

Summary of Financial Statements for the Second Quarter of Fiscal Year Ending April 2021

[Japan GAAP] (Consolidated)

December 3, 2020

Name of listed company: **AIN HOLDINGS INC.**
Exchange listed on: First Section of Tokyo Stock Exchange and Sapporo Securities Exchange
Code number: 9627 URL: <https://www.ainj.co.jp/>
Representative: Kiichi Otani, President and Representative Director
Inquiries: Toshihide Mizushima, Representative Senior Managing Director
TEL: +81-11-814-1000

Date of filing quarterly securities report: December 15, 2020
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: 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, 2021 (May 1, 2020 to October 31, 2020)

(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, 2020	145,352	(0.3)	3,927	(53.0)	4,517	(48.4)	2,630	(43.1)
Six months ended October 31, 2019	145,851	10.7	8,354	24.1	8,762	24.9	4,622	27.0

(Note) Comprehensive income: Six months ended October 31, 2020: ¥2,664 million (-42.2%)
Six months ended October 31, 2019: ¥4,607 million (+28.9%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended October 31, 2020	74.24	-
Six months ended October 31, 2019	130.47	-

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of October 31, 2020	199,521	111,719	56.0
As of April 30, 2020	193,451	111,003	57.3

(Reference) Shareholders' equity: As of October 31, 2020: ¥111,650 million As of April 30, 2020: ¥110,915 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, 2020	-	0.00	-	55.00	55.00
Year ending April 30, 2021	-	0.00			
Year ending April 30, 2021 (forecast)			-	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, 2021 (May 1, 2020 to April 30, 2021)

(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	300,000	2.5	9,200	(42.7)	10,000	(40.6)	5,000	(45.5)	141.13

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

For more details about the revisions, please refer to today's release (December 3, 2020), "Notice on the Revisions of Consolidated Financial Forecasts."

*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, 2020	35,428,212 shares	As of April 30, 2020	35,428,212 shares
2) Number of shares held in treasury:	As of October 31, 2020	816 shares	As of April 30, 2020	728 shares
3) Average number of shares outstanding:	Six months ended October 31, 2020	35,427,442 shares	Six months ended October 31, 2019	35,427,484 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.

Contents of the Attachment

1. Qualitative information on consolidated results for the period under review.....	2
(1) Consolidated operating results	2
(2) Consolidated financial position	3
(3) Forecast of consolidated financial results and other forward-looking information	3
2. Quarterly consolidated financial statements and major notes	4
(1) Quarterly consolidated balance sheet	4
(2) Quarterly consolidated statements of income and comprehensive income	6
Quarterly consolidated statements of income	6
Quarterly consolidated statements of comprehensive income	7
(3) Quarterly consolidated statements of cash flows.....	8
(4) Notes on quarterly consolidated financial statements	10
(Notes on the premise of a going concern)	10
(Notes on significant changes in the amount of shareholders' equity)	10
(Application of specified accounting methods for the preparation of quarterly consolidated financial statements)	10
(Segment information, etc.).....	10

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, 2020 to October 31, 2020), the Japanese economy continued to face challenging conditions amid a prolonged impact from the COVID-19 pandemic. However, there were signs of a pickup in the economy on the back of policy effects and other factors.

In this economic environment, the AIN HOLDINGS Group (the Group) worked to expand its business and increase earnings by opening new dispensing pharmacies and cosmetic and drug stores and by reviewing its cost structure.

In addition, the Group took thorough steps to prevent infection in pharmacies and stores to reassure patients and customers, and worked to ensure the continued provision of healthcare and retail services by implementing strict measures to protect employees from infection.

In the first six months of the fiscal year, net sales decreased 0.3% year on year to ¥145,352 million, operating income decreased 53.0% to ¥3,927 million, ordinary income decreased 48.4% to ¥4,517 million, and profit attributable to owners of parent decreased 43.1% to ¥2,630 million.

Financial results by business segment are as follows.

(Dispensing pharmacy business)

Under partial revisions to the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices (Revised Pharmaceuticals and Medical Devices Act), which is being implemented incrementally, dispensing pharmacists are required as necessary from September 2020 to ascertain drug treatment and provide guidance at times other than the point of prescription, and online drug treatment guidance are permitted nationwide in accordance with certain rules.

To ensure our pharmacists and dispensing pharmacies fulfill their primary care role, the Group continues to implement pharmaceutical management based on the integrated and continuous management of drug-related information through cooperation with local medical service providers, the use of patient medication notebooks and other means. The Group also enhanced drug treatment guidance and created a system that enables all dispensing pharmacies to provide online drug guidance so that every patient can easily access medical services in their local community.

