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Consolidated Financial Results for the Six Months Ended September 30, 2024 [Japanese GAAP]

November 1, 2024

Company name:	Qol Holdings Co., Ltd.		
Stock exchange listing:	Tokyo		
Securities code:	3034		
URL:	https://www.qolhd.co.jp/eng/		
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Scheduled date to file semi-annual securities report:	November 14, 2024		
Scheduled date to commence dividend payments:	December 2, 2024		
Preparation of supplementary material on financial results:	Yes		
Holding of financial results briefing:	Yes		

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated Financial Results for the Six Months Ended September 30, 2024 (April 1, 2024 to September 30, 2024)

(1) Consolidated Operating Results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2024	124,771	40.9	6,096	71.3	6,220	69.2	1,211	(35.8)
September 30, 2023	88,540	7.4	3,559	(11.5)	3,675	(11.9)	1,888	(20.2)

(Note) Comprehensive income: Six months ended September 30, 2024: ¥ 2,836 million [49.7%]
Six months ended September 30, 2023: ¥ 1,894 million [(20.0)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2024	32.43	-
September 30, 2023	50.80	-

(Note)

EBITDA (Operating profit + Depreciation + Amortization of goodwill)	As of September 30, 2024:	¥ 9,941 million
	As of September 30, 2023:	¥ 6,110 million
Net income before Amortization of goodwill (Profit attributable to owners of parent + Amortization of goodwill)	As of September 30, 2024:	¥ 3,407 million
	As of September 30, 2023:	¥ 3,563 million
EPS before Amortization of goodwill (Profit before Amortization of goodwill / Average number of shares during the period)	As of September 30, 2024:	¥ 91.17
	As of September 30, 2023:	¥ 95.86

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of September 30, 2024	Millions of yen 137,286	Millions of yen 57,957	% 39.3
March 31, 2024	117,779	52,837	44.8

(Reference) Equity: As of September 30, 2024: ¥ 53,892 million

As of March 31, 2024: ¥ 52,789 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2024	-	15.00	-	15.00	30.00
Fiscal year ending March 31, 2025	-	17.00			
Fiscal year ending March 31, 2025 (Forecast)			-	17.00	34.00

(Note) Revision to the forecast for dividends announced most recently:

No

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2025(April 1, 2024 to March 31, 2025)

(% indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	270,000	50.0	15,000	80.2	15,200	64.2	5,000	2.4	133.79

(Note) Revision to the financial results forecast announced most recently:

Yes

For the details, please refer to the announcement “Notice Regarding the Difference between Consolidated Financial Forecasts and Actual Results for the Six Months Ended September 30, 2024 and the Revision of Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2025” released today.

* Notes:

(1) Significant changes in the scope of consolidation during the period:

Yes

Newly included: - (Company name: DAIICHI SANKYO ESPHA CO., LTD.)

Excluded: - (Company name: -)

(2) Adoption of accounting treatment specific to the preparation of semi-annual consolidated financial statements:

No

(3) Changes in accounting policies, changes in accounting estimates, and restatement

1) Changes in accounting policies due to revisions to accounting standards and other regulations:

No

2) Changes in accounting policies due to other reasons:

No

3) Changes in accounting estimates:

No

4) Restatement:

No

(4) Number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

September 30, 2024: 38,902,785 shares

March 31, 2024: 38,902,785 shares

2) Number of treasury shares at the end of the period:

September 30, 2024: 1,466,319 shares

March 31, 2024: 1,580,709 shares

3) Average number of shares outstanding during the period:

Six months ended September 30, 2024: 37,372,717 shares

Six months ended September 30, 2023: 37,173,934 Shares

(Note) Treasury stock includes shares owned by the exclusive trust account of the Company's Employee Stock Ownership Association.

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1. OVERVIEW OF OPERATING RESULTS

(1) Overview of Operating Results for the Fiscal Year Ended September 30, 2024

During the consolidated interim period (April 1, 2024-September 30, 2024), the Japanese economy showed a moderate recovery due to the normalization of economic activities and improvement in the employment and income environment. However, the future of the economy remains uncertain due to a slowdown in private consumption due to price hikes and other factors.

