



AIN GROUP

IR PRESENTATION

AIN PHARMACIEZ INC.

December 2013

Results Overview



Consolidated P/L

In the first six months of the fiscal year, net sales rose 10.6% year on year to ¥83,024 million, operating income increased 19.1% to ¥5,012 million, ordinary income grew 15.9% to ¥5,163 million, and net income increased 35.7% to ¥2,899 million.

(¥ million)	FY4/13 2Q results	FY4/14 2Q plan	FY4/14 2Q results	YoY change	YoY change(%)	Vs plan (%)
Net sales	75,090	81,590	83,024	+7,934	+10.6	+1.8
Gross profit % of net sales	11,497 15.3	12,600 15.4	12,657 15.2	+1,160	+10.1	+0.5
SG&A expenses % of net sales	7,287 9.7	7,688 9.4	7,645 9.2	+358	+4.9	(0.6)
Operating income % of net sales	4,209 5.6	4,912 6.0	5,012 6.0	+803	+19.1	+2.0
Ordinary income % of net sales	4,454 5.9	5,122 6.3	5,163 6.2	+709	+15.9	+0.8
Net income % of net sales	2,137 2.8	2,550 3.1	2,899 3.5	+762	+35.7	+13.7
Net income per share(¥)	134.10	159.96	181.89	+47.79	+35.6	+13.7

► Figures in the table are rounded down



Dispensing Pharmacy Business (Consolidated)



The dispensing pharmacy business reported sales and profit growth, with sales rising 11.0% year on year to ¥73,954 million and segment income increasing 12.6% to ¥6,400 million.

(¥ million)	FY4/13 2Q results	FY4/14 2Q plan	FY4/14 2Q results	YoY change	YoY change(%)	Vs plan (%)
Net sales	66,622	72,110	73,954	+7,332	+11.0	+2.6
Gross profit	9,033	9,869	10,025	+992	+11.0	+1.6
% of net sales	13.6	13.7	13.6			
SG&A expenses	3,621	3,879	3,842	+221	+6.1	(1.0)
% of net sales	5.4	5.4	5.2			
Operating income	5,411	5,990	6,183	+772	+14.3	+3.2
% of net sales	8.1	8.3	8.4			
Segment income	5,682	6,148	6,400	+718	+12.6	+4.1
% of net sales	8.5	8.5	8.7			
Number of stores	535	581	589	+54	+10.1	+1.4

- ▶ Figures in the table are rounded down
- ▶ Segment income is adjusted ordinary income shown on the quarterly consolidated statements of income
- ▶ Prescription volume :+5.9% YoY
- ▶ Average prescription price: +4.4% YoY



Drug and Cosmetic Store Business(Consolidated)



The drug and cosmetic store business reported an increase in sales of 6.4% year on year to ¥8,736 million. However, segment income declined 84.6% to ¥4 million.

(¥ million)	FY4/13 2Q results	FY4/14 2Q plan	FY4/14 2Q results	YoY change	YoY change(%)	Vs plan (%)
Net sales	8,208	9,039	8,736	+528	+6.4	(3.4)
Gross profit	2,592	2,782	2,741	+149	+5.7	(1.5)
% of net sales	31.6	30.8	31.4			
SG&A expenses	2,614	2,778	2,756	+142	+5.4	(0.8)
% of net sales	31.8	30.7	31.5			
Operating income	(21)	4	(15)	+6	—	—
% of net sales	—	0.04	—			
Segment income	26	51	4	(22)	(84.6)	(92.2)
% of net sales	0.3	0.6	0.05			
Number of stores	58	61	58	0	0.0	(4.9)

▶ Figures in the table are rounded down

▶ Segment income is adjusted ordinary income shown on the quarterly consolidated statements of income

The shareholders' equity ratio improved 0.2 percentage points to 40.2%.

