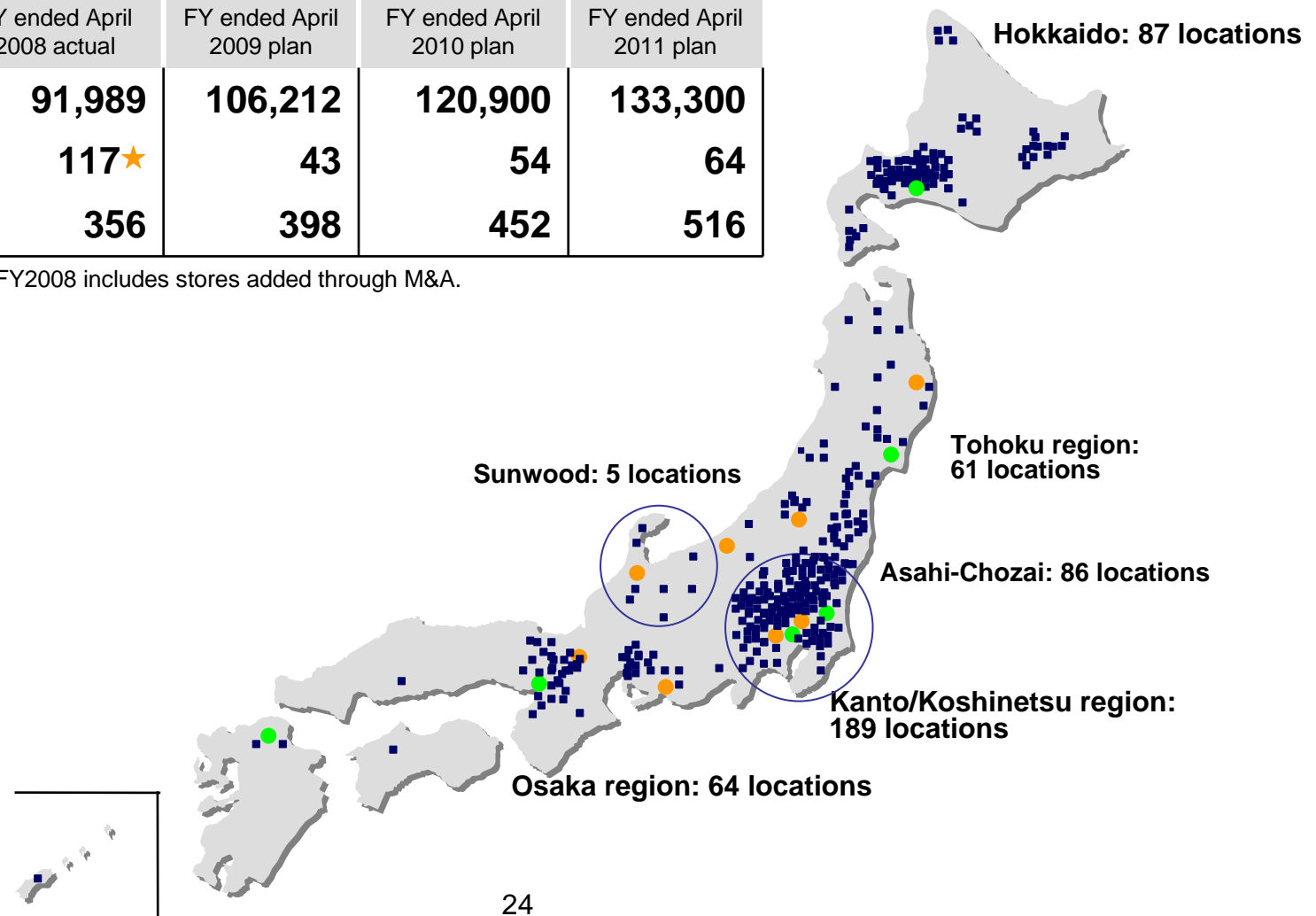


Store-opening strategy

The company will increase the number of stores by 160, to 516, over a three-year period (FY2009-FY2011). The target for average annual sales growth is 19%. The target number of medical institutions is 600, and given that we have already secured more than 60 properties, we think this target is fully achievable.

