

Summary of Financial Statements for the Second Quarter of Fiscal Year Ending April 2020

[Japan GAAP] (Consolidated)

December 3, 2019

Name of listed company: **AIN HOLDINGS INC.**
Exchange listed on: First Section of Tokyo Stock Exchange and Sapporo Securities Exchange
Code number: 9627 URL: <https://www.ainj.co.jp/>
Representative: Kiichi Otani, President and Representative Director
Inquiries: Toshihide Mizushima, Representative Senior Managing Director
TEL: +81-11-814-1000

Date of filing quarterly securities report: December 16, 2019
Start of dividend payment: –
Supplementary documents for quarterly results: Yes (Supplementary materials for the quarterly results are disclosed on the Company's website appropriately as the financial statements.)
Quarterly results briefing: Yes (for institutional investors and analysts)

(Amounts are rounded down to the nearest million yen.)

1. Consolidated results for the second quarter of fiscal year ending April 30, 2020 (May 1, 2019 to October 31, 2019)

(1) Consolidated operating results

(Percentage figures show year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended October 31, 2019	145,851	10.7	8,354	24.1	8,762	24.9	4,622	27.0
Six months ended October 31, 2018	131,781	(0.4)	6,731	(19.6)	7,018	(19.0)	3,639	(17.6)

(Note) Comprehensive income: Six months ended October 31, 2019: ¥4,607 million (+28.9%)
Six months ended October 31, 2018: ¥3,573 million (-19.2%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended October 31, 2019	130.47	-
Six months ended October 31, 2018	102.73	-

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of October 31, 2019	187,767	106,580	56.7
As of April 30, 2019	189,021	103,922	54.9

(Reference) Shareholders' equity: As of October 31, 2019: ¥106,511 million As of April 30, 2019: ¥103,855 million

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	End of year	Full year
	Yen	Yen	Yen	Yen	Yen
Year ended April 30, 2019	-	0.00	-	55.00	55.00
Year ending April 30, 2020	-	0.00			
Year ending April 30, 2020 (forecast)			-	55.00	55.00

(Note) Revision to the most recently announced dividend forecasts: No

3. Consolidated financial forecasts for the fiscal year ending April 30, 2020 (May 1, 2019 to April 30, 2020)

(Percentage figures show year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	300,330	9.0	18,700	16.4	19,200	15.4	10,130	12.2	285.94

(Note) Revision to the most recently announced consolidated financial forecasts: No

*Notes

(1) Major changes in subsidiaries during the period (changes in specified subsidiaries resulting from changes in scope of consolidation): No

Newly consolidated: – Excluded: –

(2) Application of specified accounting methods for the preparation of quarterly consolidated financial statements: Yes

(Note) For detail, please refer to “2. Quarterly consolidated financial statements and major notes (4) Notes on quarterly consolidated financial statements” on page 11 of the Attachment.

(3) Changes in accounting principles, changes in accounting estimates, and restatement of revisions

1) Changes in accounting principles as a result of revisions to accounting standards, etc.: No

2) Changes in accounting principles other than 1): No

3) Changes in accounting estimates: No

4) Restatement of revisions: No

(4) Number of outstanding shares (common stock)

1) Number of outstanding shares (including treasury stock):	As of October 31, 2019	35,428,212 shares	As of April 30, 2019	35,428,212 shares
2) Number of shares held in treasury:	As of October 31, 2019	728 shares	As of April 30, 2019	728 shares
3) Average number of shares outstanding:	Six months ended October 31, 2019	35,427,484 shares	Six months ended October 31, 2018	35,427,511 shares

*This Summary of Financial Statements is outside the scope of quarterly review procedures.

*Statement regarding the proper use of financial forecasts and other special remarks

(Caution concerning forward-looking statements)

The above forecasts are calculated based on the information available as of the publication date of this material, and actual financial results may vary due to change in future economic conditions and others.

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1. Qualitative information on consolidated results for the period under review

(1) Consolidated operating results

During the first six months of the current fiscal year (May 1, 2019 to October 31, 2019), the Japanese economy recovered at a modest pace, supported by a continued strong level of corporate earnings. However, trends in consumer confidence require monitoring for signs of a pullback in demand after the hike to consumption tax.

In this economic environment, the AIN HOLDINGS Group (the Group) worked to expand its business and increase earnings. Specifically, the Group opened new dispensing pharmacies and used M&A to expand the business. It also developed its cosmetic and drug store business.