(¥ million)				(¥ million)			
End-FY4/13				End-FY4/14 2Q			
Assets		Liabilities		Assets		Liabilities	
Current assets	43,162	Current liabilities	45,686	Current assets	45,142	Current liabilities	49,516
Cash on hand and in banks	18,460	Short-term debt	7,483	Cash on hand and in banks	20,182	Short-term debt	7,088
		Lease obligations	498			Lease obligations	513
Fixed assets	52,676	Long-term liabilities	11,796	Fixed assets	54,843	Long-term liabilities	10,188
Investments in securities	2,789	Long-term debt	8,048	Investments in securities	2,579	Long-term debt	6,318
		Lease obligations	1,223			Lease obligations	1,253
Deferred assets	1	Total net assets	38,356	Deferred assets	0	Total net assets	40,281
Total assets	95,839	Total liabilities and net assets	95,839	Total assets	99,985	Total liabilities and net assets	99,985
Net cash		1,206		Net cash		5,008	
Shareholders' equity ratio (%)		40.0		Shareholders' equity ratio (%)		40.2	

- ▶ Figures in the table are rounded down
- ▶ Net cash = Cash on hand and in banks-Interest-bearing debt

The balance of total assets at the end of the second quarter increased by ¥4,146 million from the end of the previous fiscal year to ¥99,985 million.

(¥ million)	End-FY4/13 2Q	End-FY4/13	End-FY4/14 2Q	Change
Cash on hand and in banks	14,853	18,460	20,182	+1,722
Notes and accounts receivable	10,924	7,043	4,739	(2,304)
Inventories	9,768	7,944	9,009	+1,065
Total current assets	42,548	43,162	45,142	+1,980
Buildings and structures, net	7,971	8,247	8,546	+299
Land	5,947	6,030	6,777	+747
Lease assets	1,024	1,229	1,279	+50
Total property, plant and equipment	16,533	17,550	18,855	+1,305
Lease assets	125	99	69	(30)
Total intangible fixed assets	20,501	20,605	21,228	+623
Investments in securities	3,127	2,789	2,579	(210)
Deferred tax assets	1,120	946	958	+12
Lease and guarantee deposits	6,632	6,985	7,085	+100
Total investments and other assets	12,919	14,520	14,759	+239
Total fixed assets	49,954	52,676	54,843	+2,167
Total assets	92,511	95,839	99,985	+4,146

▶ Figures in the table are rounded down ▶ Changes(¥): End-FY4/14 2Q compared with end-FY4/13

▶ Capital expenditures (Purchases of property, plant and equipment and intangible fixed assets + deposits/guarantees) totaled ¥2,525million



Liabilities and Net Assets

The balance of liabilities rose ¥2,221 million to ¥59,704 million, mainly reflecting an increase in accounts payable. The balance of long- and short- term debt decreased by ¥2,125 million to ¥13,406 million.

(¥ million)	End-FY4/13 2Q	End-FY4/13	End-FY4/14 2Q	Change
Accounts payable	25,255	24,084	28,514	+4,430
Short-term debt	7,823	7,483	7,088	(395)
Lease obligations	398	498	513	+15
Total current liabilities	48,028	45,686	49,516	+3,830
Long-term debt(including bonds)	6,227	8,048	6,318	(1,730)
Lease obligations	778	1,223	1,253	+30
Total long-term liabilities	9,384	11,796	10,188	(1,608)
Total liabilities	57,413	57,483	59,704	+2,221
Common stock	8,682	8,682	8,682	-
Capital surplus	7,872	7,872	7,872	-
Retained earnings	18,767	21,704	23,647	+1,943
Total shareholders' equity	35,317	38,254	40,197	+1,943
Total net assets	35,097	38,356	40,281	+1,925
Total liabilities and net assets	92,511	95,839	99,985	+4,146

▶ Figures in the table are rounded down

▶ Changes(¥) : End-FY4/14 2Q compared with end-FY4/13

Cash and cash equivalents increased by ¥1,733 million from the previous fiscal year end to ¥20,172 million.

(¥ million)	FY4/13 2Q	FY4/14 2Q	Change
Net cash provided by operating activities	2,370	9,324	+6,954
Income before income taxes and minority interests	3,969	5,318	+1,349
Depreciation and amortization	997	1,080	+83
Amortization of goodwill	822	990	+168
decrease in accounts receivable	454	2,840	+2,386
(Increase) decrease in inventories	(1,438)	(813)	+625
(Increase) decrease in other accounts receivable	(2,365)	(986)	+1,379
Net cash used in investing activities	(3,508)	(4,215)	(707)
Payments for purchases of property, plant and equipment, and intangible fixed assets	(2,519)	(2,204)	+315
Purchase of shares in affiliated companies	(416)	(1,703)	(1,287)
Net cash provided by (used in) financing activities	41	(3,375)	(3,416)
Proceeds from issuance of new shares	—	—	—
Net increase in cash and cash equivalents	(1,096)	1,733	+2,829
Cash and cash equivalents at end of the period	14,838	20,172	+5,334