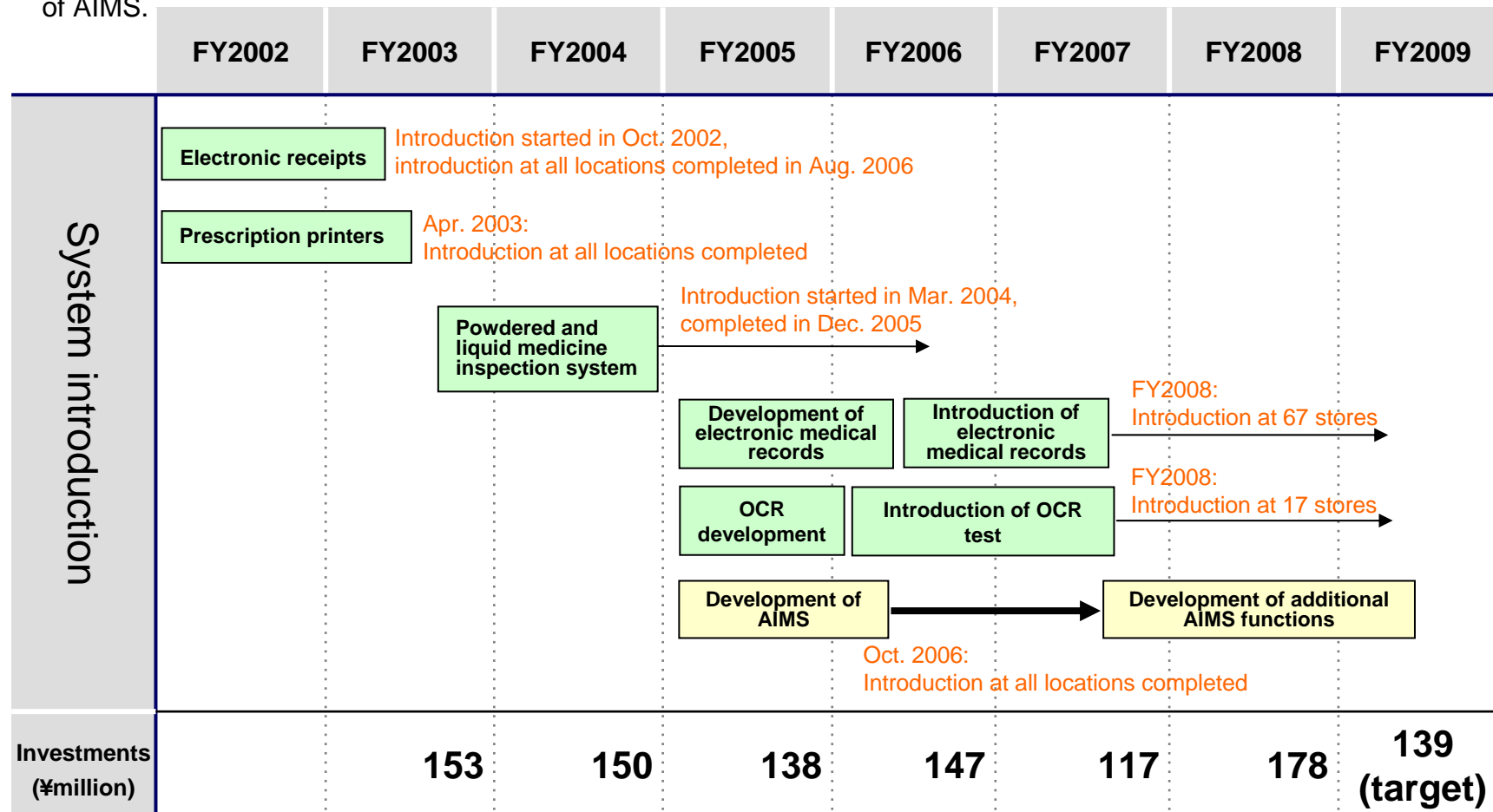
	FY ended April 2008 actual	FY ended April 2009 plan	FY ended April 2010 plan	FY ended April 2011 plan
Sales	91,989	106,212	120,900	133,300
New stores	117★	43	54	64
Total number of stores	356	398	452	516

★ Store openings in FY2008 includes stores added through M&A.