In July 2020, the Group conducted Japan's first-ever trial of prescription drug deliveries using drones, which were linked to online medical examination and online drug guidance systems. The trial is aimed at ensuring people in regional communities who have trouble visiting hospital have continued access to healthcare services in the future.

In business development, the Group is pushing ahead with further business expansion and measures to improve the efficiency of pharmacy operations, including actively opening large pharmacies and tightening the criteria for M&A deals, as well as using its pharmacy opening strategy to withdraw from small-scale locations.

During the COVID-19 outbreak, the duration of prescriptions has increased, which has led to a rise in the average unit price per prescription but a decline in the number of prescriptions. Together with the closure and the business transfer of 64 pharmacies in the previous fiscal year to improve the efficiency of pharmacy operations, that resulted in lower sales and profits year on year. The number of prescriptions is now recovering at a moderate pace.

As a result, for the first six months of the fiscal year, the dispensing pharmacy business reported sales of ¥128,029 million, down 1.9% year on year, and segment income of ¥8,370 million, down 17.8%.

During the period under review, the Group opened 10 new dispensing pharmacies, including those acquired through M&A deals, and closed 6 pharmacies and transferred 22 pharmacies, resulting in a total of 1,070 pharmacies.

(Cosmetic and drug store business)

The cosmetic and drug store business continued to face a challenging market environment due to factors such as the impact of the COVID-19 outbreak.

Against that backdrop, the Group continued to open *ainz & tulpe* cosmetic and drug stores in major metropolitan areas, while also shifting its focus in store opening strategy to areas around terminus stations in commuter towns, where demand is strong. The Group also strategically developed retail displays tailored to the characteristics of each store. In addition, the Group launched the official AINZ & TULPE WEBSTORE to improve convenience and service levels for customers.

As a result, for the first six months of the fiscal year, the cosmetic and drug store business reported a decrease in sales of 28.3% year on year to ¥9,388 million, and segment loss was ¥1,014 million compared with the income of ¥442 million a year earlier.

During the same period, the Group opened five *ainz & tulpe* cosmetic and drug stores and closed five stores, resulting in a total of 63 cosmetic and drug stores at the end of the second quarter.

(Other businesses)

Net sales from other businesses increased 245.9% year on year to ¥7,987 million, mainly reflecting the acquisition of retail shop business in March 2020, and segment loss was ¥435 million compared with the loss of ¥133 million a year earlier.

(2) Consolidated financial position

The balance of total assets at the end of the second quarter increased by ¥6,070 million from the end of the previous fiscal year to ¥199,521 million. That mainly reflected a decline in notes and accounts receivable, outweighed by an increase in cash on hand and in banks.

The balance of liabilities increased ¥5,354 million to ¥87,802 million.

The balance of short- term and long-term debts increased by ¥7,784 million to ¥13,859 million.

Total net assets increased by ¥715 million to ¥111,719 million and the shareholders' equity ratio decreased 1.3 percentage points to 56.0%.

(Cash flows)

In the first six months of the fiscal year, cash and cash equivalents ("cash") increased by ¥8,385 million from the previous fiscal year end to ¥54,316 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 ¥6,441 million, compared with ¥6,024 million provided in the same period a year earlier. The main cash inflows were profit before income taxes of ¥4,524 million, depreciation and amortization of ¥2,024 million and amortization of goodwill of ¥2,225 million. The main cash outflow was income taxes paid of ¥3,446 million.

Net cash used in investing activities amounted to ¥3,759 million, compared with ¥4,361 million used in the same period a year earlier. The main use of cash was ¥2,974 million for purchases of property, plant and equipment and intangible assets.

Net cash provided by financing activities totaled ¥5,702 million, compared with ¥5,100 million used in the same period a year earlier. The main source of cash was net proceeds of ¥7,780 million from short-term and long-term debt repayment and proceeds, while the main use of cash was ¥1,948 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, 2021, which were announced on June 4, 2020. For more details, please refer to today's release (December 3, 2020), "Notice on the Revisions of Consolidated Financial Forecasts."

