

## Retailing Industry

## Tsuruha, Aeon, and Welcia announce capital and business alliance

Industry Overview

**First, Tsuruha could become Aeon equity-method affiliate**

After the market close on 28 Feb, Tsuruha, Aeon, and Welcia Holdings announced a capital and business alliance (all three outside of our coverage). Aeon plans to acquire Tsuruha shares from Oasis Management and make Tsuruha an equity-method affiliate. The process would be as follows: (1) Aeon sells some of its Tsuruha shares (3.53mn; 7.3% voting rights) to Nomura Securities (scheduled for 5 Mar); (2) Aeon buys 6.6mn Tsuruha shares (13.6% voting rights) for ¥102.3bn (¥15,500/share, 32% premium to the 28 Feb closing price), raising its voting rights to 19.9% (scheduled for 13 Mar); and (3) Aeon buys the same number of shares it sold to Nomura Securities and increase its voting rights to 27.2%, subject to clearance/approval and the like. After concluding the above, (1) the businesses are merged through a stock exchange that makes Tsuruha the parent company and Welcia its wholly owned subsidiary; and (2) Aeon obtains additional voting rights sufficient to bring the said rights in Tsuruha to at least a majority but less than 51%. Thus, the current expectation is Tsuruha could ultimately become a consolidated subsidiary of Aeon. Since a final agreement is yet to be reached on the method and conditions, the plan could change going forward, but the parties apparently aim to finalize the merger terms by 31 Dec 2027 at the latest.

**Could spur faster industry reorganization**

They look at this business alliance in terms of the following nine points: (1) mutual cooperation in store development, stores with dispensing facilities, etc.; (2) mutual cooperation in procurement and development of products and electricity; (3) mutual cooperation in improving logistics efficiency; (4) alliances regarding payments, points systems, digital marketing, insurance, etc.; (5) the pursuit of joint development and mutual supply of private brand products; (6) mutual cooperation on promoting digital transformation/e-commerce, etc.; (7) exchange of management know-how; (8) promotion of research in food & drug formats; and (9) the exchange of human resources and HR information. Details are limited at this stage, and Tsuruha could be an equity-method affiliate of Aeon to start, but stock market expectations for synergy benefits might rise since synergies were seen in the past between Matsumotokiyo HD and Cocokara Fine HD. With the merger of Tsuruha and Welcia, combined sales of the two companies could reach ¥2.3tn, more than double that of MatsukiyoCocokara (¥1.0tn). In addition to increasing Tsuruha's presence in the industry, it could also spur further acceleration in industry reorganization. We look forward to future developments. The main points of the press conference held on the same day are as follows.

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**Arashi Nishizawa >>**  
Research Analyst  
BofAS Japan  
+81 3 6225 6402  
[arashi.nishizawa@bofa.com](mailto:arashi.nishizawa@bofa.com)

**Ayane Kanazawa >>**  
Research Analyst  
BofAS Japan  
+81 3 6225 8490  
[ayane.kanazawa@bofa.com](mailto:ayane.kanazawa@bofa.com)

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The main points of the press conference held on the same day are as follows:

- View of market: The drugstore industry is maturing and growth is slightly slowing because of fewer sites available to open stores due to competition, competition with peers, and continued reductions in drug prices.
- Medium-term target of ¥3tn (note: Tsuruha originally eyed a ¥3tn business): The companies apparently aim to achieve this target within the next five years. The details are yet to be determined, including overseas store openings by Aeon.
- Equal relationship among the three: The plan is to make Welcia a wholly owned subsidiary of Tsuruha, but the companies emphasized that the relationship among the three is equal. Tsuruha's future executive structure will ultimately be resolved after discussions, but since Tsuruha will become the parent company, the president/director of Tsuruha at the time of the merger will likely remain such post-merger.
- Strengths of companies: The plan is to combine Tsuruha's strengths in household products and Welcia's strengths in dispensing/nursing care. In addition to economies of scale, the companies plan to strengthen product development and the provision of services.
- Store openings: Tsuruha has market share in Hokkaido/Tohoku/Chugoku/Shikoku, while Welcia is strong in Kanto/Chubu/Kansai. Operations do overlap in some areas, however; so from now on, the companies plan to consult together on store openings, including scrap & build.
- Store name: This will be considered in discussions among the three but, in principle, it is assumed there will be no change.

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