System introduction process

The company began full-scale development of dispensing pharmacy systems in FY2003. Through co-development with manufacturers, these systems are manifesting their strengths in terms of preventing dispensing mistakes and streamlining back-office operations. AIMS began operating on a full scale in FY2007, contributing significantly to drug management operations. In addition to further refinement, the company will increase the safety and efficiency of AIMS.



Effect of introducing the Ain Pharmaciez Management System (AIMS)

Introducing AIMS has made it easier to track drug inventory levels and locations. Confirming this is the fact that the parent company's average inventory value and expired products value are down significantly (8% and 25% year-on-year, respectively). The company plans to lower inventory at the consolidated level by a similar amount in FY2009.

Inventories

Parent data

(¥ million)

	FY2006	FY2007	FY2008	Year-on-year Change
Average value of inventories	1,217	1,103	1,093	(20)
Number of locations	140	149	161	12
Average inventories per location	8.7	7.4	6.8	(0.6)
Inventory turnover rate (months)	2.6	3.0	3.2	0.2

Introduction at subsidiaries begins

1. Inventory reduction (10%)
2. Expired products value (50%)

Value of expired products

Parent data

(¥ thousand)

	FY2007	FY2008	Change
Expired products	14,054	10,569	(3,485)

Recruiting

As a result of the group's expansion, the company's ability to hire is increasing. The shift to a six-year pharmaceutical education system in Japan will result in two years of no graduates. In advance of this, the company plans to hire the highest numbers of new pharmacists in its history in FY2009. In 2007, 7,000 newly graduated pharmacists were registered, with 400 hired in 2008. The company has already registered 9,000 graduates over the Internet in 2008.

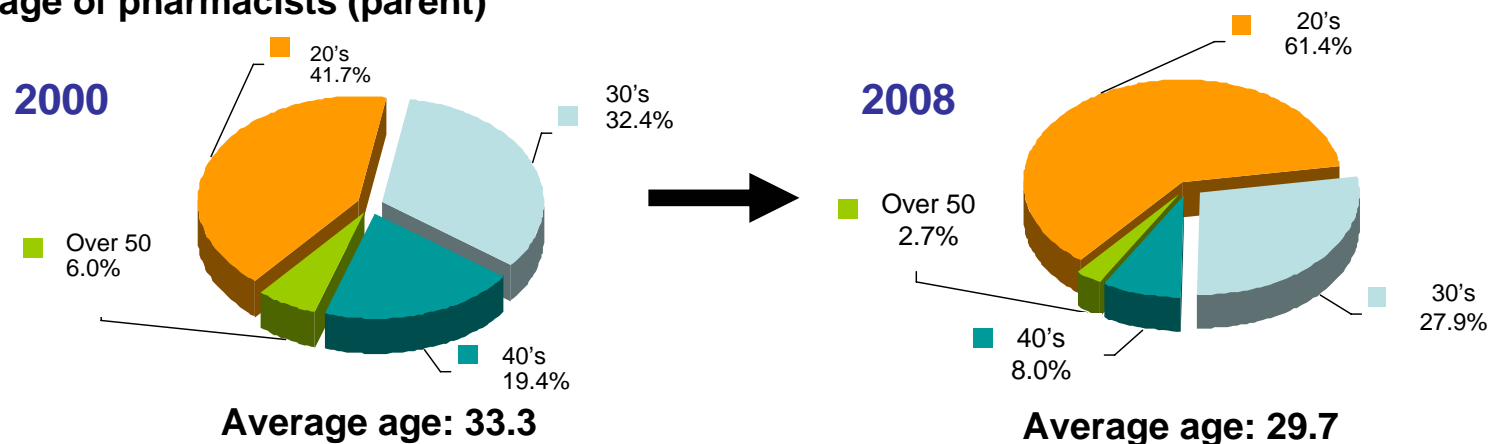
Factors behind the increase in new hires

