AIN HOLDINGS

Summary of Financial Statements for the Second Quarter of Fiscal Year Ending April 2018

[Japan GAAP] (Consolidated)

December 5, 2017

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: December 15, 2017
Start of dividend payment: –
Supplementary documents for quarterly results: Yes
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, 2018 (May 1, 2017 to October 31, 2017)

(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, 2017	132,342	13.3	8,367	65.7	8,665	62.1	4,418	54.7
Six months ended October 31, 2016	116,844	9.3	5,049	(14.4)	5,346	(12.1)	2,855	(13.3)

(Note) Comprehensive income: Six months ended October 31, 2017: ¥4,422 million (+52.2%)
Six months ended October 31, 2016: ¥2,905 million (-11.7%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended October 31, 2017	134.91	–
Six months ended October 31, 2016	90.07	–

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of October 31, 2017	180,537	90,779	50.2	2,560.59
As of April 30, 2017	156,323	60,178	38.4	1,895.63

(Reference) Shareholders' equity: As of October 31, 2017: ¥90,715 million As of April 30, 2017: ¥60,105 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, 2017	–	0.00	–	50.00	50.00
Year ending April 30, 2018	–	0.00			
Year ending April 30, 2018 (forecast)			–	50.00	50.00

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

3. Consolidated financial forecasts for the fiscal year ending April 30, 2018 (May 1, 2017 to April 30, 2018)

(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	267,500	7.8	18,000	23.6	18,500	22.7	9,200	15.7	269.96

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

For more details about revisions to the consolidated financial forecasts, please refer to the announcement released today (December 5, 2017), "Notice on the Revision of Consolidated Business Performance Forecast."

Earnings per share is calculated including new shares issued through a public offering (2,820,000) a private placement (270,000) and a private placement for a secondary offering using an over-allotment option (450,000).

*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 10 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, 2017	35,428,212 shares	As of April 30, 2017	31,888,212 shares
2) Number of shares held in treasury:	As of October 31, 2017	688 shares	As of April 30, 2017	180,644 shares
3) Average number of shares outstanding:	Six months ended October 31, 2017	32,753,470 shares	Six months ended October 31, 2016	31,707,568 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

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, 2017 to October 31, 2017), consumer spending in the Japanese economy rose at moderate pace, capital investment showed signs of a pickup and corporate earnings improved.

In this economic environment, the AIN HOLDINGS Group (the Group) worked to expand its business by opening new dispensing pharmacies, using M&A and developing its urban drug and cosmetic store business. The Group also raised a total of ¥27.6 billion mainly through a public offering and private placements in order to strengthen its financial position.

In the first six months of the fiscal year, net sales rose 13.3% year on year to ¥132,342 million, operating income increased 65.7% to ¥8,367 million, ordinary income increased 62.1% to ¥8,665 million, and profit attributable to owners of parent rose 54.7% to ¥4,418 million.

Financial results by business segment are as follows.

(Dispensing pharmacy business)

In the dispensing pharmacy business, sales continued to rise at existing dispensing pharmacies, supported by growth in average sales per prescription.

To ensure our pharmacists and dispensing pharmacies fulfill their role at the heart of local communities, the Group continues to build links with local healthcare service providers, mainly in the area of home-based dispensing, step up the integration 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 continued to push ahead with business expansion by opening new dispensing pharmacies and through 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 rising 13.1% year on year to ¥117,991 million and segment income increasing 29.5% to ¥9,702million.

During the period under review, the Group opened 18 new dispensing pharmacies, including those acquired through M&A deals, and closed 39 pharmacies, resulting in a total of 1,045.

(Drug and cosmetic store business)

In the drug and cosmetic 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 this backdrop, the Group continued to open *ainz & tulpe* urban drug stores and worked to make stores more appealing by refurbishing existing stores and strengthening merchandise lineups, particularly drug and cosmetics products. Earnings also improved, supported by lower costs due to greater business efficiency and by an increase in the gross margin due to active efforts to develop *LIPS and HIPS*, *cocodecica* and other proprietary brands and an overhaul of procurement activities.

As a result, for the first six months of the fiscal year, the drug and cosmetic store business reported an increase in sales of 12.4% year on year to ¥11,566 million. And segment income was ¥163 million, compared with segment loss of ¥384 million in the same period a year earlier.

In the second quarter of the fiscal year, the Group opened the *ainz & tulpe* Odakyu Department Store Machida (Machida City, Tokyo) and closed three stores, resulting in a total of 50 drug and cosmetic stores at the end of the second quarter.