▶ Figures in the table are rounded down

	FY4/13 2Q	End-FY4/13	FY4/14 2Q	Change
Shareholders' equity ratio (%)	37.9	40.0	40.2	+2.3
Market value equity ratio (%)	97.4	79.3	67.9	(29.5)
PER (times)	-	14.97	-	-
EPS (¥)	134.10	318.37	181.89	+47.79
PBR (times)	2.57	1.98	1.69	(0.88)
BPS (¥)	2,199.73	2,403.43	2,524.37	+324.64
ROA (%)	-	5.6	-	-
ROE (%)	-	14.1	-	-
EBITDA (¥ million)	-	13,698	-	-
EV/EBITDA (times)	-	5.37	-	-
Net D/E ratio (times)	0.01	(0.03)	(0.12)	(0.13)
Net cash (¥ million)	(389)	1,206	5,008	+5,397
Shareholder value (¥ million)	-	74,729	-	-
Market capitalization (¥ million)	90,084	75,973	67,921	(22,163)

- ▶ Figures in the table are rounded down
- ▶ Changes: End-FY4/14 2Q compared with end-FY4/13
- ▶ Shareholder value = EV – net interest-bearing debt
- ▶ Net D/E ratio = (interest-bearing debt – cash on hand and in banks) / shareholders' equity
- ▶ Share prices used to calculate market capitalization:
end FY4/13 2Q ¥5,650(end-Oct 2012), end-FY4/13 ¥4,765(end-Apr 2013), end-FY4/14 2Q ¥4,260 (end-Oct 2013).
- ▶ Net cash = Cash on hand and in banks – Interest-bearing debt



Consolidated P/L (Progress)

Dispensing pharmacy business plans improvement of the profit by the opening of new dispensing pharmacies, M&A .
We forecast FY4/14 net sales will rise 11.3% YoY, and ordinary income will rise 13.2% YoY.

(¥ million)	FY4/13 results	FY4/14 plan	YoY change	YoY change(%)	FY4/14 2Q results	Progress (%)
Net sales	154,560	172,000	+17,440	+11.3	83,024	48.3
Gross profit % of net sales	24,442 15.8	26,960 15.7	+2,518	+10.3	12,657 15.2	46.9
SG&A expenses % of net sales	14,740 9.5	15,680 9.1	+940	+6.4	7,645 9.2	48.8
Operating income % of net sales	9,701 6.3	11,280 6.6	+1,579	+16.3	5,012 6.0	44.4
Ordinary income % of net sales	10,292 6.7	11,650 6.8	+1,358	+13.2	5,163 6.2	44.3
Net income % of net sales	5,075 3.3	6,000 3.5	+925	+18.2	2,899 3.5	48.3
Net income per share(¥)	318.37	376.31	+57.94	+18.2	181.89	48.3

▶ Figures in the table are rounded down

Operating Outlook

Analysis of results①

(¥ million)	FY4/13 2Q results	FY4/14 2Q plan	FY4/14 2Q results	Vs plan change	YoY change(%)	Vs plan (%)
Net sales	75,090	81,590	83,024	+1,434	+10.6	+1.8
Gross profit % of net sales	11,497 15.3	12,600 15.4	12,657 15.2	+57	+10.1	+0.5
SG&A expenses % of net sales	7,287 9.7	7,688 9.4	7,645 9.2	(43)	+4.9	(0.6)
Operating income % of net sales	4,209 5.6	4,912 6.0	5,012 6.0	+100	+19.1	+2.0
Ordinary income % of net sales	4,454 5.9	5,122 6.3	5,163 6.2	+41	+15.9	+0.8
Net income % of net sales	2,137 2.8	2,550 3.1	2,899 3.5	+349	+35.7	+13.7
Net income per share(¥)	134.10	159.96	181.89	+21.93	+35.6	+13.7

► Figures in the table are rounded down

Analysis of results②

■ Net sales

(¥ million)	FY4/13 2Q results	FY4/14 2Q plan	FY4/14 2Q results	YoY change(%)	Vs plan (%)
Net sales	75,090	81,590	83,024	+10.6	+1.8

Analysis

Dispensing Pharmacy Business	Same store		62,823	64,473	64,948	+3.4	+0.7
	Stores opened in the previous year		869	5,599	5,436	+525.5	(2.9)
New store	Near hospitals	—	1,087	1,908	—	+75.5	
	Medical mall format	—	79	49	—	(38.0)	
Drug and Cosmetic Store Business		8,208	9,039	8,736	+6.4	(3.4)	

Sales supported by growth in average sales per prescription due to an increase in longer-term prescriptions increased.

