AIN HOLDINGS

Summary of Financial Statements for the Third Quarter of Fiscal Year Ending April 2017 [Japan GAAP] (Consolidated)

March 2, 2017

Name of listed company: **AIN HOLDINGS INC.**
Exchange listed on: First Section of Tokyo Stock Exchange and Sapporo Securities Exchange
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Date of filing quarterly securities report: March 17, 2017
Start of dividend payment: –
Supplementary documents for quarterly results: Yes
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, 2017 (May 1, 2016 to January 31, 2017)

(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	%
Nine months ended January 31, 2017	182,100	7.5	9,591	(4.1)	10,019	(2.9)	5,438	(1.7)
Nine months ended January 31, 2016	169,395	24.2	10,004	33.2	10,315	31.8	5,531	23.7

(Note) Comprehensive income: Nine months ended January 31, 2017: ¥5,576 million (+3.1%)
Nine months ended January 31, 2016: ¥5,408 million (+17.1%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended January 31, 2017	171.53	–
Nine months ended January 31, 2016	174.44	–

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of January 31, 2017	154,224	57,632	37.3	1,816.01
As of April 30, 2016	139,888	53,324	38.1	1,679.69

(Reference) Shareholders' equity: As of January 31, 2017: ¥57,581 million As of April 30, 2016: ¥53,258 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, 2016	–	0.00	–	40.00	40.00
Year ending April 30, 2017	–	0.00	–		
Year ending April 30, 2017 (forecast)				50.00	50.00

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

3. Consolidated financial forecasts for the fiscal year ending April 30, 2017 (May 1, 2016 to April 30, 2017)

(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	250,000	6.5	14,800	1.2	15,300	0.9	8,300	4.8	261.77

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

For more details about revisions to the consolidated financial forecasts, please refer to the announcement released today (March 2, 2017), "Notice on the Revision of Consolidated Business Performance Forecast."

*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, 2017	31,888,212 shares	As of April 30, 2016	31,888,212 shares
2) Number of shares held in treasury:	As of January 31, 2017	180,644 shares	As of April 30, 2016	180,595 shares
3) Average number of shares outstanding:	Nine months ended January 31, 2017	31,707,568 shares	Nine months ended January 31, 2016	31,707,617 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 consolidated 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.

Contents of the Attachment

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, 2016 to January 31, 2017), some areas of the Japanese economy were slow to improve, but consumer spending picked up and the economy continued to recover at a moderate pace overall. Corporate earnings remained at a high level but lost momentum.

In this economic environment, the AIN HOLDINGS Group (the Group) worked to expand its business and increase earnings. Specifically, the Group opened new dispensing pharmacies and used M&A to expand the business. It also developed its urban drug and cosmetic store business.

In the first nine months of the fiscal year, net sales rose 7.5% year on year to ¥182,100 million, operating income decreased 4.1% to ¥9,591 million, ordinary income decreased 2.9% to ¥10,019million, and profit attributable to owners of parent decreased 1.7% to ¥5,438 million.

Financial results by business segment are as follows.

(Dispensing pharmacy business)

In drug price and dispensing fee revisions in April 2016, the role of pharmacies located near hospitals was reevaluated, but in order to realize patient-focused non-hospital dispensing services, pharmacists and dispensing pharmacies are now being required to play a key role at the heart of local communities.

To ensure our pharmacists and dispensing pharmacies fulfill their role at the heart of local communities, the Group continues to build links with local healthcare service providers, mainly in the area of home-based dispensing, step up the integration and continuous management of drug information using patient medication notebooks and other means, and promote wider use of generic drugs.

In business development, the Group continued to push ahead with business expansion by opening new dispensing pharmacies and through M&A deals.

In December 2016, AOI Pharmacy Corporation (Sendai-shi, Miyagi Prefecture), which operates a total of 115 dispensing pharmacies across Japan, became a subsidiary of the Group. As a result, the Group now operates a network of more than 1,000 dispensing pharmacies in Japan’s 47 prefectures. The Group intends to use the acquisition of the company to further strengthen its network of dispensing pharmacies to support local healthcare provision.

As a result, for the first nine months of the fiscal year, the dispensing pharmacy business reported higher sales but lower profit with sales rising 7.1% year on year to ¥162,599 million and segment income decreasing 2.3% to ¥13,029 million.

During the period under review, the Group opened 202 new dispensing pharmacies, including those acquired through M&A deals, and closed 14 pharmacies, resulting in a total of 1,069.

(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.

Against this backdrop, the Group continued to open *ainz & tulpe* urban drug stores and worked to make stores more appealing by refurbishing existing stores and strengthening merchandise lineups, particularly drug and cosmetics products. We also actively developed proprietary merchandise brands such as *LIPS and HIPS* and *cocodecica*, leading to an increase in profit margins.

