



Summary of Financial Statements for the Third Quarter of Fiscal Year Ending April 2014

[Japan GAAP] (Consolidated)

February 24, 2014

Name of listed company: **AIN PHARMACIEZ 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 17, 2014
 Start of dividend payment: —
 Supplementary documents for quarterly results: No
 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, 2014 (May 1, 2013 to January 31, 2014)

(1) Consolidated operating results

(Percentage figures show year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended January 31, 2014	126,043	9.9	7,506	9.9	7,810	7.5	4,284	16.1
Nine months ended January 31, 2013	114,671	8.8	6,830	(7.3)	7,262	(4.3)	3,689	0.4

(Note) Comprehensive income: Nine months ended January 31, 2014: ¥4,270 million (+10.2%)
 Nine months ended January 31, 2013: ¥3,875 million (+7.6%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended January 31, 2014	268.77	—
Nine months ended January 31, 2013	231.47	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of January 31, 2014	101,895	41,670	40.9	2,611.50
As of April 30, 2013	95,839	38,356	40.0	2,403.43

(Reference) Shareholders' equity: As of January 31, 2014: ¥41,629 million As of April 30, 2013: ¥38,312 million

2. Dividends

Record date	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, 2013	—	0.00	—	60.00	60.00
Year ending April 30, 2014	—	0.00	—		
Year ending April 30, 2014 (forecast)				60.00	60.00

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

3. Consolidated financial forecasts for the fiscal year ending April 30, 2014 (May 1, 2013 to April 30, 2014)

(Percentage figures show year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	172,000	11.3	11,280	16.3	11,650	13.2	6,000	18.2	376.31

(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. Matters concerning summary information (notes) (2) Application of specified accounting methods for the preparation of quarterly consolidated financial statements” on page 3 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, 2014	15,944,106 shares	As of April 30, 2013	15,944,106 shares
2) Number of shares held in treasury:	As of January 31, 2014	3,416 shares	As of April 30, 2013	3,366 shares
3) Average number of shares outstanding:	Nine months ended January 31, 2014	15,940,702 shares	Nine months ended January 31, 2013	15,940,743 shares

*Status of execution of the quarterly review of financial statements

This quarterly financial summary is not subject to the quarterly review procedure based on the Financial Instruments and Exchange Act. As of the time of disclosure, this review procedure for quarterly financial statements had not been completed.

*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 nine months of the current fiscal year (May 1, 2013 to January 31, 2014), the Japanese economy recovered steadily, albeit at a moderate pace, with corporate earnings and employment improving and capital investment and consumer spending showing signs of a pickup.

In this economic environment, the AIN PHARMACIEZ Group (the Group) worked to expand its business and increase earnings. Specifically, the Group opened new dispensing pharmacies and used M&A. It also pushed ahead with the comprehensive development of medical malls and opened urban drug and cosmetic stores.

In addition, during the period under review, the Company made progress on realigning Group companies in order to improve dispensing pharmacy operations and the Group management structure. Specifically, the Company passed a resolution to absorb subsidiary Shizuoka Pharmacy Co., Ltd. and two other companies through mergers during the period under review, and made a decision to absorb four small- to mid-size consolidated subsidiaries through mergers, effective on February 24, 2014.

In the first nine months of the fiscal year, net sales rose 9.9% year on year to ¥126,043 million, operating income increased 9.9% to ¥7,506 million, ordinary income grew 7.5% to ¥7,810 million, and net income increased 16.1% to ¥4,284 million.

Financial results by business segment are as follows.

(Dispensing pharmacy business)

In the dispensing pharmacy business, sales at existing dispensing pharmacies increased, supported by growth in average sales per prescription due to an increase in longer-term prescriptions.

However, we expect the operating environment to become very challenging. Under drug price and dispensing fee revisions in April 2014, the basic dispensing fee will be adjusted to reflect 24-hour patient dispensing service provision and dispensing services for home healthcare patients, which is likely to lead to an increase in the labor cost ratio. We also expect drug purchasing costs to increase due to changes in the rate of consumption tax.

The Group will continue to boost economies of scale by expanding the size of its business and improve profitability at existing dispensing pharmacies by rolling out its project to revitalize pharmacies across the whole Group network. This project encourages dispensing pharmacy personnel to think for themselves, without being bound by existing rules, in order to assess and rebuild all processes in dispensing pharmacy operations on a pharmacy by pharmacy basis.

As a result, for the first nine months of the fiscal year, the dispensing pharmacy business reported sales and profit growth, with sales rising 10.2% year on year to ¥112,101 million and segment income increasing 7.3% to ¥9,601 million.

During the period under review, the Group opened 41 new dispensing pharmacies, including those acquired through M&A deals, and transferred or closed four dispensing pharmacies, resulting in a total of 597.

(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, as well as changes in the business environment for online sales of OTC drugs.

