AIN HOLDINGS

Summary of Financial Statements for the Third Quarter of Fiscal Year Ending April 2018 [Japan GAAP] (Consolidated)

March 2, 2018

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 19, 2018
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, 2018 (May 1, 2017 to January 31, 2018)

(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, 2018	200,043	9.9	14,310	49.2	14,760	47.3	7,931	45.8
Nine months ended January 31, 2017	182,100	7.5	9,591	(4.1)	10,019	(2.9)	5,438	(1.7)

(Note) Comprehensive income: Nine months ended January 31, 2018: ¥7,901 million (+41.7%)
Nine months ended January 31, 2017: ¥5,576 million (+3.1%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended January 31, 2018	235.74	–
Nine months ended January 31, 2017	171.53	–

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of January 31, 2018	182,243	94,257	51.7	2,659.05
As of April 30, 2017	156,323	60,178	38.4	1,895.63

(Reference) Shareholders' equity: As of January 31, 2018: ¥94,203 million As of April 30, 2017: ¥60,105 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, 2017	–	0.00	–	50.00	50.00
Year ending April 30, 2018	–	0.00	–		
Year ending April 30, 2018 (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, 2018 (May 1, 2017 to April 30, 2018)

(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	267,500	7.8	18,000	23.6	18,500	22.7	9,200	15.7	269.96

(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. Quarterly consolidated financial statements and major notes (3) Notes on quarterly consolidated financial statements" on page 8 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, 2018	35,428,212 shares	As of April 30, 2017	31,888,212 shares
2) Number of shares held in treasury:	As of January 31, 2018	688 shares	As of April 30, 2017	180,644 shares
3) Average number of shares outstanding:	Nine months ended January 31, 2018	33,644,821 shares	Nine months ended January 31, 2017	31,707,568 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

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, 2017 to January 31, 2018), the Japanese economy improved at a moderate pace amid signs of a pickup in consumer spending and improving corporate earnings and employment conditions.

In this economic environment, the AIN HOLDINGS Group (the Group) worked to expand its business and increase earnings, opening new dispensing pharmacies and using M&A to grow its operations and developing its urban drug and cosmetic store business.

In the first nine months of the fiscal year, net sales rose 9.9% year on year to ¥200,043 million, operating income increased 49.2% to ¥14,310 million, ordinary income increased 47.3% to ¥14,760 million, and profit attributable to owners of parent increased 45.8% to ¥7,931 million.

Financial results by business segment are as follows.

(Dispensing pharmacy business)

In drug price and dispensing fee revisions in April 2018, we expect the role of pharmacies located near hospitals and pharmacies located in the same premises to be reviewed, but primary care dispensing pharmacies and pharmacists are likely to receive a higher evaluation as part of government efforts to drive a structural shift from dispensing focused only on dispensing drugs to dispensing focused on services that contribute to local healthcare services.

To ensure our pharmacists and dispensing pharmacies fulfill their primary care role, the Group will continue to build links with local medical service providers, strengthen pharmaceutical management and guidance based on the integrated 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.

As a result, for the first nine months of the fiscal year, the dispensing pharmacy business reported sales and profit growth with sales rising 9.6% year on year to ¥178,136 million and segment income increasing 22.9% to ¥16,013 million.

During the period under review, the Group opened 25 new dispensing pharmacies, including those acquired through M&A deals, and closed 50 pharmacies, resulting in a total of 1,041.

(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 in Tokyo metropolitan area and worked to make stores more appealing by refurbishing existing stores and strengthening merchandise lineups, particularly drug and cosmetics products. Earnings also improved, supported by lower costs due to greater business efficiency and by an increase in the gross margin due to active efforts to develop *LIPS and HIPS*, *cocodecica* and other proprietary brands and an overhaul of procurement activities.

As a result, for the first nine months of the fiscal year, the drug and cosmetic store business reported an increase in sales of 11.8% year on year to ¥17,779 million. And segment income was ¥425 million, compared with segment loss of ¥578 million in the same period a year earlier.

In the same period, the Group opened the *ainz & tulpe* Odakyu Department Store Machida (Machida City, Tokyo) and *ainz & tulpe* MARUI KICHIJOJI (Musashino City, Tokyo) and closed six stores, resulting in a total of 48 drug and cosmetic stores at the end of the third quarter.

(Other businesses)

Net sales from other businesses rose 14.9% year on year to ¥4,127 million and segment loss was ¥326 million compared with the loss of ¥1,114 million a year earlier.

