AIN HOLDINGS

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

[Japan GAAP] (Consolidated)

August 30, 2019

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: September 17, 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: No

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

1. Consolidated results for the first quarter of fiscal year ending April 30, 2020 (May 1, 2019 to July 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	%
Three months ended July 31, 2019	72,461	11.5	3,921	13.6	4,212	16.7	2,240	21.0
Three months ended July 31, 2018	65,013	(1.6)	3,450	(12.9)	3,610	(12.7)	1,851	(12.7)

(Note) Comprehensive income: Three months ended July 31, 2019: ¥2,180 million (+17.6%)
Three months ended July 31, 2018: ¥1,854 million (-12.7%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended July 31, 2019	63.24	–
Three months ended July 31, 2018	52.27	–

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of July 31, 2019	186,543	104,154	55.8
As of April 30, 2019	189,021	103,922	54.9

(Reference) Shareholders' equity: As of July 31, 2019: ¥104,091 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	–				
Year ending April 30, 2020 (forecast)		0.00	–	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
First six months	144,050	9.3	8,500	26.3	8,750	24.7	4,640	27.5	130.97
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 (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 July 31, 2019	35,428,212 shares	As of April 30, 2019	35,428,212 shares
2) Number of shares held in treasury:	As of July 31, 2019	728 shares	As of April 30, 2019	728 shares
3) Average number of shares outstanding:	Three months ended July 31, 2019	35,427,484 shares	Three months ended July 31, 2018	35,427,524 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 three months of the current fiscal year (May 1, 2019 to July 31, 2019), the Japanese economy recovered at a modest pace, supported by a steady improvement in employment conditions, signs of a pickup in consumer spending and a continued strong level of corporate earnings, despite weakness in some areas, particularly exports.

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 three months of the fiscal year, net sales increased 11.5% year on year to ¥72,461 million, operating income increased 13.6% to ¥3,921 million, ordinary income increased 16.7% to ¥4,212 million, and profit attributable to owners of parent increased 21.0% to ¥2,240 million.

Financial results by business segment are as follows.

(Dispensing pharmacy business)

In drug price and dispensing fee revisions in April 2018, the role of pharmacies located near hospitals and pharmacies located in the same premises was reviewed, with primary care dispensing pharmacies and pharmacists receiving a higher evaluation as part of government efforts to drive a structural shift from dispensing focused only on dispensing drugs to dispensing focused on services that contribute to local healthcare 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 addition, we stepped up training for the 257 newly graduated pharmacists that joined the Group in April 2019 in order to enhance their skills as primary care pharmacists.

In business development, the Group pushed ahead with business expansion by opening new dispensing pharmacies and using M&A deals. Store operations are also being overhauled.

As a result, for the first three months of the fiscal year, the dispensing pharmacy business reported sales of ¥64,800 million, up 13.5% year on year, and segment income of ¥4,804 million, up 20.6%.

During the period under review, the Group opened five new dispensing pharmacies, including those acquired through M&A deals, and closed 17 pharmacies, resulting in a total of 1,120.

(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 Tokyo metropolitan area, as well as strategically develop sales areas at each store, based on the concept of creating stores where women customers would be happy to browse for an hour. Also, the Group has resumed store openings in major urban markets outside the Tokyo metropolitan area to capitalize on the *ainz & tulpe* brand's rising visibility and name recognition. The Group also continues to work on improving profitability by reducing costs and developing *LIPS and HIPS*, *cocodecica* and other original brands.

As a result, for the first three months of the fiscal year, the cosmetic and drug store business reported an increase in sales of 0.8% year on year to ¥6,560 million and a decline in segment income of 36.9% to ¥230 million.

During the same period, the Group opened *ainz & tulpe* stores: *ainz & tulpe* bono SAGAMIONO (Sagamihara, Kanagawa Prefecture), *ainz & tulpe* ASAKUSA ROX (Taito Ward, Tokyo), *ainz & tulpe* PERIE Chiba (Chiba, Chiba Prefecture) and closed two stores, resulting in a total of 55 cosmetic and drug stores at the end of the period.

(Other businesses)

Net sales from other businesses decreased 22.4% year on year to ¥1,100 million and segment loss was ¥51 million compared with the loss of ¥67 million a year earlier.

(2) Consolidated financial position

The balance of total assets at the end of the first quarter decreased by ¥2,477 million from the end of the previous fiscal year to ¥186,543 million.

That mainly reflected an increase in accounts receivable and inventories against decreases in cash on hand and in banks and goodwill.

The balance of liabilities decreased ¥2,709 million to ¥82,389 million, mainly reflecting an increase in accounts payable and decreases in accrued income taxes and the balance of long-term debt.

The balance of short- and long-term debts decreased by ¥1,497 million to ¥10,059 million.

Total net assets increased by ¥232 million to ¥104,154 million and the shareholders' equity ratio improved 0.9 percentage points to 55.8%.