Even amid these significant changes in the business environment, the Qol Group aims to continue being the Company closest to patients. We are engaged in efforts to integrate all businesses under the three keywords “improve quality,” “scale expansion,” “further growth.”

In April 2024, we acquired additional shares in DAIICHI SANKYO ESPHA CO., LTD., and made it a consolidated subsidiary. Further, in August 2024, we commenced activities to provide information on the first major AG products “Rivaroxaban Tablets (brand name XARELTO® Tablets)” and “Rivaroxaban OD Tablets (brand name XARELTO® OD Tablets)” after becoming a Group company, and obtained marketing approval for two new AG products: “Loxoprofen Sodium Tapes (brand name LOXONIN® Tapes)” and “Hydroxychloroquine Sulfate Tablets (brand name PLAQUENIL® Tablets).” Going forward, we will leverage synergies with the Pharmacy Business and BPO Contracting Businesses and achieve further growth toward our medium-term goals by concentrating on and specializing in pharmaceuticals.

In the consolidated interim period under review, the Qol Group posted net sales of ¥124,771 million (up 40.9% year on year), operating profit of ¥6,096 million (up 71.3%), ordinary profit of ¥6,220 million (up 69.2%) and profit attributable to owners of parent of ¥1,211 million (down 35.8%) due to the inclusion of DAIICHI SANKYO ESPHA CO., LTD., as a consolidated subsidiary (share ownership ratio: 51%). EBITDA was ¥9,941 million (up 62.7%). Moreover, interim net profit was ¥2,334 million (up 24.1% year on year).

Performance by business segment is as follows.

From the first quarter of the consolidated fiscal year under review, the business segments listed as reporting segments have been changed from two segments: “Pharmacy Business” and “Medical-Related Business” to three segments: “Pharmacy Business” and “BPO Contracting Businesses” and “Pharmaceutical Manufacturing Business.” Further, the Pharmaceutical Manufacturing Business, which was previously classified in the “Medical-Related Business,” is transferred to the “Pharmaceutical Manufacturing Business.” As a result, comparisons and analyses for the first six months of the consolidated fiscal year under review for “BPO Contracting Businesses” and “Pharmaceutical Manufacturing Business” are based on the new classification.

※ BPO Contracting Businesses Process Outsourcing

a. Pharmacy Business

In the Pharmacy Business, we work to improve quality by expanding scale through M&A, new store openings, and the promotion of the Home and Facility Dispensing Business, maximizing profits through increased productivity, and enhancing patient convenience through digitization, including the creation of next-generation pharmacies.

In the consolidated interim term under review, the Group added 13 new stores and acquired 26 stores through conversion to subsidiaries, for a total addition of 39 stores, while closing five stores and transferring one store to another for a total decrease of six stores, amounting to 953 stores across all businesses. To continue developing high added-value pharmacies going forward, we will expand scale through strategic M&A and new store openings. Further, in May 2024, we acquired shares of Dyna Co., Ltd., which operates 18 dispensing pharmacies in Yamanashi Prefecture. Also, in July 2024, we acquired shares in Gyotoku Pharmacy Co., Ltd. and Bottom Heart Co., Ltd., which operate highly convenient pharmacies including 365-day opening through the development of dispensing pharmacies in the areas along the JR Yamanote Line.

In terms of pharmacy operations, in July 2024, core subsidiary Qol Co., Ltd. introduced the service “Amazon Pharmacy” provided by Amazon that can be used for implementation of online medication instructions to prescription drug delivery. By introducing “Amazon Pharmacy,” we aim to meet the needs of patients with a wide range of lifestyles and better meet the health of each individual.

Regarding performance, although the number of prescriptions increased due to contributions from M&A and new store openings conducted in the previous fiscal year, as well as the promotion of the Home and Facility Dispensing Business, operating costs such as purchasing and personnel expenses also increased. Further, due to the revision of dispensing fees in June, the average technical fee rose, resulting in an increase in current net sales and operating profit.

As a result, net sales in this segment were ¥84,080 million (up 3.8% year on year) and operating profit was ¥4,232 million (down 10.2%).

b. BPO Contracting Businesses

In the BPO Contracting Businesses, we will continue to expand the scale of the core CSO Business, Professional Referral Dispatch Business, and Publishing-related Business.