As a result, for the first nine months of the fiscal year, the drug and cosmetic store business reported an increase in sales of 2.0% year on year to ¥15,907 million. However, segment loss was ¥578 million, compared with segment loss of ¥336 million in the same period a year earlier.

In the same period, the Group opened *ainz & tulpe* Colette Mare SAKURAGICHO-B1 (Naka Ward, Yokohama), *ainz & tulpe* GINZA NAMIKIDORI (Chuo Ward, Tokyo), *ainz & tulpe* KITASENJU MARUI (Adachi Ward, Tokyo), and *ainz & tulpe* Colette Mare SAKURAGICHO (Naka Ward, Yokohama), as well as *LIPS and HIPS* Style Store SHINSAPPORO Sunpiazza (Atsubetsu Ward, Sapporo), which mainly sells proprietary brands. Five stores were also closed, resulting in a total of 52 cosmetic and drugs stores at the end of the third quarter.

(Other businesses)

Net sales from other businesses rose 88.1% year on year to ¥3,593 million and segment loss was ¥1,114 million compared with the loss of ¥786 million a year earlier.

(2) Consolidated financial position

The balance of total assets at the end of the third quarter increased by ¥14,336 million from the end of the previous fiscal year to ¥154,224 million.

This mainly reflected an increase in goodwill and inventories due to business expansion through new store openings and M&A, against a decrease in notes and accounts receivable.

The balance of liabilities increased ¥10,028 million to ¥96,591 million.

The balance of short- term and long-term debts increased by ¥11,019 million to ¥31,563 million.

Total net assets increased by ¥4,307 million to ¥57,632 million and the shareholders' equity ratio decreased 0.8 percentage points to 37.3%.

(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, 2017, announced on May 27, 2016. For more details, please refer to the announcement released today (March 2, 2017), "Notice on the Revision of Consolidated Business Performance Forecast."

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 income before income 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.

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

There are no applicable matters to be reported.

(4) Additional information

(Adoption of the Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective from the first quarter of the current fiscal year, the Company has applied the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016).

3. Quarterly consolidated financial statements
(1) Quarterly consolidated balance sheet

(Thousand yen)

	Fiscal year ended April 30, 2016 (As of April 30, 2016)	Nine months ended January 31, 2017 (As of January 31, 2017)
Assets		
Current assets		
Cash on hand and in banks	22,647,300	26,292,014
Notes and accounts receivable	12,385,821	9,178,960
Merchandise	10,661,177	12,966,081
Supplies	323,473	326,863
Deferred tax assets	1,149,432	1,082,208
Short-term loans	639,457	790,885
Other accounts receivable	5,983,629	8,191,131
Other current assets	2,806,438	2,334,464
Allowance for doubtful accounts	(3,337)	(6,544)
Total current assets	56,593,392	61,156,064
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	14,694,738	15,515,227
Land	9,537,493	10,021,126
Other property, plant and equipment, net	3,921,089	3,371,860
Total property, plant and equipment	28,153,320	28,908,215
Intangible fixed assets		
Goodwill	33,337,372	41,714,203
Other intangible fixed assets	2,248,861	2,290,640
Total intangible fixed assets	35,586,233	44,004,844
Investments and other assets		
Investments in securities	2,677,643	2,725,418
Deferred tax assets	2,038,851	2,206,644
Deposits and guarantees	10,013,440	10,515,551
Other investments and other assets	6,062,530	5,486,136
Allowance for doubtful accounts	(1,237,174)	(778,525)
Total investments and other assets	19,555,292	20,155,225
Total fixed assets	83,294,846	93,068,284
Total assets	139,888,239	154,224,349

(Thousand yen)

	Fiscal year ended April 30, 2016 (As of April 30, 2016)	Nine months ended January 31, 2017 (As of January 31, 2017)
Liabilities		
Current liabilities		
Accounts payable	39,987,595	41,032,529
Short-term debt	5,690,001	9,313,789
Accrued income taxes	4,448,862	1,180,917
Deposits received	10,112,896	11,942,074
Allowance for bonuses to employees	1,633,520	810,150
Allowance for bonuses to directors	13,590	6,378
Reserve for reward obligations	390,200	400,324
Provision for sales returns	15,815	15,980
Other current liabilities	4,452,428	4,555,446
Total current liabilities	66,744,908	69,257,591
Long-term liabilities		
Long-term debt	14,854,307	22,249,847
Net defined benefit liability	2,228,446	2,409,019
Other long-term liabilities	2,735,964	2,675,499
Total long-term liabilities	19,818,717	27,334,366
Total liabilities	86,563,626	96,591,958
Net assets		
Shareholders' equity		
Common stock	8,682,976	8,682,976
Capital surplus	6,367,844	6,367,844
Retained earnings	38,605,783	42,776,278
Treasury stock	(419,311)	(419,598)
Total shareholders' equity	53,237,293	57,407,502
Accumulated other comprehensive income (loss)		
Unrealized holding gains (losses) on securities	(63,296)	113,245
Remeasurements of defined benefit plans	84,867	60,354
Total accumulated other comprehensive income	21,570	173,600
Non-controlling interests	65,748	51,288
Total net assets	53,324,613	57,632,391
Total liabilities and net assets	139,888,239	154,224,349