Marketing to attract clinics to the malls went on a scheduled.

Dispensing pharmacy business plans improvement of the profit by M&A.

The occupancy rates for medical malls has been 80.0%.

The Shibuya Center-Gai Store ,opened in the previous year, is much less than plan.

▶ Figures in the table are rounded down

■ Operating income

(¥ million)	FY4/13 2Q results	FY4/14 2Q plan	FY4/14 2Q results	YoY change(%)	Vs plan (%)	Analysis
Operating income	4,209	4,912	5,012	+19.1	+2.0	
% of net sales	5.6	6.0	6.0			

Operating expenses	Cost of sales	63,593	68,990	70,366	+10.7	+2.0
	M&A of them (unplanned)	—	—	883	—	—
	SG&A expenses	7,287	7,688	7,645	+4.9	(0.6)
	M&A of them (unplanned)	—	—	39	—	—

Cost of sales

Cost of sales has been more than plan by unplanned M&A.

SG&A expenses

Results have been less than plan by cutting down expenses(Travel expense, Conference expense and Training expense).

▶ Figures in the table are rounded down

The Group opened 30 new dispensing pharmacies, including those acquired through M&A deals.

■ Number of stores

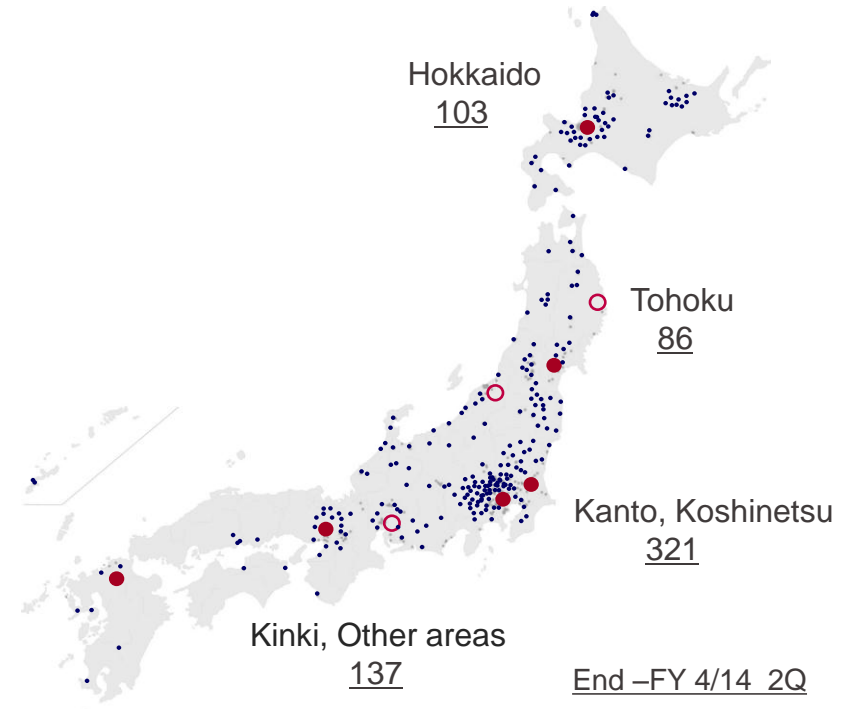
647 (Dispensing pharmacy : 589
Drug and cosmetic store : 58)

■ Targets for new store opening

		FY-4/14 2Q		FY-4/14
		Plan	Result	
Dispensing pharmacy	Near hospitals	13	11	47
	Medical mall format	3	4	7
	M&A	5	15	26
Drug and cosmetic store		0	0	6
Total		21	30	86

▶ Total number of stores includes the three franchise stores.

▶ 80 properties secured



■ Transition of Dispensing pharmacies

	FY-4/06	FY-4/07	FY-4/08	FY-4/09	FY-4/10	FY-4/11	FY-4/12	FY-4/13	FY-4/14 2Q
Organic	16	14	23	24	21	18	27	38	15
M&A	17	18	91	3	3	35	28	38	15
Close	8	3	5	8	2	5	9	10	1
No. of stores	218	247	356	375	397	448	494	560	589



Promoting Generic Drugs

We have already attained the 30% target set by the government. Base on international methodology, generic drugs account for over 50% of prescriptions at our dispensing pharmacies. And there is still substantial room for growth in generic drug usage.