Against this backdrop, the Group continued to open stores under its specialist, highly original drug and cosmetic store brand, *ainz & tulpe*, particularly in urban areas with high customer traffic.

In *ainz & tulpe*, the number of customers and average spend per customer at existing stores is trending ahead of year-earlier levels, reflecting efforts to reinforce merchandise lineups to tailor them to each retail area and location, and improvements to sales promotion methods using communication apps such as LINE.

As a result, for the first nine months of the fiscal year, the drug and cosmetic store business reported an increase in sales of 6.4% year on year to ¥13,372 million. However, segment income declined 81.1% to ¥12 million.

During the period under review, the Group opened the *ainz & tulpe* SANNOMIYA SANKITA-DORI (Chuo-ku, Kobe City) and closed four stores, mainly in suburban locations, resulting in a Group total of 58 stores.

(Other businesses)

Net sales and segment loss from other businesses were ¥569 million and ¥331 million, respectively.

(2) Consolidated financial position

The balance of total assets at the end of the third quarter increased by ¥6,056 million from the end of the previous fiscal year to ¥101,895 million.

This mainly reflected an increase in inventories, other accounts receivable, property, plant and equipment such as land

and buildings and goodwill, due to the Group's business expansion through new store openings and M&A deals.

The balance of liabilities rose ¥2,742 million to ¥60,225 million, mainly reflecting an increase in accounts payable.

The balance of long- and short- term debt decreased by ¥3,699 million to ¥11,831 million.

Total net assets increased by ¥3,313 million to ¥41,670 million and the shareholders' equity ratio improved 0.9 percentage points to 40.9%.

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

The Group has made no change to its earnings forecasts for the full fiscal year, announced May 28, 2013, in light of earnings trends at new stores and existing stores in the first nine months of the fiscal year and future store opening plans.

2. Matters concerning summary information (notes)

(1) Major changes in subsidiaries during the period

There are no applicable matters to be reported.

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

Tax expenses were calculated by reasonably estimating the effective tax rate after the application of tax effect accounting to net income before taxes for the consolidated fiscal year including the third quarter, and multiplying the estimated effective tax rate by income before income taxes for the quarter. In addition, deferred income taxes are included in income taxes.

(3) Changes in accounting principles, changes in accounting estimates, and restatement of revisions

(Change in accounting policies that may be difficult to distinguish from changes in accounting estimates)

There are no applicable matters to be reported.

3. Quarterly consolidated financial statements**(1) Quarterly consolidated balance sheets**

(Thousand yen)

	Fiscal year ended April 30, 2013 (As of April 30, 2013)	Nine months ended January 31, 2014 (As of January 31, 2014)
Assets		
Current assets		
Cash on hand and in banks	18,460,349	19,023,736
Notes and accounts receivable	7,043,984	5,549,103
Merchandise	7,816,853	9,903,722
Supplies	127,546	130,582
Deferred tax assets	955,372	1,178,406
Short-term loans	445,000	766,024
Other accounts receivable	7,180,659	8,408,172
Other current assets	1,142,498	1,033,498
Allowance for doubtful accounts	(9,917)	(4,433)
Total current assets	43,162,346	45,988,811
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	8,247,806	9,386,239
Land	6,030,803	6,859,132
Other property, plant and equipment, net	3,271,425	3,380,025
Total property, plant and equipment	17,550,035	19,625,397
Intangible fixed assets		
Goodwill	19,574,539	19,799,080
Other intangible fixed assets	1,031,265	1,029,079
Total intangible fixed assets	20,605,804	20,828,160
Investments and other assets		
Investments in securities	2,789,730	2,585,647
Deferred tax assets	946,439	956,111
Deposits and guarantees	6,985,755	7,643,388
Other investments and other assets	4,066,340	4,536,263
Allowance for doubtful accounts	(267,829)	(267,829)
Total investments and other assets	14,520,435	15,453,581
Total fixed assets	52,676,275	55,907,138
Deferred assets		
Stock issuance cost	1,296	—
Total deferred assets	1,296	—
Total assets	95,839,919	101,895,950

(Thousand yen)

	Fiscal year ended April 30, 2013 (As of April 30, 2013)	Nine months ended January 31, 2014 (As of January 31, 2014)
Liabilities		
Current liabilities		
Accounts payable	24,084,746	31,410,516
Short-term debt	7,483,090	6,417,644
Accrued income taxes	2,427,308	1,584,709
Deposits received	7,906,269	8,120,288
Allowance for bonuses to employees	1,098,611	554,291
Allowance for bonuses to directors	12,929	19,096
Reserve for reward obligations	315,919	327,218
Other current liabilities	2,357,917	2,261,510
Total current liabilities	45,686,791	50,695,274
Long-term liabilities		
Long-term debt	8,048,584	5,414,243
Allowance for retirement benefits	1,659,245	1,786,961
Other long-term liabilities	2,088,777	2,329,324
Total long-term liabilities	11,796,607	9,530,528
Total liabilities	57,483,398	60,225,803
Net assets		
Shareholders' equity		
Common stock	8,682,976	8,682,976
Capital surplus	7,872,970	7,872,970
Retained earnings	21,704,510	25,032,404
Treasury stock	(5,837)	(6,047)
Total shareholders' equity	38,254,620	41,582,304
Accumulated other comprehensive income		
Unrealized holding gains on securities	57,855	46,851
Total accumulated other comprehensive income	57,855	46,851
Minority interests	44,044	40,991
Total net assets	38,356,520	41,670,146
Total liabilities and net assets	95,839,919	101,895,950