1. At universities, confidence in Ain Pharmaciez's stability and compliance is increasing
2. The company's integrated training system (including new-employee training) is well regarded
3. As a publicly traded company, Ain Pharmaciez is well regarded for its transparency

Number of new hires

	FY2006 actual	FY2007 actual	FY2008 actual	FY2009 target
Pharmacists	159	174	284	400
General employees	39	44	32	45
Total	198	218	316	445

Average age of pharmacists (parent)



FY2008 results and FY2009 targets (pharmacy business)

Sales and profits both rose in FY2008 thanks largely to the opening of 23 new locations and eight months of Asahi-Chozai's earnings. In FY2009, the company plans to become the first company in the dispensing pharmacy industry to exceed ¥100 billion in parent-level sales, thanks to the opening of 43 new stores and a full year's contribution from Asahi-Chozai and despite the impact of drug price and medical fee revisions.

	FY2007 actual	FY2008 actual	FY2009 plan	Change	Year-on-year (%)
Net sales	66,785	91,989	106,212	14,223	115.5
Cost of sales	59,798	82,057	95,610	13,553	116.5
Gross profit	6,987	9,932	10,602	670	106.7
% of net sales	10.5	10.8	10.0		
SG&A expenses	2,905	4,005	4,165	160	104.0
% of net sales	4.3	4.4	3.9		
Operating income	4,081	5,926	6,438	512	108.6
% of net sales	6.1	6.4	6.1		
Ordinary income	4,104	6,018	6,847	829	113.8
% of net sales	6.1	6.5	6.4		
Number of stores	247	356	398	42	111.8

The Wholesale Stars process

Wholesale Stars, established in April 2006, has a generic drug business and a dispensing equipment business. In October 2007, it began shipping product to the hospital attached to Hirosaki University's medical school. The conversion of the adjoining Ain Pharmaciez location to a depot enabled it to respond to emergencies.

	FY2006	FY2007	FY2008	FY2009
Business	Start of generic-option prescription system	Revision of medical fees -3.0% Drug price revision -6.7%	Prescription form revised again to enable prescription of generics	Revision of medical fees +0.17% Drug price revision -5.2%
Generic drugs	Established as a generic drug wholesaler (Apr. 2006)	Start of shipments to external sales partner (Tanpopo Pharmacy) (Sep. 2006) Start of shipments to group companies (Aug. 2006) Start of shipments to Ain Pharmaciez (Jun. 2006) Product catalog produced (Jan. 2007) Patient education DVD produced (Apr. 2007)	Hirosaki Depot opens, Start of shipments to Hirosaki University (Oct. 2007)	Distribution operations transferred to new distribution center (May 2008)
Dispensing equipment		Handling of dispensing equipment starts (Sep. 2006)	External sales of dispensing equipment starts (Apr. 2007) 106 PhAIN systems supplied to Kanto-area drug store chains in the Sep. 2007-Mar. 2008 period	

■ **Medical fee revisions (involving generics)**

■ **Measures for promoting generic drug usage volume**

1. Revise prescription forms again (to enable prescription of generic drugs)
2. Enable switch from one generic to another, test dispensing of generic drugs (split dispensing)
3. Motivate patients to use generics through the generic drug dispensing system addition (four points)
4. Increased burden for latter-stage senior citizens by the introduction of new medical system
5. Invigorate the generic drug market by launching blockbuster generics



Government's objective: To have generics account for 30% of total drug usage volume by FY2012

Trends in original drugs

The expiration of patents on blockbuster drugs over the next five years (the “2010 problem”) will expand the market for generic drugs. Accordingly, Wholesale Stars will act as the buying division for the Ain Pharmaciez group and increase sales of generics to medical institutions (including other pharmacies).