(Other businesses)

Net sales from other businesses rose 23.3% year on year to ¥2,784 million and segment loss was ¥330 million compared with the loss of ¥826 million a year earlier.

(2) Consolidated financial position

The balance of total assets at the end of the second quarter increased by ¥24,213 million from the end of the previous fiscal year to ¥180,537 million. That mainly reflected an increase in cash and deposits from the public offering and private placements.

The balance of liabilities decreased ¥6,386 million to ¥89,757 million.

The balance of short- term and long-term debts decreased by ¥3,785 million to ¥22,066 million.

Total net assets increased by ¥30,600 million to ¥90,779 million and the shareholders' equity ratio increased 11.8 percentage points to 50.2%.

(Cash flows)

In the first six months of the fiscal year, cash and cash equivalents ("cash") increased by ¥27,376 million from the previous fiscal year end to ¥56,611 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 ¥6,886 million, compared with ¥6,090 million provided in the same period a year earlier. The main cash inflows were profit before income taxes of ¥8,104 million, depreciation and amortization of ¥1,735 million, amortization of goodwill of ¥1,983 million. The main cash outflow was income taxes paid of ¥2,919 million.

Net cash used in investing activities amounted to ¥1,279 million, compared with ¥3,053 million used a year earlier. This was mainly due to payments of ¥1,247 million for the acquisition of property, plant and equipment and intangible fixed assets and ¥418 million for purchases of subsidiaries' shares resulting in obtaining controls.

Net cash provided by financing activities totaled ¥21,769 million, compared with ¥2,616 million used a year earlier. The main cash inflow was ¥27,635 million from the issue of new shares related to the public offering and private placements and sale of treasury stock, while the main cash outflows were net repayment of ¥3,914 million from short-term and long-term debt repayment and proceeds and ¥1,585 million for cash dividends paid.

(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, 2018, announced on June 6, 2017. For more details, please refer to the announcement released today (December 5, 2017), "Notice on the Revision of Consolidated Business Performance Forecast."

2. Quarterly consolidated financial statements and major notes

(1) Quarterly consolidated balance sheet

(Thousand yen)

	Fiscal year ended April 30, 2017 (As of April 30, 2017)	Six months ended October 31, 2017 (As of October 31, 2017)
Assets		
Current assets		
Cash on hand and in banks	29,775,207	57,059,319
Notes and accounts receivable	9,990,401	10,250,566
Merchandise	11,402,078	12,090,161
Supplies	266,095	247,292
Deferred tax assets	1,166,620	1,300,403
Short-term loans	632,826	658,258
Other accounts receivable	9,402,024	8,151,376
Other current assets	2,829,934	1,995,410
Allowance for doubtful accounts	(44,443)	(41,276)
Total current assets	65,420,745	91,711,512
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	15,365,264	15,180,415
Land	9,958,446	9,784,632
Other property, plant and equipment, net	3,140,296	2,966,669
Total property, plant and equipment	28,464,007	27,931,717
Intangible fixed assets		
Goodwill	40,939,448	39,494,994
Other intangible fixed assets	2,170,041	2,074,133
Total intangible fixed assets	43,109,490	41,569,128
Investments and other assets		
Investments in securities	2,435,333	2,438,270
Deferred tax assets	2,167,711	2,071,405
Deposits and guarantees	10,443,221	10,697,828
Other investments and other assets	4,595,122	4,301,282
Allowance for doubtful accounts	(312,044)	(309,320)
Total investments and other assets	19,329,345	19,199,467
Total fixed assets	90,902,843	88,700,313
Deferred assets	-	125,322
Total assets	156,323,588	180,537,148

(Thousand yen)

	Fiscal year ended April 30, 2017 (As of April 30, 2017)	Six months ended October 31, 2017 (As of October 31, 2017)
Liabilities		
Current liabilities		
Accounts payable	39,325,588	40,326,124
Short-term debt	7,596,939	7,457,957
Accrued income taxes	2,898,695	3,724,475
Deposits received	14,223,768	12,179,679
Allowance for bonuses to employees	1,903,976	2,219,855
Allowance for bonuses to directors	16,090	16,583
Reserve for reward obligations	410,502	426,675
Provision for sales returns	14,165	8,667
Other current liabilities	6,566,001	3,925,423
Total current liabilities	72,955,729	70,285,441
Long-term liabilities		
Long-term debt	18,254,657	14,608,637
Net defined benefit liability	2,331,956	2,389,143
Other long-term liabilities	2,602,261	2,474,513
Total long-term liabilities	23,188,874	19,472,293
Total liabilities	96,144,603	89,757,734
Net assets		
Shareholders' equity		
Common stock	8,682,976	21,894,976
Capital surplus	6,367,844	20,500,942
Retained earnings	45,286,878	48,120,163
Treasury stock	(419,598)	(1,869)
Total shareholders' equity	59,918,101	90,514,213
Accumulated other comprehensive income		
Unrealized holding gains on securities	86,407	122,014
Remeasurements of defined benefit plans	101,414	79,277
Total accumulated other comprehensive income	187,821	201,291
Non-controlling interests	73,061	63,907
Total net assets	60,178,984	90,779,413
Total liabilities and net assets	156,323,588	180,537,148