■ Generic drug dispensing volume

	Mar.12	Apr. 12	Oct. 12	Apr. 13	Nov. 13	Apr. 14 target
Generic drug dispensing volume	31.7%	32.1%	34.0%	34.6% (50.3%)	35.6% (51.7%)	37.0% (53.3%)
Average premiums for generic drug dispensing systems	12.9	12.4	14.5	15.0	16.0	17.0

▶ Consolidated basis

▶ International methodology shown in brackets

■ Projected new generic drug launches and annual sales in Japan

(¥ million)

2014		2015		2016-17		2018-20	
Blopress	114,862	Plavix	102,144	Crestor	86,250	Zetia	50,590
Diovan	108,302	Adoair	50,270	Olmetec	83,496	Lyrica	45,325
Allegra	57,300	Jzoloft	48,220	Zyprexa	54,946	Symbicort	27,822
Elplat	29,320	Zosyn	22,734	Alimta	35,800	Urief	22,156

▶ Figures in the table are rounded down

▶ FY12 data



Drug and Cosmetic Store Business

The drug and cosmetic store business reported an decrease in sales of ¥303 million vs plan to ¥8,736 million.

(¥ million)	FY4/14 2Q plan	FY4/14 2Q results	Vs plan change
Net sales	9,039	8,736	(303)
Same store	8,261	8,122	(139)
Stores opened in the previous year	778	614	(164)
SG&A expenses	2,778	2,757	(21)
Operating income	4	(15)	(19)
Same store	236	266	+30
Stores opened in the previous year	8	(34)	(42)

Analysis

Same store

Net sales have unreached because of unplanned store-closing.

Stores opened in the previous year

The Shibuya Center-Gai Store is much less than plan.

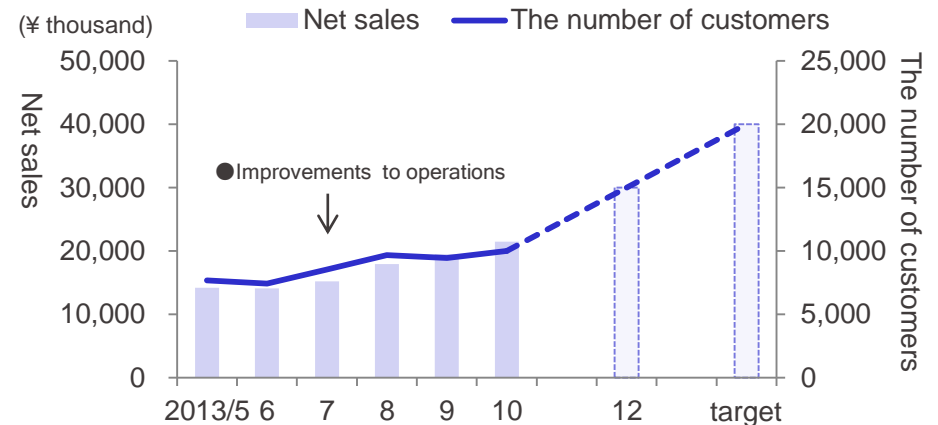
SG&A expenses

Owing to overhead cost reduction by the BPR project.

► Figures in the table are rounded down

■ Project for improvements to operations in the Shibuya Center-Gai Store

- Make improvements to the merchandise lineup
- Stronger sales promotion
- Capture card members





FY4/14 Plan (Consolidated)

We forecast FY4/14 net sales will rise 11.3% and ordinary income will rise 13.2% year on year.

(¥ million)	FY4/13 results	FY4/14 plan	YoY change	YoY change(%)
Net sales	154,560	172,000	+17,440	+11.3
Gross profit % of net sales	24,442 15.8	26,960 15.7	+2,518	+10.3
SG&A expenses % of net sales	14,740 9.5	15,680 9.1	+940	+6.4
Operating income % of net sales	9,701 6.3	11,280 6.6	+1,579	+16.3
Ordinary income % of net sales	10,292 6.7	11,650 6.8	+1,358	+13.2
Net income % of net sales	5,075 3.3	6,000 3.5	+925	+18.2
Net income per share(¥)	318.37	376.31	+57.94	+18.2

► Figures in the table are rounded down

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