2008	2009	2010	2011	2012
Commercial name	Commercial name	Commercial name	Commercial name	Commercial name
Norvasc/Amlodin (Pfizer/Dainippon Sumitomo)	Cefzon (Astellas)	Pariet (Eisai)	Lipitor (Astellas)	Singular (Banyu)
Tanatril (Mitsubishi Tanabe)	Lochol (Novartis)	Xalatan (Pfizer)	Actos (Takeda)	Viagra (Pfizer)
Ebastel (Dainippon Sumitomo)	Acecol (Daiichi Sankyo)	Aricept (Eisai)	Flomox (Shionogi)	Blopress (Takeda)
Mobic (Daiichi Sankyo)	Takepron (Takeda)	Paxil (GSK)	Serevent (GSK)	Nu-Lotan (Banyu)
Mucosta (Otsuka)	Harnal (Astellas)	Cravit (Daiichi Sankyo)	Claritin (Shionogi/Schering Plough)	Myslee (Astellas)

■ Market size 2008: 18 ingredients/36 standards, roughly ¥470 billion
 2009: 12 ingredients/24 standards, roughly ¥160 billion

■ Sales of ¥50 billion or more

- The generic version of Zyrtec (¥135.8) came to market in 2007. The number of items was at least four with a maximum price of ¥99.5 and a minimum price of ¥43.8. The choice of generic is up to the medical institution or pharmacy involved.
- A generic version of Norvasc from 34 companies is expected to be released onto the market.

Generic drug dispensing

The April medical fee revision newly established the generic drug dispensing system. The Ain Pharmaciez group is undertaking full-scale efforts in the area of generic drugs, helping to lower healthcare costs while at the same time securing profits.

Rate of switching to generics

	May 2007	Jul.	Sep.	Nov.	Jan. 2008	Mar.	Apr.	Target
Switchable prescriptions/ Total prescriptions	10.6	11.1	11.2	12.2	14.8	16.2	56.6	80.0
Generic drug ratio/ Total prescriptions	2.8	3.0	2.4	2.4	2.6	2.7	19.9	56.0

Generic drug dispensing system addition

	Apr. 2008 monthly earnings	Target
Added locations	214	324
Unadded locations	146	36
Implementation ratio	59.4	90.0

Generic drug dispensing system addition requirements

- (1) Prescriptions for generic drugs **must account for at least 30% of total prescriptions received** in the most recent three months at the insurance pharmacy in question.
- (2) Notices to the effect that the insurance pharmacy in question actively dispenses generic drugs, and that it computes the generic drug dispensing system addition must be displayed in easily visible places, both inside and outside the pharmacy.

FY2008 results and FY2009 targets (WSS)

Now that the prescription form has been changed and regulations on the generic drug dispensing system have been put in statutory form, the company expects the spread of generic drugs to accelerate. Targets for FY2009 include a 67.4% increase in sales and an increase in the number of customers supplied to 800.

	FY2007 actual	FY2008 actual	FY2009 plan	Change	Year-on- year (%)
Net sales	408	1,497	2,507	1,010	167.4
Gross profit	75	206	416	210	202.1
% of net sales	18.4	13.8	16.6		
SG&A expenses	66	122	229	106	188.5
% of net sales	16.2	8.1	9.1		
Operating income	9	84	187	103	221.7
% of net sales	2.2	5.6	7.5		
Ordinary income	11	91	202	111	221.9
% of net sales	2.7	6.1	8.1		
Number of customers supplied	211	348	800	452	230.0