In the CSO Business, although numbers increased in line with expanding demand for MR dispatches, costs related to recruitment also increased. Going forward, to meet diversifying needs from medical sites, we will recruit human resources with a wide range of experience and focus efforts on training MRs in specialized fields, thereby also undertaking sales in various areas in line with medical developments. Further, in the contracted business for the development of pharmaceuticals and foods, we will expand business by increasing orders, mainly for food testing.

In the Professional Referral Dispatch Business, with regard to pharmacist referral dispatches, productivity is improving and the number of contracts concluded is increasing due to various efforts including divisions of labor in the sales flow. We are also making steady progress with the new business, Doctor and Nurse Business, launched in the previous fiscal year.

In the Publishing-related Business, in addition to the existing materials production business, the convention business, compliance service business, and other businesses are expanding. In July 2024, we managed the AED 20th anniversary symposium and in September 2024, we managed the Health Heart Symposium.

As a result, net sales in this segment were ¥6,755 million (up 1.2% year on year) and operating profit was ¥928 million (up 15.9%).

c. Pharmaceutical Manufacturing Business

In the Pharmaceutical Manufacturing Business, we aim to achieve further growth in line with the inclusion of DAIICHI SANKYO ESPHA CO., LTD., as a Group company.

Regarding the product lineup, we will mainly expand AG products. We will also leverage the Group's expertise in providing MR information to provide information from the perspectives of healthcare professionals and patients to expand sales volumes.

Sales of generic pharmaceuticals “Zonisamide OD Tablets (brand name TRERIEF® OD Tablets)” launched in June 2024 are favorable as they exceed forecasts. Further, in August 2024, we launched activities to provide information on the first major AG product “Rivaroxaban Tablets (brand name XARELTO® Tablets)” since DAIICHI SANKYO ESPHA CO., LTD., became a Group company. Further, as new AG products, we obtained marketing approval for two products: “Loxoprofen Sodium Tapes (brand name LOXONIN® Tapes)” and “Hydroxychloroquine Sulfate Tablets (brand name PLAQUENIL® Tablets)”. Going forward, we will develop this product as the QoI Group's flagship product.

Further, in December 2022, we launched the COVID test kit “Tegaruna® stick SARS-CoV-2 Ag” as an OTC product based on the prevalence of COVID-19 infectious diseases.

As a consequence, net sales in this segment were ¥33,936 million (compared with ¥897 million in the same period of the previous fiscal year) and operating profit was ¥2,742 million (compared with negative ¥142 million in the same period of the previous fiscal year).

EBITDA = Operating profit + Depreciation + Amortization of goodwill

CSO: Contract Sales Organization

MR: Medical Representative

AG: Authorized Generic

(For Reference) Reporting Segments

		Six months ended September 30		Change (%)
		2023 (Millions of yen)	2024 (Millions of yen)	
Pharmacy Business	Net sales	80,966	84,080	3.8
	Segment profit	4,714	4,232	(10.2)
BPO Contracting Businesses	Net sales	6,675	6,755	1.2
	Segment profit	801	928	15.9
Pharmaceutical Manufacturing Business	Net sales	897	33,936	-
	Segment profit	(142)	2,742	-
Total	Net sales	88,540	124,771	40.9
	Segment profit	5,372	7,904	47.1

(N.B.) 1. Sales in each segment do not include internal sales between segments.

2. From the first quarter of the consolidated fiscal year under review, the business segments listed as reporting segments have been changed. Segment information for the previous interim consolidated accounting period has been prepared based on the changed classification.

Segment information for the previous interim consolidated accounting period does not include the figures for DAIICHI SANKYO ESPHA CO., LTD., which became a consolidated subsidiary from the first quarter of the consolidated fiscal year under review.

For details, please refer to [2. Quarterly Consolidated Financial Statements and Major Notes (Note on Segment Information)].

(2) Overview of Financial Position at September 30, 2024

a. Assets

As of September 30, 2024, total assets amounted to ¥137,286 million, up ¥19,507 million from March 31, 2024.