Some stores and pharmacies were forced to close or reduce operating hours due to a series of typhoons, but planned closures and rapid recovery work minimized any damage, resulting in only a limited impact on earnings.

In the first six months of the fiscal year, net sales increased 10.7% year on year to ¥145,851 million, operating income increased 24.1% to ¥8,354 million, ordinary income increased 24.9% to ¥8,762 million, and profit attributable to owners of parent increased 27.0% to ¥4,622 million.

Financial results by business segment are as follows.

(Dispensing pharmacy business)

To ensure our pharmacists and dispensing pharmacies fulfill their primary care role, the Group continues to build links with local medical service providers, strengthen pharmaceutical management and guidance based on the integrated and continuous management of drug information using patient medication notebooks and other means, and promote wider use of generic drugs. The Group is also stepping up education and training, such as holding *Ain Innovative Conference 2019*, a nationwide in-house conference designed to help lift the quality of pharmacists. The conference features presentations on the outcomes of active and ongoing research efforts to contribute to healthcare, such as further enhancing the capabilities of primary care pharmacists, identifying issues in drug treatments and putting forward proposals to resolve those issues, and improving patient QOL through proactive coordination with other healthcare professionals.

In business development, the Group continued to overhaul dispensing pharmacy operations and pushed ahead with business expansion by opening new dispensing pharmacies and using M&A deals.

As a result, for the first six months of the fiscal year, the dispensing pharmacy business reported higher sales and profits, with sales increasing 12.1% year on year to ¥130,499 million and segment income increasing 29.3% to ¥10,185 million.

During the period under review, the Group opened 10 new dispensing pharmacies, including those acquired through M&A deals, and closed 36 pharmacies, resulting in a total of 1,106 pharmacies.

(Cosmetic and drug store business)

In the cosmetic and drug store business, the market environment remained challenging due to a narrowing competitive gap between companies in the sector and the emergence of new competitors from sector consolidation and realignment that also extends to other business sectors.

Against that backdrop, the Group continues to open *ainz & tulpe* cosmetic and drug stores in the major urban area, as well as strategically develop sales areas at each store, based on the concept of creating stores where customers would be happy to browse for an hour. The Group also released *the official ainz & tulpe app* on October 1, 2019, creating an app version of its point card to improve convenience and service levels for customers.

Store opening costs and sales promotion expenses are rising temporarily due to the aggressive store opening strategy, but the Group is working to improve earnings capabilities by developing original brands such as *LIPS and HIPS* and *cocodecica* and by constantly reducing underlying costs.

On November 1, 2019, the Group acquired the business of make-up and cosmetic brand *DAZZSHOP*. With the acquisition, the Group is targeting synergies across its operations to help expand sales channels, including overseas. Specifically, the Group plans to actively introduce *DAZZSHOP*'s product range, which is focused on color contact lenses and eye make-up products, into *ainz & tulpe* stores, to expand and strengthen the merchandise lineup and acquire new customers.

As a result, for the first six months of the fiscal year, the cosmetic and drug store business reported an increase in sales of 4.4% year on year to ¥13,099 million. And segment income decreased 19.9% to ¥442 million.

During the same period, the Group opened 10 *ainz & tulpe* stores: *ainz & tulpe bono* SAGAMIONO (Sagamihara, Kanagawa Prefecture), *ainz & tulpe ASAKUSA ROX* (Taito Ward, Tokyo), *ainz & tulpe PERIE* Chiba (Chiba, Chiba Prefecture), *ainz & tulpe KAWASAKI ZERO GATE* (Kawasaki, Kanagawa Prefecture), *ainz & tulpe Pole Town 2* (Sapporo, Hokkaido), *ainz & tulpe KASHIWA Modi* (Kashiwa, Chiba Prefecture), *ainz & tulpe SAKAE Central Park* (Nagoya, Aichi Prefecture), *ainz & tulpe OMIYA ARCHE* (Saitama, Saitama Prefecture), *ainz & tulpe PERIE Kaihimakuhari* (Chiba, Chiba Prefecture), *ainz & tulpe BEAUTY FACTORY YOKOHAMA HAMMERHEAD* (Yokohama, Kanagawa Prefecture) and closed four stores, resulting in a total of 60 cosmetic and drug stores at the end of the second quarter.