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statements of income

(Thousand yen)

	Six months ended October 31, 2016 (May 1, 2016 to October 31, 2016)	Six months ended October 31, 2017 (May 1, 2017 to October 31, 2017)
Net sales	116,844,279	132,342,060
Cost of sales	98,479,207	109,951,792
Gross profit	18,365,071	22,390,268
Selling, general and administrative expenses	13,315,707	14,022,892
Operating income	5,049,363	8,367,376
Non-operating income		
Interest income	36,813	34,347
Dividend income	23,716	21,588
Commissions received	17,426	34,023
Real estate rental revenue	106,635	111,121
Consignment income	69,839	96,280
Guarantees received	39,408	-
Other non-operating income	172,802	180,429
Total non-operating income	466,643	477,792
Non-operating expenses		
Interest expenses	64,126	64,881
Losses on sales of accounts receivables	31,928	34,469
Real estate rental expenses	44,250	50,583
Other non-operating expenses	29,363	29,553
Total non-operating expenses	169,668	179,487
Ordinary income	5,346,338	8,665,681
Extraordinary income		
Gains on sales of investments in securities	150,537	5,560
Gains on sales of fixed assets	5,824	22,095
Insurance income	50,612	31,712
Other extraordinary income	28,118	38,377
Total extraordinary income	235,093	97,745
Extraordinary losses		
Losses on disposal and sales of fixed assets	241,243	301,336
Impairment losses on investments in securities	6,820	121,691
Other extraordinary losses	34,586	236,188
Total extraordinary losses	282,651	659,215
Profit before income taxes	5,298,780	8,104,211
Income taxes	2,453,028	3,694,701
Profit	2,845,752	4,409,510
Profit attributable to non-controlling interests	(10,080)	(9,153)
Profit attributable to owners of parent	2,855,832	4,418,663

Quarterly consolidated statements of comprehensive income

(Thousand yen)

	Six months ended October 31, 2016 (May 1, 2016 to October 31, 2016)	Six months ended October 31, 2017 (May 1, 2017 to October 31, 2017)
Profit	2,845,752	4,409,510
Other comprehensive income		
Unrealized holding gains on securities	76,519	35,607
Remearurements of defined benefit plans, net of tax	(16,342)	(22,136)
Total other comprehensive income	60,177	13,470
Comprehensive income	2,905,929	4,422,980
Comprehensive income attributable to owners of parent	2,916,010	4,432,134
Comprehensive loss attributable to non-controlling interests	(10,080)	(9,153)

(3) Quarterly consolidated statements of cash flows

(Thousand yen)

	Six months ended October 31, 2016 (May 1, 2016 to October 31, 2016)	Six months ended October 31, 2017 (May 1, 2017 to October 31, 2017)
Cash flows from operating activities		
Profit before income taxes	5,298,780	8,104,211
Depreciation and amortization	1,753,206	1,735,310
Amortization of goodwill	1,660,995	1,983,588
Increase in defined benefit liability	89,011	29,447
Increase in allowance for bonuses to employees	341,968	313,988
Increase in allowance for bonuses to directors	2,355	493
Interest and dividend income	(60,530)	(55,936)
Interest expenses	64,126	64,881
Losses on disposal and sales of fixed assets	235,419	279,240
(Decrease) increase in accounts receivable	5,733,772	(92,561)
Increase in inventories	(651,501)	(583,738)
Increase in other accounts receivable	(1,525,211)	(1,265,071)
Increase (decrease) in accounts payable	(2,918,279)	806,519
Other, net	741,923	(4,039,117)
Subtotal	10,766,036	9,811,400
Interest and dividends received	56,772	59,582
Interest paid	(64,981)	(64,898)
Income taxes paid	(4,666,987)	(2,919,922)
Net cash provided by operating activities	6,090,841	6,886,162
Cash flows from investing activities		
Payments for purchases of property, plant and equipment and intangible fixed assets	(1,544,246)	(1,247,435)
Proceeds from sales of property, plant and equipment and intangible fixed assets	304,258	221,941
Payments for purchase of investments in securities	(210)	(50,180)
Proceeds from sales of investments in securities	339,729	61,409
Purchase of subsidiaries' shares resulting in obtaining controls	(2,293,087)	(418,229)
Payments for loans receivable	(60,001)	(204,788)
Proceeds from collections of loans receivable	60,321	250,666
Payments for time deposits	(43,430)	(36,900)
Proceeds from withdrawal of time deposits	235,706	157,126
Other, net	(52,604)	(13,194)
Net cash used in investing activities	(3,053,564)	(1,279,584)