This was mainly due to a decrease of ¥7,714 million in shares of subsidiaries and associates, and increases of ¥12,950 million in business right, ¥9,413 million in goodwill, and ¥5,136 million in notes and accounts receivable - trade and contract assets.

b. Liabilities

As of September 30, 2024, total liabilities amounted to ¥79,328 million, up ¥14,387 million from March 31, 2024.

This was mainly due to increases of ¥5,720 million in accounts payable - trade and ¥6,694 million in refund liabilities.

c. Net Assets

As of September 30, 2024, total net assets amounted to ¥57,957 million, up ¥5,120 million from March 31, 2024.

This was mainly due to a decrease of ¥170 million in treasury shares, and increases of ¥4,017 million in non-controlling interests and ¥646 million in retained earnings.

d. Cash Flows

Cash flows from operating activities amounted to an inflow of ¥477 million, cash flows from investing activities amounted to an inflow of ¥265 million, and financing activities amounted to an outflow of ¥6,196 million. As a result, the balance of cash and cash equivalents at the end of the consolidated fiscal year under review decreased ¥5,453 billion from the end of the previous consolidated fiscal year, to ¥21,490 million.

The cash flow conditions and underlying factors during the first six months of the consolidated fiscal year under review are as described below.

Cash flows from operating activities

Net cash provided by operating activities was ¥477 million (compared with an inflow of ¥6,391 million in the same period of the previous fiscal year), with inflows of ¥5,001 million in profit before income taxes, a decrease of ¥2,357 million in trade payables, and an increase of ¥2,026 million in trade receivables.

Cash flows from investing activities

Net cash provided by financing activities was ¥265 million (compared with an outflow of ¥9,905 million in the same period of the previous fiscal year), with inflows of ¥3,972 million from the purchase of shares of subsidiaries resulting in change in scope of consolidation, ¥2,368 million from the purchase of shares of subsidiaries resulting in change in scope of consolidation, and ¥997 million from the purchase of property, plant and equipment.

Cash flows from financing activities

Net cash used in investing activities was ¥6,196 million (compared with an inflow of ¥2,170 million in the same period of the previous fiscal year), with outflows of ¥4,877 million for repayments of long-term borrowings and dividends paid of ¥565 million.

(3) Consolidated Financial Forecast

We changed the consolidated financial forecast announced on May 10, 2024.

For the details, please refer to the announcement “Notice Regarding the Difference between Consolidated Financial Forecasts and Actual Results for the Six Months Ended September 30, 2024 and the Revision of Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2025” released today.

2. SEMI-ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

(1) Semi-Annual Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2024	As of September 30, 2024
Assets		
Current assets		
Cash and deposits	27,282	21,843
Notes and accounts receivable - trade, and contract assets	16,909	22,046
Merchandise and finished goods	4,697	4,906
Work in process	129	160
Raw materials and supplies	343	3,344
Other	3,329	2,100
Allowance for doubtful accounts	(2)	(2)
Total current assets	52,690	54,399
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,971	7,577
Tools, furniture and fixtures, net	1,448	1,654
Land	6,925	6,951
Other, net	936	608
Total property, plant and equipment	16,281	16,791
Intangible assets		
Goodwill	32,133	41,547
Business right	-	12,950
Software	798	932
Other	204	233
Total intangible assets	33,136	55,663
Investments and other assets		
Investment securities	132	148
Shares of subsidiaries and associates	7,714	-
Leasehold and guarantee deposits	4,061	4,133
Deferred tax assets	2,164	2,085
Other	1,618	4,085
Allowance for doubtful accounts	(21)	(21)
Total investments and other assets	15,670	10,431
Total non-current assets	65,089	82,887
Total assets	117,779	137,286

(Millions of yen)