(Other businesses)

Net sales from other businesses decrease 21.3% year on year to ¥2,251 million and segment loss was ¥133 million compared with the loss of ¥163 million a year earlier.

(2) Consolidated financial position

The balance of total assets at the end of the second quarter decreased by ¥1,254 million from the end of the previous fiscal year to ¥187,767 million. This mainly reflected increases in merchandise and notes and accounts receivable, outweighed by a decrease in cash and deposits due to store openings and M&A deals.

The balance of liabilities decreased ¥3,913 million to ¥81,186 million.

The balance of short- term and long-term debts decreased by ¥2,922 million to ¥8,634 million.

Total net assets increased by ¥2,658 million to ¥106,580 million and the shareholders' equity ratio increased 1.8 percentage points to 56.7%.

(Cash flows)

In the first six months of the fiscal year, cash and cash equivalents ("cash") decreased by ¥3,436 million from the previous fiscal year end to ¥44,059 million.

Cash flows from each activity and their relevant factors are as follows.

During the first six months of the fiscal year, net cash provided by operating activities was ¥6,024 million, compared with ¥4,402 million provided in the same period a year earlier. The main cash inflows were profit before income taxes of ¥8,439 million, depreciation and amortization of ¥1,928 million and amortization of goodwill of ¥2,182 million. The main cash outflow was income taxes paid of ¥2,821 million.

Net cash used in investing activities amounted to ¥4,361 million, compared with ¥5,860 million used in the same period a year earlier. The main use of cash was ¥3,448 million for purchases of property, plant and equipment.

Net cash used in financing activities totaled ¥5,100 million, compared with ¥5,183 million used in the same period a year earlier. The main uses of cash were net repayment of ¥2,953 million from short-term and long-term debt repayment and proceeds and ¥1,948 million for cash dividends paid.

(3) Forecast of consolidated financial results and other forward-looking information

The Group has made no change to its earnings forecasts for the full fiscal year ending April 30, 2019, announced on June 4, 2019.

2. Quarterly consolidated financial statements and major notes**(1) Quarterly consolidated balance sheet**

(Million yen)

	Fiscal year ended April 30, 2019 (As of April 30, 2019)	Six months ended October 31, 2019 (As of October 31, 2019)
Assets		
Current assets		
Cash on hand and in banks	48,091	44,441
Notes and accounts receivable	12,771	14,932
Merchandise	12,673	14,195
Supplies	225	244
Short-term loans	236	227
Other accounts receivable	8,438	8,113
Other current assets	3,012	2,077
Allowance for doubtful accounts	(2)	(1)
Total current assets	85,446	84,230
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	16,352	16,558
Land	10,394	10,658
Other property, plant and equipment, net	3,439	3,684
Total property, plant and equipment	30,186	30,901
Intangible fixed assets		
Goodwill	45,249	43,119
Other intangible fixed assets	2,327	2,642
Total intangible fixed assets	47,577	45,761
Investments and other assets		
Investments in securities	1,795	2,096
Deferred tax assets	4,284	4,260
Deposits and guarantees	15,133	15,401
Other investments and other assets	6,221	6,760
Allowance for doubtful accounts	(1,683)	(1,683)
Total investments and other assets	25,751	26,836
Total fixed assets	103,515	103,499
Deferred assets	59	37
Total assets	189,021	187,767

(Million yen)

	Fiscal year ended April 30, 2019 (As of April 30, 2019)	Six months ended October 31, 2019 (As of October 31, 2019)
Liabilities		
Current liabilities		
Accounts payable	44,794	45,639
Short-term debt	5,571	4,555
Accrued income taxes	3,261	3,868
Deposits received	12,737	11,008
Allowance for bonuses to employees	2,139	2,534
Allowance for bonuses to directors	17	20
Reserve for reward obligations	450	465
Other current liabilities	4,772	3,793
Total current liabilities	73,744	71,885
Long-term liabilities		
Long-term debt	5,985	4,079
Net defined benefit liability	2,977	3,103
Other long-term liabilities	2,391	2,118
Total long-term liabilities	11,355	9,301
Total liabilities	85,099	81,186
Net assets		
Shareholders' equity		
Common stock	21,894	21,894
Capital surplus	20,500	20,500
Retained earnings	61,526	64,200
Treasury stock	(2)	(2)
Total shareholders' equity	103,920	106,594
Accumulated other comprehensive income		
Unrealized holding gains on securities	(6)	(33)
Remeasurements of defined benefit plans	(59)	(49)
Total accumulated other comprehensive income	(65)	(83)
Non-controlling interests	67	69
Total net assets	103,922	106,580
Total liabilities and net assets	189,021	187,767