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

(Thousand yen)

	Nine months ended January 31, 2016 (May 1, 2015 to January 31, 2016)	Nine months ended January 31, 2017 (May 1, 2016 to January 31, 2017)
Net sales	169,395,846	182,100,350
Cost of sales	142,049,330	152,007,928
Gross profit	27,346,515	30,092,422
Selling, general and administrative expenses	17,341,735	20,501,181
Operating income	10,004,780	9,591,241
Non-operating income		
Interest income	42,977	72,183
Dividend income	33,477	38,666
Commissions received	49,455	31,128
Real estate rental revenue	132,803	155,914
Fiduciary obligation fee	143,655	111,486
Other non-operating income	420,964	293,484
Total non-operating income	823,333	702,864
Non-operating expenses		
Interest expenses	71,594	120,313
Losses on sales of accounts receivables	60,594	48,973
Real estate rental expenses	65,628	63,387
Provision of allowance for doubtful accounts	282,600	-
Other non-operating expenses	31,707	41,810
Total non-operating expenses	512,125	274,485
Ordinary income	10,315,987	10,019,621
Extraordinary income		
Gains on sales of investments in securities	-	152,400
Gains on sales of fixed assets	23,681	10,717
Penalty income	68,196	-
Insurance income	13,122	70,379
Other extraordinary income	2,772	65,349
Total extraordinary income	107,773	298,847
Extraordinary losses		
Losses on disposal and sales of fixed assets	242,529	289,660
Impairment losses on investments in securities	96,273	72,827
Restructuring loss	98,637	-
Other extraordinary losses	11,448	59,121
Total extraordinary losses	448,889	421,610
Income before income taxes	9,974,871	9,896,858
Income taxes	4,427,691	4,472,517
Profit	5,547,180	5,424,340
Profit attributable to non-controlling interests	16,011	(14,460)
Profit attributable to owners of parent	5,531,168	5,438,800

Quarterly consolidated statements of comprehensive income

(Thousand yen)

	Nine months ended January 31, 2016 (May 1, 2015 to January 31, 2016)	Nine months ended January 31, 2017 (May 1, 2016 to January 31, 2017)
Profit	5,547,180	5,424,340
Other comprehensive income		
Unrealized holding gains (losses) on securities	(161,265)	176,542
Remearurements of defined benefit plans, net of tax	22,514	(24,513)
Total other comprehensive income (loss)	(138,751)	152,029
Comprehensive income	5,408,429	5,576,369
Comprehensive income attributable to owners of parent	5,392,417	5,590,829
Comprehensive income (loss) attributable to non-controlling interests	16,011	(14,460)

(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, 2016 (May 1, 2015 to January 31, 2016)

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	151,884,602	15,601,084	1,910,159	169,395,846	-	169,395,846
(2) Intersegment sales	-	-	242,067	242,067	(242,067)	-
Total sales	151,884,602	15,601,084	2,152,227	169,637,913	(242,067)	169,395,846
Segment income (loss)	13,341,126	(336,964)	(786,910)	12,217,251	(1,901,263)	10,315,987

Notes: 1. The adjustment of ¥(1,901,263) thousand to segment income (loss) includes ¥1,958,290 thousand in corporate expenses, ¥7,299 thousand in (income) losses that are not allocated to reportable segments, and ¥(64,327) 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]:

In the dispensing pharmacy business segment, the Company acquired 13 dispensing pharmacy companies and two other companies. During the first nine months of the fiscal year, the increase in goodwill related to these companies was ¥6,671,010 thousand.

II Nine months ended January 31, 2017 (May 1, 2016 to January 31, 2017)

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	162,599,949	15,907,287	3,593,114	182,100,350	-	182,100,350
(2) Intersegment sales	-	-	282,915	282,915	(282,915)	-
Total sales	162,599,949	15,907,287	3,876,029	182,383,266	(282,915)	182,100,350
Segment income (loss)	13,029,406	(578,991)	(1,114,301)	11,336,112	(1,316,491)	10,019,621

Notes: 1. The adjustment of ¥(1,316,491) thousand to segment income (loss) includes ¥2,506,952 thousand in corporate expenses, ¥(1,172,991) thousand in (income) losses that are not allocated to reportable segments, and ¥(17,470) 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]:

In the dispensing pharmacy business segment, the Company acquired 38 dispensing pharmacy companies. During the first nine months of the fiscal year, the increase in goodwill related to these companies was ¥10,629,661 thousand.