	As of March 31, 2024	As of September 30, 2024
Liabilities		
Current liabilities		
Accounts payable - trade	22,098	27,819
Short-term borrowings	-	4
Current portion of long-term borrowings	8,155	7,604
Income taxes payable	2,197	1,984
Provision for bonuses	2,436	2,484
Refund liabilities	-	6,694
Other	3,935	8,905
Total current liabilities	38,823	55,496
Non-current liabilities		
Long-term borrowings	23,477	19,569
Deferred tax liabilities	302	302
Provision for retirement benefits for directors (and other officers)	31	148
Retirement benefit liability	859	876
Asset retirement obligations	1,093	1,174
Other	353	1,758
Total non-current liabilities	26,118	23,832
Total liabilities	64,941	79,328
Net assets		
Shareholders' equity		
Share capital	5,786	5,786
Capital surplus	11,276	11,301
Retained earnings	38,030	38,676
Treasury shares	(2,303)	(2,133)
Total shareholders' equity	52,790	53,631
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(0)	10
Remeasurements of defined benefit plans	-	250
Total accumulated other comprehensive income	(0)	260
Non-controlling interests	48	4,065
Total net assets	52,837	57,957
Total liabilities and net assets	117,779	137,286

(2) Semi-Annual Consolidated Statements of Income and Comprehensive Income

Semi-Annual Consolidated Statements of Income (For the six months)

(Millions of yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Net sales	88,540	124,771
Cost of sales	77,508	105,722
Gross profit	11,031	19,049
Selling, general and administrative expenses	7,472	12,953
Operating profit	3,559	6,096
Non-operating income		
Rental income from buildings	62	72
Commission income	73	30
Surrender value of insurance policies	1	25
Subsidy income	4	3
Guarantee commission income	29	29
Subsidy income(other)	21	81
Other	41	57
Total non-operating income	235	300
Non-operating expenses		
Interest expenses	51	97
Rental expenses	34	35
Other	32	43
Total non-operating expenses	118	176
Ordinary profit	3,675	6,220
Extraordinary income		
Gain on sale of non-current assets	1	6
Total extraordinary income	1	6
Extraordinary losses		
Loss on retirement of non-current assets	14	42
Loss on sale of non-current assets	10	4
Loss on withdrawal from employees' pension fund	38	-
Retirement benefits for directors (and other officers)	-	957
Loss on step acquisitions	-	214
Other	1	6
Total extraordinary losses	64	1,225
Profit before income taxes	3,612	5,001
Income taxes	1,731	2,667
Profit	1,880	2,334
Profit (loss) attributable to non-controlling interests	(7)	1,122
Profit attributable to owners of parent	1,888	1,211

Semi-Annual Consolidated Statements of Comprehensive Income (For the six months)

(Millions of yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Profit	1,880	2,334
Other comprehensive income		
Valuation difference on available-for-sale securities	13	10
Remeasurements of defined benefit plans, net of tax	-	490
Total other comprehensive income	13	501
Comprehensive income	1,894	2,836
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,901	1,473
Comprehensive income attributable to non-controlling interests	(7)	1,362

(3) Semi-Annual Consolidated Statements of Cash Flows

(Millions of yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Cash flows from operating activities		
Profit before income taxes	3,612	5,001
Depreciation	875	1,649
Amortization of goodwill	1,675	2,195
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(4)	(8)
Increase (decrease) in retirement benefit liability	(2)	2
Increase (decrease) in provision for bonuses	124	44
Increase (decrease) in allowance for doubtful accounts	0	(2)
Increase (decrease) in refund liabilities	-	(1,182)
Loss (gain) on sale and retirement of non-current assets	23	40
Loss (gain) on step acquisitions	-	214
Loss (gain) on sale of investment securities	-	0
Surrender value of insurance policies	(1)	(25)
Interest and dividend income	(3)	(5)
Interest expenses	51	97
Decrease (increase) in inventories	(460)	(1,075)
Decrease (increase) in trade receivables	455	(2,026)
Increase (decrease) in trade payables	892	(2,357)
Other, net	1,062	(1,033)
Subtotal	8,299	1,528
Interest and dividends received	3	5
Interest paid	(51)	(97)
Income taxes paid	(1,860)	(958)
Net cash provided by (used in) operating activities	6,391	477
Cash flows from investing activities		
Payments into time deposits	(1)	(5)
Proceeds from withdrawal of time deposits	-	26
Purchase of property, plant and equipment	(1,239)	(997)
Proceeds from sale of property, plant and equipment	55	53
Purchase of intangible assets	(115)	(316)
Proceeds from collection of loans receivable	4	8
Payments of leasehold and guarantee deposits	(72)	(59)
Proceeds from refund of leasehold and guarantee deposits	34	88
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(759)	(2,368)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	-	3,972
Purchase of shares of subsidiaries and associates	(7,500)	-
Payments for acquisition of businesses	(253)	-
Proceeds from sale of businesses	-	6
Other, net	(59)	(142)
Net cash provided by (used in) investing activities	(9,905)	265