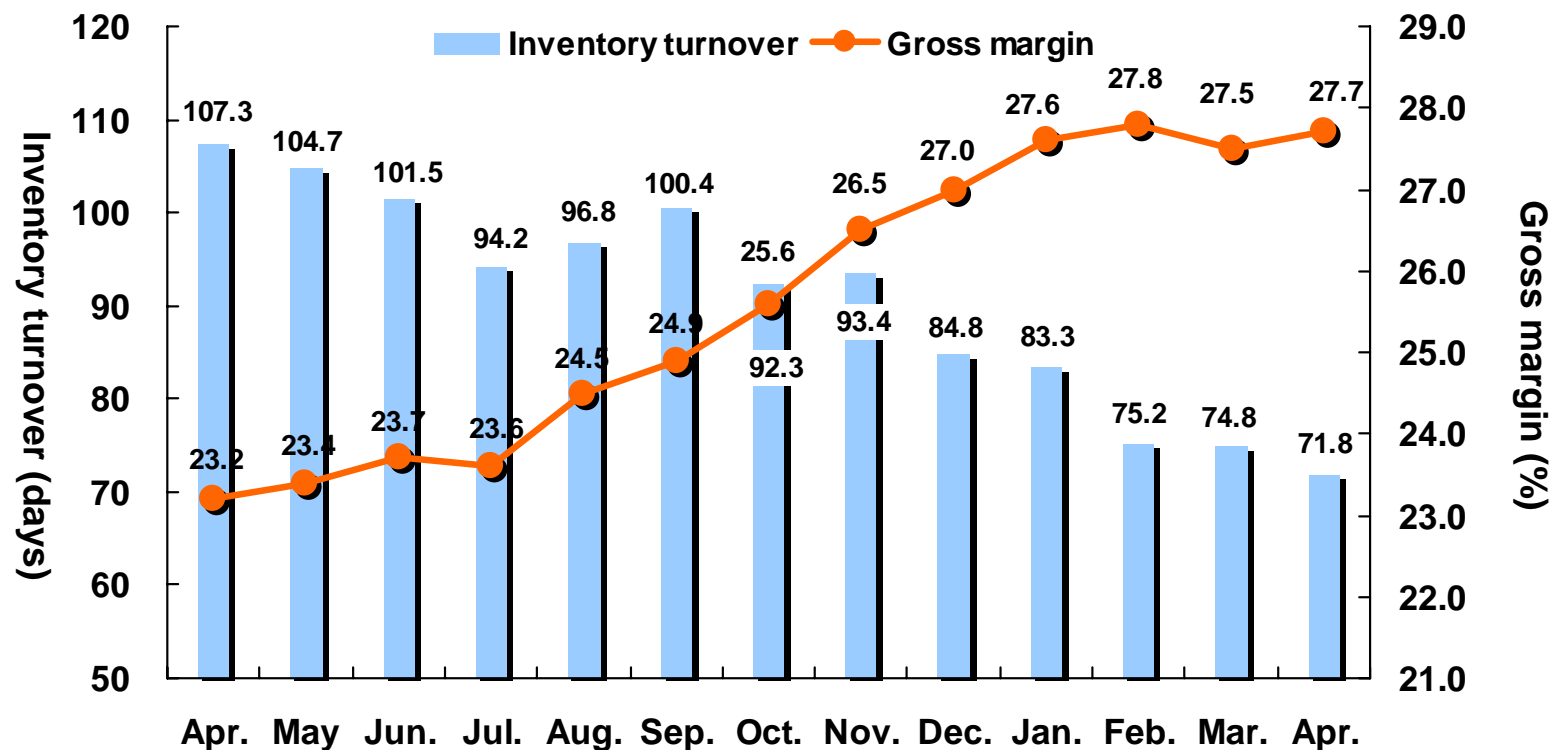
Events at product sales business

	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Policies		Return to basics Cost-cutting	Urban stores expanded	New store functions introduced Nationwide expansion	Awareness of Tulpe brand increases Transition from street-facing stores to store-in-stores	Development of Ainz & Tulpe Modification of new stores	Earnings improvement Implementation of new MD	Preparation for merger with CFS Optimizing inventories
Major store openings	Ni-Ban Gai store opened		Tulpe opened Harajuku store		Nagoya, Osaka stores opened	Three stores closed Kawaguchi, Sannomiya, Jiyugaoka stores opened	New MD implemented Qualite Prix opened	Ario Sapporo, Ario Nishi-Arai, Chofu stores opened
Opened	7	2	2	3	4	3	3	3
Closed	—	5	4	7	—	4	3	1
Sales (¥ billion)	5.1	5.8	7.9	9.5	12.5	14.8	14.2	13.9
Card members (thousands)	—	45	167	378	638	1,039	1,291	1,525

Optimizing inventories

By optimizing (shrinking) inventories, the inventory turnover period decreased from 107 days to 71 days. Moreover, thanks to the strengthening of product policies, the gross margin improved to 27.7% from 23.2%.