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

(Million yen)

	Six months ended October 31, 2018 (May 1, 2018 to October 31, 2018)	Six months ended October 31, 2019 (May 1, 2019 to October 31, 2019)
Net sales	131,781	145,851
Cost of sales	110,368	122,191
Gross profit	21,413	23,660
Selling, general and administrative expenses	14,681	15,305
Operating income	6,731	8,354
Non-operating income		
Interest income	31	30
Dividend income	24	20
Commissions received	19	10
Real estate rental revenue	92	259
Consignment income	80	90
Other non-operating income	254	180
Total non-operating income	501	590
Non-operating expenses		
Interest expenses	82	37
Losses on sales of accounts receivables	34	31
Real estate rental expenses	36	68
Other non-operating expenses	59	45
Total non-operating expenses	214	182
Ordinary income	7,018	8,762
Extraordinary income		
Gains on sales of investments in securities	2	-
Gains on sales of fixed assets	1	10
Gain on transfer of business	164	201
Insurance income	22	0
Other extraordinary income	0	0
Total extraordinary income	191	212
Extraordinary losses		
Losses on disposal and sales of fixed assets	230	372
Impairment losses on investments in securities	73	26
Loss on sales of shares of subsidiaries and associates	127	34
Other extraordinary losses	110	102
Total extraordinary losses	541	536
Profit before income taxes	6,668	8,439
Income taxes	3,041	3,814
Profit	3,627	4,624
Profit (loss) attributable to non-controlling interests	(11)	2
Profit attributable to owners of parent	3,639	4,622

Quarterly consolidated statements of comprehensive income

(Million yen)

	Six months ended October 31, 2018 (May 1, 2018 to October 31, 2018)	Six months ended October 31, 2019 (May 1, 2019 to October 31, 2019)
Profit	3,627	4,624
Other comprehensive income		
Unrealized holding gains (losses) on securities	(54)	(26)
Remeasurements of defined benefit plans, net of tax	0	9
Total other comprehensive income (loss)	(53)	(17)
Comprehensive income	3,573	4,607
Comprehensive income attributable to owners of parent	3,585	4,604
Comprehensive income (loss) attributable to non-controlling interests	(11)	2

(3) Quarterly consolidated statements of cash flows

(Million yen)

	Six months ended October 31, 2018 (May 1, 2018 to October 31, 2018)	Six months ended October 31, 2019 (May 1, 2019 to October 31, 2019)
Cash flows from operating activities		
Profit before income taxes	6,668	8,439
Depreciation and amortization	1,795	1,928
Amortization of goodwill	2,007	2,182
Loss on sales of shares of subsidiaries and associates	127	34
Increase in defined benefit liability	86	136
Increase in allowance for bonuses to employees	367	391
Increase in allowance for bonuses to directors	2	2
Interest and dividend income	(55)	(50)
Interest expenses	82	37
Losses on disposal and sales of fixed assets	228	362
(Increase) decrease in accounts receivable	1,030	(2,104)
(Increase) in inventories	(1,953)	(1,530)
(Increase) decrease in other accounts receivable	(364)	336
Increase in accounts payable	994	765
Other, net	(1,095)	(2,099)
Subtotal	9,924	8,831
Interest and dividends received	56	52
Interest paid	(83)	(37)
Income taxes paid	(5,495)	(2,821)
Net cash provided by operating activities	4,402	6,024
Cash flows from investing activities		
Payments for purchases of property, plant and equipment and intangible fixed assets	(1,923)	(3,448)
Proceeds from sales of property, plant and equipment and intangible fixed assets	263	514
Payments for purchase of investments in securities	(28)	(300)
Proceeds from sales of investments in securities	13	29
Purchase of subsidiaries' shares resulting in obtaining controls	(4,018)	(148)
Payments for loans receivable	(40)	(29)
Proceeds from collections of loans receivable	60	826
Payments of leasehold and guarantee deposits	(625)	(713)
Proceeds from refund of leasehold and guarantee deposits	440	339
(Increase) decrease in other investments	17	(1,641)
Payments for time deposits	(36)	(101)
Proceeds from withdrawal of time deposits	7	314
Other, net	8	(3)
Net cash used in investing activities	(5,860)	(4,361)