(Thousand yen)

	Six months ended October 31, 2016 (May 1, 2016 to October 31, 2016)	Six months ended October 31, 2017 (May 1, 2017 to October 31, 2017)
Cash flows from financing activities		
Net increase in short-term debts	2,257,210	178,543
Proceeds from long-term debts	50,000	-
Repayments of long-term debts	(3,280,231)	(4,092,617)
Repayments of lease obligations	(375,300)	(366,020)
Proceeds from issuance of common shares	-	26,296,379
Payments for purchase of treasury stock	(286)	(373)
Proceeds from sales of treasury shares	-	1,339,200
Cash dividends paid	(1,268,304)	(1,585,378)
Net cash (used in) provided by financing activities	(2,616,913)	21,769,732
Net increase (decrease) in cash and cash equivalents	420,363	27,376,309
Cash and cash equivalents at beginning of the period	21,892,179	29,234,757
Cash and cash equivalents at end of the period	22,312,543	56,611,067

(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)

The Company issued new shares through a public offering, disposed treasury stock through a public offering and issued new shares through a private placement, all with a payment date of September 6, 2017. The Company also issued new shares through a private placement for a secondary offering using an over-allotment option with a payment date of October 3, 2017. As a result, during the first six months of the fiscal year, capital increased ¥13,212,000 thousand, capital reserves increased ¥14,133,097 thousand and treasury stock declined ¥418,102 thousand, resulting in capital of ¥21,894,976 thousand and capital reserves of ¥20,500,942 thousand as of the end of the second quarter.

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

To calculate tax expenses, the effective tax rate on profit 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 profit before income taxes for the quarterly period.

(Segment Information, etc.)

I Six months ended October 31, 2016 (May 1, 2016 to October 31, 2016)

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

(Thousand yen)

	Reportable segments				Adjustments (Note) 1	Carried on quarterly consolidated statements of income (Note) 2
	Dispensing pharmacy	Drug and cosmetic store	Other	Total		
Sales						
(1) Sales to third parties	104,297,439	10,288,333	2,258,506	116,844,279	-	116,844,279
(2) Intersegment sales	-	-	188,175	188,175	(188,175)	-
Total sales	104,297,439	10,288,333	2,446,682	117,032,454	(188,175)	116,844,279
Segment income (loss)	7,494,180	(384,611)	(826,383)	6,283,186	(936,847)	5,346,338

Notes: 1. The adjustment of ¥(936,847) thousand to segment income (loss) includes ¥1,696,461 thousand in corporate expenses, ¥(735,544) thousand in income that are not allocated to reportable segments, and ¥(24,070) thousand 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 nine dispensing pharmacy companies. During the first six months of the fiscal year, the increase in goodwill related to these companies was ¥1,885,934 thousand.

II Six months ended October 31, 2017 (May 1, 2017 to October 31, 2017)

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

(Thousand yen)

	Reportable segments				Adjustments (Note) 1	Carried on quarterly consolidated statements of income (Note) 2
	Dispensing pharmacy	Drug and cosmetic store	Other	Total		
Sales						
(1) Sales to third parties	117,991,104	11,566,577	2,784,378	132,342,060	-	132,342,060
(2) Intersegment sales	-	-	165,376	165,376	(165,376)	-
Total sales	117,991,104	11,566,577	2,949,755	132,507,437	(165,376)	132,342,060
Segment income (loss)	9,702,489	163,352	(330,774)	9,535,067	(869,386)	8,665,681

Notes: 1. The adjustment of ¥(869,386) thousand to segment income (loss) includes ¥1,765,602 thousand in corporate expenses, ¥(884,382) thousand in income that are not allocated to reportable segments, and ¥(11,834) thousand 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 four dispensing pharmacy companies. During the first six months of the fiscal year, the increase in goodwill related to these companies was ¥569,252 thousand.