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

	(Thousand yen)	
	Nine months ended January 31, 2013 (May 1, 2012 to January 31, 2013)	Nine months ended January 31, 2014 (May 1, 2013 to January 31, 2014)
Net sales	114,671,448	126,043,003
Cost of sales	96,918,844	106,926,020
Gross profit	17,752,603	19,116,982
Selling, general and administrative expenses	10,921,638	11,610,719
Operating income	6,830,964	7,506,262
Non-operating income		
Interest income	55,760	56,449
Dividend income	29,100	28,152
Commissions received	48,390	13,351
Real estate rental revenue	71,486	62,246
Consignment income	106,652	111,803
Other non-operating income	364,069	287,148
Total non-operating income	675,459	559,152
Non-operating expenses		
Interest expenses	108,890	73,223
Losses on sales of accounts receivables	56,887	64,178
Real estate rental expenses	25,118	34,311
Other non-operating expenses	53,025	83,601
Total non-operating expenses	243,921	255,315
Ordinary income	7,262,502	7,810,098
Extraordinary income		
Gains on sales of investments in securities	191	49,667
Gains on sales of fixed assets	10,902	4,096
Insurance income	50,000	193,941
Other extraordinary income	2,772	9,523
Total extraordinary income	63,866	257,229
Extraordinary losses		
Losses on disposal and sales of fixed assets	88,901	111,515
Losses on sales of investments in securities	109,796	—
Impairment losses on investments in securities	1,750	—
Directors' retirement benefits	320,000	—
Other extraordinary losses	69,636	56,738
Total extraordinary losses	590,085	168,254
Income before income taxes and minority interests	6,736,284	7,899,073
Income taxes	3,068,608	3,617,788
Income before minority interests	3,667,675	4,281,284
Minority interests in loss	(22,198)	(3,053)
Net income	3,689,874	4,284,338

Quarterly consolidated statements of comprehensive income

(Thousand yen)

	Nine months ended January 31, 2013 (May 1, 2012 to January 31, 2013)	Nine months ended January 31, 2014 (May 1, 2013 to January 31, 2014)
Income before minority interests	3,667,675	4,281,284
Other comprehensive income		
Unrealized holding gains (losses) on securities	207,740	(11,004)
Total other comprehensive income	207,740	(11,004)
Comprehensive income	3,875,416	4,270,280
Comprehensive income attributable to shareholders of the parent	3,897,615	4,273,333
Comprehensive income (loss) attributable to minority interests	(22,198)	(3,053)

(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.

(Segment Information, etc.)

I Nine months ended January 31, 2013 (May 1, 2012 to January 31, 2013)

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	101,729,833	12,567,131	374,483	114,671,448	—	114,671,448
(2) Intersegment sales	—	—	66,368	66,368	(66,368)	—
Total sales	101,729,833	12,567,131	440,851	114,737,816	(66,368)	114,671,448
Segment income (loss)	8,950,081	64,433	(324,374)	8,690,141	(1,427,638)	7,262,502

Notes: 1. The adjustment of ¥(1,427,638) thousand to segment income (loss) includes ¥1,385,034 thousand in corporate expenses, ¥89,509 thousand in losses that are not allocated to reportable segments, and ¥(46,906) 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]:

The dispensing pharmacy segment includes seven dispensing pharmacy companies that have been acquired by the Group. During the first nine months of the fiscal year, the increase in goodwill related to these companies was ¥2,349,689 thousand.

II Nine months ended January 31, 2014 (May 1, 2013 to January 31, 2014)

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	112,101,198	13,372,693	569,111	126,043,003	—	126,043,003
(2) Intersegment sales	—	—	154,028	154,028	(154,028)	—
Total sales	112,101,198	13,372,693	723,139	126,197,031	(154,028)	126,043,003
Segment income (loss)	9,601,761	12,205	(331,878)	9,282,087	(1,471,988)	7,810,098

Notes: 1. The adjustment of ¥(1,471,988) thousand to segment income (loss) includes ¥1,392,808 thousand in corporate expenses, ¥131,021 thousand in losses that are not allocated to reportable segments, and ¥(51,840) 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]:

The dispensing pharmacy segment includes nine dispensing pharmacy companies that have been acquired by the Group. During the first nine months of the fiscal year, the increase in goodwill related to these companies was ¥1,510,250 thousand.