2. Quarterly consolidated financial statements and major notes**(1) Quarterly consolidated balance sheet**

(Million yen)

	Fiscal year ended April 30, 2020 (As of April 30, 2020)	Six months ended October 31, 2020 (As of October 31, 2020)
Assets		
Current assets		
Cash on hand and in banks	46,321	54,616
Notes and accounts receivable	13,653	11,953
Merchandise	15,035	14,518
Supplies	286	277
Short-term loans	208	136
Other accounts receivable	8,997	9,998
Other current assets	3,299	2,505
Allowance for doubtful accounts	(1)	(0)
Total current assets	87,802	94,006
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	16,609	16,225
Land	10,960	10,409
Other property, plant and equipment, net	3,304	3,534
Total property, plant and equipment	30,874	30,169
Intangible fixed assets		
Goodwill	42,123	40,563
Other intangible fixed assets	2,792	3,152
Total intangible fixed assets	44,916	43,715
Investments and other assets		
Investments in securities	2,295	2,335
Deferred tax assets	4,211	4,315
Deposits and guarantees	19,144	19,493
Other investments and other assets	5,834	7,013
Allowance for doubtful accounts	(1,644)	(1,528)
Total investments and other assets	29,841	31,629
Total fixed assets	105,632	105,514
Deferred assets	15	-
Total assets	193,451	199,521

(Million yen)

	Fiscal year ended April 30, 2020 (As of April 30, 2020)	Six months ended October 31, 2020 (As of October 31, 2020)
Liabilities		
Current liabilities		
Accounts payable	47,187	45,619
Short-term debt	3,642	4,694
Accrued income taxes	3,356	1,868
Deposits received	13,094	13,795
Allowance for bonuses to employees	2,338	2,888
Allowance for bonuses to directors	16	20
Reserve for reward obligations	463	492
Other current liabilities	4,600	3,896
Total current liabilities	74,700	73,275
Long-term liabilities		
Long-term debt	2,432	9,165
Net defined benefit liability	3,124	3,236
Other long-term liabilities	2,189	2,125
Total long-term liabilities	7,747	14,526
Total liabilities	82,447	87,802
Net assets		
Shareholders' equity		
Common stock	21,894	21,894
Capital surplus	20,500	20,500
Retained earnings	68,758	69,439
Treasury stock	(2)	(2)
Total shareholders' equity	111,151	111,832
Accumulated other comprehensive income		
Unrealized holding losses on securities	(77)	(48)
Remeasurements of defined benefit plans	(159)	(133)
Total accumulated other comprehensive loss	(236)	(181)
Non-controlling interests	88	68
Total net assets	111,003	111,719
Total liabilities and net assets	193,451	199,521

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

(Million yen)

	Six months ended October 31, 2019 (May 1, 2019 to October 31, 2019)	Six months ended October 31, 2020 (May 1, 2020 to October 31, 2020)
Net sales	145,851	145,352
Cost of sales	122,191	123,917
Gross profit	23,660	21,435
Selling, general and administrative expenses	15,305	17,508
Operating income	8,354	3,927
Non-operating income		
Interest income	30	21
Dividend income	20	26
Commissions received	10	7
Real estate rental revenue	259	87
Consignment income	90	89
Subsidies for employment adjustment	-	201
Other non-operating income	180	335
Total non-operating income	590	770
Non-operating expenses		
Interest expenses	37	24
Losses on sales of accounts receivables	31	38
Real estate rental expenses	68	78
Other non-operating expenses	45	39
Total non-operating expenses	182	180
Ordinary income	8,762	4,517
Extraordinary income		
Gains on sales of fixed assets	10	16
Gain on transfer of business	201	165
Gain on sales of shares of subsidiaries and affiliates	-	111
Surrender value of insurance	0	8
Other extraordinary income	0	14
Total extraordinary income	212	316
Extraordinary losses		
Losses on disposal and sales of fixed assets	372	146
Impairment losses on fixed assets	26	10
Loss on sales of shares of subsidiaries and affiliates	34	-
Loss on temporary store closures	-	52
Other extraordinary losses	102	100
Total extraordinary losses	536	309
Profit before income taxes	8,439	4,524
Income taxes	3,814	1,913
Profit	4,624	2,610
Profit (loss) attributable to non-controlling interests	2	(19)
Profit attributable to owners of parent	4,622	2,630

Quarterly consolidated statements of comprehensive income

(Million yen)

	Six months ended October 31, 2019 (May 1, 2019 to October 31, 2019)	Six months ended October 31, 2020 (May 1, 2020 to October 31, 2020)
Profit	4,624	2,610
Other comprehensive income		
Unrealized holding gains (losses) on securities	(26)	29
Remeasurements of defined benefit plans, net of tax	9	25
Total other comprehensive income (loss)	(17)	54
Comprehensive income	4,607	2,664
Comprehensive income attributable to owners of parent	4,604	2,684
Comprehensive income (loss) attributable to non-controlling interests	2	(19)

(3) Quarterly consolidated statements of cash flows

(Million yen)