(Million yen)

	Six months ended October 31, 2018 (May 1, 2018 to October 31, 2018)	Six months ended October 31, 2019 (May 1, 2019 to October 31, 2019)
Cash flows from financing activities		
Net increase (decrease) in short-term debts	472	(3)
Repayments of long-term debts	(3,577)	(2,950)
Repayments of lease obligations	(307)	(197)
Payments for purchase of treasury stock	(0)	-
Cash dividends paid	(1,771)	(1,948)
Net cash (used in) provided by financing activities	(5,183)	(5,100)
Net increase (decrease) in cash and cash equivalents	(6,642)	(3,436)
Cash and cash equivalents at beginning of the period	63,233	47,495
Cash and cash equivalents at end of the period	56,590	44,059

(4) Notes on quarterly consolidated financial statements

(Notes on the premise of a going concern)

There are no applicable matters to be reported.

(Notes on significant changes in the amount of shareholders' equity)

There are no applicable matters to be reported.

(Application of specified accounting methods for the preparation of quarterly consolidated financial statements)

To calculate tax expenses, the effective tax rate on income before income taxes for the consolidated fiscal year after the application of tax effect accounting is reasonably estimated and the estimated rate is applied to income before income taxes for the quarterly period.

(Segment information, etc.)

I Six months ended October 31, 2018 (May 1, 2018 to October 31, 2018)

1. Net sales and income (loss) by reportable segment

(Million yen)

	Reportable segments				Adjustments (Note) 1	Carried on quarterly consolidated statements of income (Note) 2
	Dispensing pharmacy business	Cosmetic and drug store business	Other businesses	Total		
Sales						
(1) Sales to third parties	116,376	12,544	2,860	131,781	-	131,781
(2) Intersegment sales	-	-	49	49	(49)	-
Total sales	116,376	12,544	2,910	131,831	(49)	131,781
Segment income (loss)	7,875	552	(163)	8,265	(1,246)	7,018

Notes: 1. The adjustment of ¥(1,246) million to segment income (loss) includes ¥2,108 million in corporate expenses, ¥(842) million in income that are not allocated to reportable segments, and ¥(19) million in eliminations due to intersegment transactions.

Corporate expenses consist mainly of expenses associated with the administrative divisions of the parent company, such as general affairs and accounting divisions.

2. Segment income (loss) is adjusted with the ordinary income of quarterly consolidated statements of income.

2. Impairment losses on fixed assets and goodwill by reportable segment

[Significant impairment losses on fixed assets]:

There are no applicable matters to be reported.

[Significant changes in the amount of goodwill]:

In the dispensing pharmacy business segment, the Company acquired seven dispensing pharmacy companies. During the first six months of the fiscal year, the increase in goodwill related to these companies was ¥5,059 million.

II Six months ended October 31, 2019 (May 1, 2019 to October 31, 2019)

1. Net sales and income (loss) by reportable segment

(Million yen)

	Reportable segments				Adjustments (Note) 1	Carried on quarterly consolidated statements of income (Note) 2
	Dispensing pharmacy business	Cosmetic and drug store business	Other businesses	Total		
Sales						
(1) Sales to third parties	130,499	13,099	2,251	145,851	-	145,851
(2) Intersegment sales	-	-	57	57	(57)	-
Total sales	130,499	13,099	2,309	145,908	(57)	145,851
Segment income (loss)	10,185	442	(133)	10,494	(1,731)	8,762

Notes: 1. The adjustment of ¥(1,731) million to segment income (loss) includes ¥2,693 million in corporate expenses, ¥(1,011) million in income that are not allocated to reportable segments, and ¥49 million in eliminations due to intersegment transactions.

Corporate expenses consist mainly of expenses associated with the administrative divisions and the system logistics division of the parent company.

2. Segment income (loss) is adjusted with the ordinary income of quarterly consolidated statements of income.

2. Impairment losses on fixed assets and goodwill by reportable segment

[Significant impairment losses on fixed assets]:

There are no applicable matters to be reported.

[Significant changes in the amount of goodwill]:

There are no applicable matters to be reported.