	Apr. 2007	Jul.	Oct.	Jan. 2008	Apr.
Inventory turnover (days)	107.3	94.2	92.3	83.3	71.8
Gross margin (%)	23.2	23.6	25.6	27.6	27.7





Opening of Tulpe stores

Two Tulpe stores were opened in previous half year, and one more was opened in May, bringing the total number to three. In pursuit of greater mobility, the company plans to accelerate the opening of Tulpe stores.

	Ario Sapporo Tulpe store	Kohoku Tokyu Tulpe store
Beauty care	2.3%	2.5%
General cosmetics	64.2%	66.5%
“System” cosmetics	33.3%	27.4%
Other	0.2%	3.6%

Cosmetics account for over 95% of product mix
Roughly 6,000 items
Store area: 132-264m²

- Ario Sapporo Tulpe store**
 Opened: Sep. 22, 2007
 Area: Around 142m²



- Kohoku Tokyu Tulpe store**
 Opened: May 31, 2008
 Area: Around 205m²



■ FY2008 results and FY2009 targets (product sales business)

In FY2008, the segment worked to reduce inventory as much as possible ahead of the merger with CFS, and as a result, gross profits decreased, incurring a loss. The company expects the segment to return to profitability in FY2009 as a result of the optimization of inventories, improvement of the loss ratio, the strengthening of product policies, and the raising of the level of control.

(¥ million)

	FY2007 actual	FY2008 actual	FY2009 plan	Change	Year-on- year (%)
Sales	14,253	13,973	15,602	1,629	111.7
Gross margin (%)	24.2	24.9	27.0	2.1	108.4
Gross profit	3,943	3,792	4,603	811	121.4
% of net sales	27.7	27.1	29.5		
SG&A expenses	4,204	4,273	4,632	359	108.4
% of net sales	29.5	30.6	29.7		
Operating income	(260)	(481)	(28)	453	—
% of net sales	—	—	—		
Ordinary income	(163)	(382)	52	434	—
% of net sales	—	—	0.3		
Number of stores	43	45	51	42	

Overview of merger with CFS

By merging with CFS Corporation, Ain Pharmaciez aimed to realize its vision of being Japan's leading total healthcare company, and to establish the nation's largest healthcare network group. However, the merger was broken off following rejection of the merger proposal at an extraordinary meeting of CFS shareholders.

- Jul. 4, 2007 : First meeting of merger committee
- Aug. 2007 : Due diligence
- Oct. 5, 2007 : Basic merger agreement reached, press conference held
- Nov. 6, 2007 : Joint stock-transfer agreement reached
- Nov. 28, 2007 : Aeon makes proposal to increase CFS's enterprise value
- Dec. 13, 2007 : CFS rejects Aeon's proposal at special board meeting (starting a proxy fight)
- Jan. 8, 2008 : ISS, Glass Lewis support merger
- Jan. 22, 2008 : Extraordinary shareholders' meeting
 - CFS: Rejects merger proposal
 - Ain: Approves merger proposal



Ain Pharmaciez continues to grow as Japan's leading dispensing pharmacy company, aiming for ¥200 billion in consolidated net sales and ¥10 billion in consolidated operating income in FY2014.

■ FY2008 results and FY2009 targets (consolidated)

In spite of the negative impact of medical fee and drug price revisions, the company expects to set new sales and profit records in FY2009, becoming the first company in the dispensing pharmacy industry to exceed ¥100 billion in net sales, thanks to the aggressive opening of new stores.

(¥ million)

	FY2007 Actual	FY2008 Actual	FY2009 Plan	Change	Year-on- year (%)
Sales	81,307	106,231	120,600	14,369	113.5
Gross profit % of net sales	10,858 13.4	13,648 12.8	15,120 12.5	1,472	110.8
SG&A expenses % of net sales	7,970 9.8	9,203 8.6	10,200 8.5	997	108.8
Operating income % of net sales	2,888 3.6	4,444 4.2	4,920 4.1	476	110.7
Ordinary income % of net sales	2,833 3.5	4,315 4.1	4,720 3.9	405	109.4
Net income % of net sales	1,010 1.2	1,615 1.5	2,108 1.7	493	130.5



39th Term

Results Presentation Meeting

AIN PHARMACIEZ Inc. (9627)

June 19, 2008