	Six months ended October 31, 2019 (May 1, 2019 to October 31, 2019)	Six months ended October 31, 2020 (May 1, 2020 to October 31, 2020)
Cash flows from operating activities		
Profit before income taxes	8,439	4,524
Depreciation and amortization	1,928	2,024
Amortization of goodwill	2,182	2,225
Impairment losses on fixed assets	26	10
Decrease in allowance for doubtful accounts	(1)	(1)
Increase in reserve for reward obligations	15	29
Loss (gain) on sales of shares of subsidiaries and affiliates	34	(111)
Increase in net defined benefit liability	136	158
Gains on sale of businesses	(126)	(155)
Increase in allowance for bonuses to employees	391	548
Increase in allowance for bonuses to directors	2	3
Interest and dividend income	(50)	(48)
Interest expenses	37	24
Gains on investments in partnerships	(2)	(4)
Gains on donation of property, plant and equipment	(14)	(16)
Gain on sales of investment securities	-	(3)
Loss on valuation of investments in securities	-	2
Losses on disposal and sales of fixed assets	362	129
Decrease (increase) in accounts receivable	(2,104)	1,818
Decrease (increase) in inventories	(1,530)	567
Decrease in other assets	813	837
(Increase) decrease in other accounts receivable	336	(992)
(Decrease) increase in accounts payables	765	(1,668)
Increase (decrease) in other liabilities	(2,809)	(40)
Subtotal	8,831	9,859
Interest and dividends received	52	52
Interest paid	(37)	(24)
Income taxes paid	(2,821)	(3,446)
Net cash provided by operating activities	6,024	6,441

	Six months ended October 31, 2019 (May 1, 2019 to October 31, 2019)	Six months ended October 31, 2020 (May 1, 2020 to October 31, 2020)
Cash flows from investing activities		
Payments for purchases of property, plant and equipment	(2,786)	(1,785)
Proceeds from sales of property, plant and equipment	388	573
Payments for purchases of investment securities	(300)	(39)
Proceeds from sales of investment securities	29	67
Purchases of subsidiaries' shares resulting in obtaining controls	(148)	(257)
Payments for loans receivable	(29)	(10)
Proceeds from collections of loans receivable	826	662
Payments for investments in capital	-	(0)
Proceeds from returns of investments in capital	0	0
Payments for purchases of intangible fixed assets	(661)	(1,189)
Proceeds from sales of intangible assets	125	4
Payments of leasehold and guarantee deposits	(713)	(930)
Proceeds from refund of leasehold and guarantee deposits	339	609
Increase in other investments	(1,641)	(1,525)
Proceeds from withdrawal of time deposits	314	100
Payments for time deposits	(101)	(5)
Other, net	(4)	(34)
Net cash used in investing activities	(4,361)	(3,759)
Cash flows from financing activities		
Net repayments from short-term debts	(3)	(3)
Proceeds from long-term debts	-	11,625
Repayments of long-term debts	(2,950)	(3,841)
Repayments of lease obligations	(197)	(128)
Payments for purchase of treasury stock	-	(0)
Cash dividends paid	(1,948)	(1,948)
Net cash provided by (used in) financing activities	(5,100)	5,702
Net increase (decrease) in cash and cash equivalents	(3,436)	8,385
Cash and cash equivalents at beginning of the period	47,495	45,931
Cash and cash equivalents at end of the period	44,059	54,316

(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)

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 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, 2019 (May 1, 2019 to October 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	130,499	13,099	2,251	145,851	-	145,851
(2) Intersegment sales	-	-	57	57	(57)	-
Total sales	130,499	13,099	2,309	145,908	(57)	145,851
Segment income (loss)	10,185	442	(133)	10,494	(1,731)	8,762

Notes: 1. The adjustment of ¥(1,731) million to segment income (loss) includes ¥2,693 million in corporate expenses, ¥(1,011) million in income that are not allocated to reportable segments, and ¥49 million in eliminations due to intersegment transactions.

Corporate expenses consist mainly of expenses associated with the administrative divisions and the system logistics division of the parent company.

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 Six months ended October 31, 2020 (May 1, 2020 to October 31, 2020)

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	128,029	9,388	7,934	145,352	-	145,352
(2) Intersegment sales	-	-	52	52	(52)	-
Total sales	128,029	9,388	7,987	145,405	(52)	145,352
Segment income (loss)	8,370	(1,014)	(435)	6,920	(2,403)	4,517

Notes: 1. The adjustment of ¥(2,403) million to segment income (loss) includes ¥2,944 million in corporate expenses, ¥(586) million in income that are not allocated to reportable segments, and ¥45 million in eliminations due to intersegment transactions.

Corporate expenses consist mainly of expenses associated with the administrative divisions and the system logistics division of the parent company.

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.