

Summary of Financial Statements for the Third Quarter of Fiscal Year Ending April 2020 [Japan GAAP] (Consolidated)

March 4, 2020

Name of listed company: **AIN HOLDINGS INC.**
Exchange listed on: First Section of Tokyo Stock Exchange and Sapporo Securities Exchange
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Date of filing quarterly securities report: March 16, 2020
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: No

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

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

(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	%
Nine months ended January 31, 2020	220,085	8.7	12,447	4.5	13,008	4.7	7,110	4.9
Nine months ended January 31, 2019	202,522	1.2	11,909	(16.8)	12,425	(15.8)	6,781	(14.5)

(Note) Comprehensive income: Nine months ended January 31, 2020: ¥7,100 million (+5.8%)
Nine months ended January 31, 2019: ¥6,713 million (-15.0%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended January 31, 2020	200.71	-
Nine months ended January 31, 2019	191.41	-

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of January 31, 2020	188,063	109,074	58.0
As of April 30, 2019	189,021	103,922	54.9

(Reference) Shareholders' equity: As of January 31, 2020: ¥109,008 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	293,230	6.4	16,500	2.7	17,200	3.4	9,250	2.4	261.10

(Note) Revision to the most recently announced consolidated financial forecasts: Yes

For more details about the revisions, please refer to today's release (March 4, 2020), "Notice on the Revision of Consolidated Business Performance Forecast."

*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 (3) Notes on quarterly consolidated financial statements" on page 8 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 January 31, 2020	35,428,212 shares	As of April 30, 2019	35,428,212 shares
2) Number of shares held in treasury:	As of January 31, 2020	728 shares	As of April 30, 2019	728 shares
3) Average number of shares outstanding:	Nine months ended January 31, 2020	35,427,484 shares	Nine months ended January 31, 2019	35,427,502 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 nine months of the current fiscal year (May 1, 2019 to January 31, 2020), the Japanese economy recovered at a modest pace, supported by a strong level of corporate earnings. However, the outlook is becoming increasingly uncertain amid an unexpected increase in public anxiety related to the growing COVID-19 outbreak, as well as 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.

In the first nine months of the fiscal year, net sales rose 8.7% year on year to ¥220,085 million, operating income increased 4.5% to ¥12,447 million, ordinary income increased 4.7% to ¥13,008 million, and profit attributable to owners of parent rose 4.9% to ¥7,110 million.

Financial results by business segment are as follows.

(Dispensing pharmacy business)

In the dispensing fee revisions scheduled for April this year, we anticipate adjustments that normalize a greater emphasis on appropriately evaluating the primary care functions of dispensing pharmacies in each community, as well as revisions aimed at spurring a structural shift from dispensing focused on products to dispensing focused on services.

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.

In business development, the Group is pushing ahead with business expansion and measures to improve the efficiency of pharmacy operations, including actively opening large pharmacies and tightening the criteria for M&A deals, as well as adjusting the store opening strategy to withdraw from small-scale pharmacies.

As a result, for the first nine months of the fiscal year, the dispensing pharmacy business reported higher sales and profits, with sales increasing 9.7% year on year to ¥196,753 million and segment income increasing 15.4% to ¥15,569 million.

During the same period, the Group opened a total of 14 dispensing pharmacies, including those acquired through M&A deals, and as part of an overhaul of store operations, closed 16 dispensing pharmacies and sold 29, resulting in a total of 1,101.

(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. A pullback in demand after the hike to consumption tax and a slowdown in consumer spending amid the COVID-19 outbreak are also having an impact on the market.

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.

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 nine months of the fiscal year, the cosmetic and drug store business reported an increase in sales of 6.0% year on year to ¥20,071 million. And segment income decreased 22.4% to ¥575 million.

During the same period, the Group opened 12 *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 Kaihimmakuhari (Chiba, Chiba Prefecture), *ainz & tulpe* BEAUTY FACTORY YOKOHAMA HAMMERHEAD (Yokohama, Kanagawa Prefecture), *ainz & tulpe* GINZA INZ (Chuo Ward, Tokyo), *ainz & tulpe* LINKS UMEDA (Osaka, Osaka) and closed four stores, resulting in a total of 62 cosmetic and drug stores at the end of the third quarter.

(Other businesses)

Net sales from other businesses decreased 22.3% year on year to ¥3,260 million and segment loss was ¥170 million compared with the loss of ¥107 million a year earlier.

(2) Consolidated financial position

The balance of total assets at the end of the third quarter declined by ¥958 million from the end of the previous fiscal year to ¥188,063 million. That mainly reflected an increase in merchandise, outweighed by declines for cash on hand and in banks and for goodwill.

The balance of liabilities decreased ¥6,110 million to ¥78,989 million.

The balance of short- term and long-term debts decreased by ¥4,351 million to ¥7,205 million.

Total net assets increased by ¥5,152 million to ¥109,074 million and the shareholders' equity ratio increased 3.1 percentage points to 58.0%.

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

The Group has revised its consolidated financial forecasts for the fiscal year ending April 30, 2020, which were announced on June 4, 2019. For more details, please refer to today's release (March 4, 2020), "Notice on the Revision of Consolidated Business Performance Forecast."