(Millions of yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	7,500	(87)
Repayments of long-term borrowings	(4,493)	(4,877)
Redemption of bonds	(338)	-
Proceeds from disposal of treasury shares	168	171
Purchase of treasury shares	-	(0)
Additional purchase of investments in consolidated subsidiaries	-	(24)
Dividends paid	(640)	(565)
Dividends paid to non-controlling interests	-	(793)
Other, net	(25)	(19)
Net cash provided by (used in) financing activities	2,170	(6,196)
Net increase (decrease) in cash and cash equivalents	(1,343)	(5,453)
Cash and cash equivalents at beginning of period	18,596	26,944
Cash and cash equivalents at end of period	17,253	21,490

(4) Notes Concerning Semi-Annual Financial Statements

Note on Segment Information

I. Information regarding the amount of net sales and profits or losses for each reporting segment and breakdown of revenue (April 1, 2023 to September 30, 2023)

(Millions of yen)

	Reporting segment				Adjustment (Note 1)	Amount recorded in quarterly consolidated statements of income (Note 2)
	Pharmacy Business	BPO Contracting Businesses	Pharmaceutical Manufacturing Business	Total		
Net sales						
Net sales from prescription demand	75,147	—	—	75,147	—	75,147
Net Sales from the pharmaceutical manufacturing	—	—	897	897	—	897
Other	5,819	6,675	—	12,495	—	12,495
Revenue from contracts with customers	80,966	6,675	897	88,540	—	88,540
Net sales to third parties	80,966	6,675	897	88,540	—	88,540
Intra-group net sales and transfers	63	173	—	237	(237)	—
Total	81,030	6,849	897	88,777	(237)	88,540
Segment profit (loss)	4,714	801	(142)	5,372	(1,812)	3,559

(Note 1) The contents of the adjustments for segment profit (loss) are as follows.

(Millions of yen)

Eliminations of inter-segment business	1,165
Company-wide expenses*	(2,978)
Total	(1,812)

* Company-wide expenses mainly comprise general administrative expenses not included in reportable segments.

(Note 2) Segment profit (loss) is adjusted from the operating income on the quarterly consolidated income statement.

(Note 3) Net sales comprise revenue recognized mainly from contracts with customers; the amount of revenue recognized from other sources is not significant.

II. Information regarding the amount of net sales and profits or losses for each reporting segment and breakdown of revenue (April 1, 2024 to September 30, 2024)

(Millions of yen)

	Reporting segment				Adjustment (Note 1)	Amount recorded in quarterly consolidated statements of income (Note 2)
	Pharmacy Business	BPO Contracting Businesses	Pharmaceutical Manufacturing Business	Total		
Net sales						
Net sales from prescription demand	77,973	—	—	77,973	—	77,973
Net Sales from the pharmaceutical manufacturing	—	—	33,936	33,936	—	33,936
Other	6,106	6,755	—	12,861	—	12,861
Revenue from contracts with customers	84,080	6,755	33,936	124,771	—	124,771
Net sales to third parties	84,080	6,755	33,936	124,771	—	124,771
Intra-group net sales and transfers	64	622	—	686	(686)	—
Total	84,144	7,377	33,936	125,458	(686)	124,771
Segment profit	4,232	928	2,742	7,904	(1,807)	6,096

(Note 1) The contents of the adjustments to segment profit are as follows.

(Millions of yen)

Eliminations of inter-segment business	1,310
Company-wide expenses*	△3,117
Total	△1,807

* Company-wide expenses mainly comprise general administrative expenses not included in reportable segments.

(Note 2) Segment profit is adjusted from the operating income on the quarterly consolidated income statement.

(Note 3) Net sales comprise revenue recognized mainly from contracts with customers; the amount of revenue recognized from other sources is not significant.