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

The Group has made no change to its earnings forecasts for the first six months of the fiscal year and for the full fiscal year, 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)	Three months ended July 31, 2019 (As of July 31, 2019)
Assets		
Current assets		
Cash on hand and in banks	48,091	40,753
Notes and accounts receivable	12,771	15,940
Merchandise	12,673	13,752
Supplies	225	234
Short-term loans	236	265
Other accounts receivable	8,438	10,542
Other current assets	3,012	1,825
Allowance for doubtful accounts	(2)	(2)
Total current assets	85,446	83,311
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	16,352	16,355
Land	10,394	10,484
Other property, plant and equipment, net	3,439	3,377
Total property, plant and equipment	30,186	30,216
Intangible fixed assets		
Goodwill	45,249	44,216
Other intangible fixed assets	2,327	2,414
Total intangible fixed assets	47,577	46,630
Investments and other assets		
Investment securities	1,795	1,820
Deferred tax assets	4,284	4,276
Deposits and guarantees	15,133	15,078
Other investments and other assets	6,221	6,844
Allowance for doubtful accounts	(1,683)	(1,683)
Total investments and other assets	25,751	26,336
Total fixed assets	103,515	103,184
Deferred assets	59	48
Total assets	189,021	186,543

(Million yen)

	Fiscal year ended April 30, 2019 (As of April 30, 2019)	Three months ended July 31, 2019 (As of July 31, 2019)
Liabilities		
Current liabilities		
Accounts payable	44,794	46,194
Short-term debt	5,571	5,045
Accrued income taxes	3,261	1,744
Deposits received	12,737	13,033
Allowance for bonuses to employees	2,139	1,665
Allowance for bonuses to directors	17	8
Reserve for reward obligations	450	455
Other current liabilities	4,772	3,820
Total current liabilities	73,744	71,967
Long-term liabilities		
Long-term debt	5,985	5,014
Net defined benefit liability	2,977	3,034
Other long-term liabilities	2,391	2,373
Total long-term liabilities	11,355	10,421
Total liabilities	85,099	82,389
Net assets		
Shareholders' equity		
Common stock	21,894	21,894
Capital surplus	20,500	20,500
Retained earnings	61,526	61,818
Treasury stock	(2)	(2)
Total shareholders' equity	103,920	104,212
Accumulated other comprehensive income		
Unrealized holding gains on securities	(6)	(66)
Remeasurements of defined benefit plans	(59)	(54)
Total accumulated other comprehensive income	(65)	(121)
Non-controlling interests	67	62
Total net assets	103,922	104,154
Total liabilities and net assets	189,021	186,543

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statement of income

(Million yen)

	Three months ended July 31, 2018 (May 1, 2018 to July 31, 2018)	Three months ended July 31, 2019 (May 1, 2019 to July 31, 2019)
Net sales	65,013	72,461
Cost of sales	54,325	60,971
Gross profit	10,687	11,490
Selling, general and administrative expenses	7,236	7,568
Operating income	3,450	3,921
Non-operating income		
Interest income	13	14
Dividend income	23	19
Commissions received	9	5
Real estate rental revenue	48	211
Consignment income	42	43
Other non-operating income	110	87
Total non-operating income	248	382
Non-operating expenses		
Interest expenses	25	19
Losses on sales of accounts receivables	17	15
Real estate rental expenses	16	33
Other non-operating expenses	29	22
Total non-operating expenses	89	91
Ordinary income	3,610	4,212
Extraordinary income		
Gain on sales of fixed assets	3	0
Gain on transfer of business	83	117
Other extraordinary income	0	0
Total extraordinary income	87	118
Extraordinary losses		
Losses on disposal and sales of fixed assets	174	216
Other extraordinary losses	80	22
Total extraordinary losses	254	239
Profit before income taxes	3,442	4,092
Income taxes	1,597	1,856
Profit	1,845	2,236
Losses attributable to non-controlling interests	(6)	(4)
Profit attributable to owners of parent	1,851	2,240

Quarterly consolidated statement of comprehensive income

(Million yen)

	Three months ended July 31, 2018 (May 1, 2018 to July 31, 2018)	Three months ended July 31, 2019 (May 1, 2019 to July 31, 2019)
Profit	1,845	2,236
Other comprehensive income:		
Unrealized holding gains on securities	10	(60)
Remeasurements of defined benefit plans, net of tax	(1)	4
Total other comprehensive income	9	(55)
Comprehensive income	1,854	2,180
Comprehensive income attributable to owners of parent	1,861	2,184
Comprehensive income attributable to non-controlling interests	(6)	(4)

(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 Three months ended July 31, 2018 (May 1, 2018 to July 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	57,090	6,505	1,417	65,013	—	65,013
(2) Intersegment sales	—	—	38	38	(38)	—
Total sales	57,090	6,505	1,456	65,051	(38)	65,013
Segment income (loss)	3,984	364	(67)	4,281	(671)	3,610

Notes: 1. The adjustment of ¥(671) million to segment income (loss) includes ¥1,109 million in corporate expenses, ¥(427) million in (income) loss that is not allocated to reportable segments, and ¥(10) million in eliminations due to intersegment transactions.
Overall group expenses consist mainly of expenses associated with the administrative departments of the parent company, such as general affairs and accounting departments.
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.

II Three months ended July 31, 2019 (May 1, 2019 to July 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	64,800	6,560	1,100	72,461	—	72,461
(2) Intersegment sales	—	—	28	28	(28)	—
Total sales	64,800	6,560	1,129	72,490	(28)	72,461
Segment income (loss)	4,804	230	(51)	4,982	(770)	4,212

Notes: 1. The adjustment of ¥(770) million to segment income (loss) includes ¥1,346 million in corporate expenses, ¥(599) million in (income) loss that is not allocated to reportable segments, and ¥24 million in eliminations due to intersegment transactions.
Overall group expenses consist mainly of expenses associated with the administrative departments of the parent company, such as general affairs and accounting departments.
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.