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)	Nine months ended January 31, 2020 (As of January 31, 2020)
Assets		
Current assets		
Cash on hand and in banks	48,091	46,276
Notes and accounts receivable	12,771	13,713
Merchandise	12,673	14,368
Supplies	225	268
Short-term loans	236	225
Other accounts receivable	8,438	7,314
Other current assets	3,012	2,580
Allowance for doubtful accounts	(2)	(1)
Total current assets	85,446	84,746
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	16,352	16,705
Land	10,394	11,039
Other property, plant and equipment, net	3,439	3,283
Total property, plant and equipment	30,186	31,028
Intangible fixed assets		
Goodwill	45,249	42,075
Other intangible fixed assets	2,327	2,691
Total intangible fixed assets	47,577	44,767
Investments and other assets		
Investments in securities	1,795	2,466
Deferred tax assets	4,284	4,272
Deposits and guarantees	15,133	15,713
Other investments and other assets	6,221	6,723
Allowance for doubtful accounts	(1,683)	(1,681)
Total investments and other assets	25,751	27,494
Total fixed assets	103,515	103,290
Deferred assets	59	26
Total assets	189,021	188,063

(Million yen)

	Fiscal year ended April 30, 2019 (As of April 30, 2019)	Nine months ended January 31, 2020 (As of January 31, 2020)
Liabilities		
Current liabilities		
Accounts payable	44,794	46,784
Short-term debt	5,571	4,196
Accrued income taxes	3,261	2,196
Deposits received	12,737	12,431
Allowance for bonuses to employees	2,139	917
Allowance for bonuses to directors	17	7
Reserve for reward obligations	450	473
Other current liabilities	4,772	3,718
Total current liabilities	73,744	70,726
Long-term liabilities		
Long-term debt	5,985	3,009
Net defined benefit liability	2,977	3,163
Other long-term liabilities	2,391	2,089
Total long-term liabilities	11,355	8,262
Total liabilities	85,099	78,989
Net assets		
Shareholders' equity		
Common stock	21,894	21,894
Capital surplus	20,500	20,500
Retained earnings	61,526	66,689
Treasury stock	(2)	(2)
Total shareholders' equity	103,920	109,082
Accumulated other comprehensive income		
Unrealized holding losses on securities	(6)	(29)
Remeasurements of defined benefit plans	(59)	(45)
Total accumulated other comprehensive loss	(65)	(74)
Non-controlling interests	67	66
Total net assets	103,922	109,074
Total liabilities and net assets	189,021	188,063

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

(Million yen)

	Nine months ended January 31, 2019 (May 1, 2018 to January 31, 2019)	Nine months ended January 31, 2020 (May 1, 2019 to January 31, 2020)
Net sales	202,522	220,085
Cost of sales	168,768	184,284
Gross profit	33,753	35,801
Selling, general and administrative expenses	21,844	23,353
Operating income	11,909	12,447
Non-operating income		
Interest income	55	46
Dividend income	38	36
Commissions received	19	12
Real estate rental revenue	242	304
Consignment income	119	134
Other non-operating income	344	301
Total non-operating income	819	835
Non-operating expenses		
Interest expenses	109	53
Losses on sales of accounts receivables	52	49
Real estate rental expenses	64	101
Other non-operating expenses	76	70
Total non-operating expenses	303	274
Ordinary income	12,425	13,008
Extraordinary income		
Gains on sales of investments in securities	2	-
Gains on sales of fixed assets	11	34
Gains of transfer of business	247	313
Surrender value of insurance	14	0
Other extraordinary income	0	1
Total extraordinary income	278	349
Extraordinary losses		
Losses on disposal and sales of fixed assets	386	415
Impairment losses on fixed assets	95	84
Other extraordinary losses	352	193
Total extraordinary losses	834	693
Income before income taxes	11,868	12,664
Income taxes	5,107	5,554
Profit	6,761	7,109
Loss attributable to non-controlling interests	(19)	(0)
Profit attributable to owners of parent	6,781	7,110

Quarterly consolidated statements of comprehensive income

(Million yen)

	Nine months ended January 31, 2019 (May 1, 2018 to January 31, 2019)	Nine months ended January 31, 2020 (May 1, 2019 to January 31, 2020)
Profit	6,761	7,109
Other comprehensive income		
Unrealized holding gains (losses) on securities	(53)	(23)
Remeasurements of defined benefit plans, net of tax	5	14
Total other comprehensive income	(47)	(8)
Comprehensive income	6,713	7,100
Comprehensive income attributable to owners of parent	6,733	7,101
Comprehensive loss attributable to non-controlling interests	(19)	(0)

(3) 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 Nine months ended January 31, 2019 (May 1, 2018 to January 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	179,397	18,927	4,198	202,522	-	202,522
(2) Intersegment sales	-	-	97	97	(97)	-
Total sales	179,397	18,927	4,295	202,620	(97)	202,522
Segment income (loss)	13,488	741	(107)	14,122	(1,697)	12,425

Notes: 1. The adjustment of ¥(1,697) million to segment income (loss) includes ¥3,077 million in corporate expenses, ¥(1,357) million in (income) losses that are not allocated to reportable segments, and ¥(22) 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 7 dispensing pharmacy companies. During the first nine months of the fiscal year, the increase in goodwill related to these companies was ¥5,059 million.

II Nine months ended January 31, 2020 (May 1, 2019 to January 31, 2020)

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	196,753	20,071	3,260	220,085	-	220,085
(2) Intersegment sales	-	-	85	85	(85)	-
Total sales	196,753	20,071	3,346	220,171	(85)	220,085
Segment income (loss)	15,569	575	(170)	15,974	(2,966)	13,008

Notes: 1. The adjustment of ¥(2,966) million to segment income (loss) includes ¥4,405 million in corporate expenses, ¥(1,514) million in (income) losses that are not allocated to reportable segments, and ¥75 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.