2. Changes in reporting segments

In line with the expansion in the scale of the pharmaceutical manufacturing and sales business due to the inclusion of DAIICHI SANKYO ESPHA CO., LTD., as a consolidated subsidiary, from the consolidated first quarter of the consolidated fiscal year under review, the business segments included in the reporting segments have been changed from two segments: “Pharmacy Business” and “Medical-Related Business” to three segments: “Pharmacy Business” and “BPO Contracting Businesses” and “Pharmaceutical Manufacturing Business”.

Further, the “Pharmaceutical Manufacturing Business”, which had been classified previously in the “Medical-Related Business”, is transferred to the “Pharmaceutical Manufacturing Business”.

Segment information for the first quarter of the previous consolidated fiscal year is based on the new segmentation method.

Note on the Event of Major Change in Shareholders' Equity

Not applicable.

Note on Assumptions for Going Concern

Not applicable.

Note on Material Changes in the Scope of Consolidation in the Six Months Ended September 30, 2024

In the consolidated second quarter under review, DAIICHI SANKYO ESPHA CO., LTD., which was an equity method affiliate, was acquired and became a consolidated subsidiary, and as a result, the company was included in the scope of consolidation.

Supplementary Information**Change in Presentation Method****Interim Consolidated Balance Sheets**

“Raw materials” previously included in “Merchandise and finished goods” under current assets are presented separately as “Raw materials and supplies” from the six months ended September 30, 2024 due to an increase in monetary materiality. To reflect this change in presentation, the consolidated financial statements for the previous consolidated fiscal year have been reclassified.

As a result, in the consolidated balance sheets for the previous consolidated fiscal year, “Merchandise and finished goods” of ¥4,849 million and “Supplies” of ¥192 million which were presented as current assets, are reclassified as “Merchandise and finished goods” of ¥4,697 million and “Raw materials and supplies” of ¥343 million.

Information of Business Combination

Business combination through acquisition

1. Overview of Business Combination

(1) Overview of the acquired company

Name: DAIICHI SANKYO ESPHA CO., LTD.

Business: Research, development, and sales of pharmaceuticals

(2) Overview of Business Combination

The purpose of this share acquisition is to contribute to medical care and business development by sharing Group information and know-how with DAIICHI SANKYO ESPHA CO., LTD., in order to develop high added-value pharmaceutical products and create products that meet customer needs, especially in the AG products. We also believe that efficient and reliable business operations will enable us to provide pharmaceutical products that contribute to people's health and peace of mind.

We will continue to explore new business opportunities by integrating the businesses of these two companies in an effort to strengthen its ability to develop and stably supply pharmaceutical products. Further, we will continue to engage in efforts to expand profitability in the Pharmaceutical Manufacturing Business, while working together with the Pharmacy Business and BPO Contracting Businesses to make a leap forward to becoming a comprehensive healthcare company.

(3) Commencement of business combination

April 1, 2024

(4) Legal form of business combination

Acquisition of shares for cash

(5) Company name after business combination

No change

(6) Percentage of voting rights acquired

Percentage of voting rights held immediately prior to the business combination	30.0%
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Percentage of voting rights additionally acquired on the date of business combination	21.0%
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Percentage of voting rights after acquisition	51.0%
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(7) Main basis for determining acquired company

This is because the company acquired shares in exchange for cash.

2. Acquired company's financial results included in the semi-annual consolidated financial statements

From April 1, 2024, to September 30, 2024

3. Acquired company acquisition cost and cost category breakdown

Market value of the stock of the acquired company held immediately before the business combination as of the business combination date	¥7,500 million
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Consideration for additional common stock acquired on the date of business combination (cash)	¥5,250 million
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Acquisition cost	¥12,750 million
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4. Difference between acquisition cost of acquired company and total acquisition cost for each transaction associated with the acquisition

Loss on step acquisitions	¥214 million
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5. Amount of goodwill generated, cause of occurrence, amortization method and amortization period

(1) Amount of goodwill arising

¥9,109 million

(2) Reason of occurrence

This is mainly the excess earnings power expected in the future from future business development.

(3) Amortization method and period

Straight-line method over 10 years