(2) Consolidated financial position

The balance of total assets at the end of the third quarter increased by ¥25,920 million from the end of the previous fiscal year to ¥182,243 million. That mainly reflected an increase in cash and deposits from the public offering and private placements.

The balance of liabilities decreased ¥8,158 million to ¥87,985 million.

The balance of short- term and long-term debts decreased by ¥4,632 million to ¥21,219 million.

Total net assets increased by ¥34,078 million to ¥94,257 million and the shareholders' equity ratio increased 13.3 percentage points to 51.7%.

(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 on December 5, 2017.

2. Quarterly consolidated financial statements and major notes

(1) Quarterly consolidated balance sheet

(Thousand yen)

	Fiscal year ended April 30, 2017 (As of April 30, 2017)	Nine months ended January 31, 2018 (As of January 31, 2018)
Assets		
Current assets		
Cash on hand and in banks	29,775,207	60,572,671
Notes and accounts receivable	9,990,401	10,269,375
Merchandise	11,402,078	12,247,301
Supplies	266,095	235,076
Deferred tax assets	1,166,620	1,393,727
Short-term loans	632,826	652,470
Other accounts receivable	9,402,024	6,735,674
Other current assets	2,829,934	2,263,831
Allowance for doubtful accounts	(44,443)	-
Total current assets	65,420,745	94,370,130
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	15,365,264	15,228,714
Land	9,958,446	10,150,528
Other property, plant and equipment, net	3,140,296	2,873,812
Total property, plant and equipment	28,464,007	28,253,056
Intangible fixed assets		
Goodwill	40,939,448	38,476,795
Other intangible fixed assets	2,170,041	2,012,628
Total intangible fixed assets	43,109,490	40,489,424
Investments and other assets		
Investments in securities	2,435,333	2,389,816
Deferred tax assets	2,167,711	2,041,250
Deposits and guarantees	10,443,221	10,740,294
Other investments and other assets	4,595,122	4,183,602
Allowance for doubtful accounts	(312,044)	(338,097)
Total investments and other assets	19,329,345	19,016,866
Total fixed assets	90,902,843	87,759,346
Deferred assets	-	114,358
Total assets	156,323,588	182,243,834

(Thousand yen)

	Fiscal year ended April 30, 2017 (As of April 30, 2017)	Nine months ended January 31, 2018 (As of January 31, 2018)
Liabilities		
Current liabilities		
Accounts payable	39,325,588	41,351,106
Short-term debt	7,596,939	8,207,070
Accrued income taxes	2,898,695	3,249,999
Deposits received	14,223,768	12,175,652
Allowance for bonuses to employees	1,903,976	877,132
Allowance for bonuses to directors	16,090	6,633
Reserve for reward obligations	410,502	431,097
Provision for sales returns	14,165	10,195
Other current liabilities	6,566,001	3,849,488
Total current liabilities	72,955,729	70,158,376
Long-term liabilities		
Long-term debt	18,254,657	13,012,350
Net defined benefit liability	2,331,956	2,437,816
Other long-term liabilities	2,602,261	2,377,336
Total long-term liabilities	23,188,874	17,827,502
Total liabilities	96,144,603	87,985,878
Net assets		
Shareholders' equity		
Common stock	8,682,976	21,894,976
Capital surplus	6,367,844	20,500,942
Retained earnings	45,286,878	51,632,818
Treasury stock	(419,598)	(1,869)
Total shareholders' equity	59,918,101	94,026,868
Accumulated other comprehensive income		
Unrealized holding gains on securities	86,407	108,706
Remeasurements of defined benefit plans	101,414	67,914
Total accumulated other comprehensive income	187,821	176,620
Non-controlling interests	73,061	54,466
Total net assets	60,178,984	94,257,955
Total liabilities and net assets	156,323,588	182,243,834

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statements of income

(Thousand yen)

	Nine months ended January 31, 2017 (May 1, 2016 to January 31, 2017)	Nine months ended January 31, 2018 (May 1, 2017 to January 31, 2018)
Net sales	182,100,350	200,043,578
Cost of sales	152,007,928	164,849,844
Gross profit	30,092,422	35,193,734
Selling, general and administrative expenses	20,501,181	20,883,697
Operating income	9,591,241	14,310,036
Non-operating income		
Interest income	72,183	49,684
Dividend income	38,666	34,898
Commissions received	31,128	51,318
Real estate rental revenue	155,914	162,521
Fiduciary obligation fee	111,486	154,585
Other non-operating income	293,484	266,590
Total non-operating income	702,864	719,600
Non-operating expenses		
Interest expenses	120,313	91,481
Losses on sales of accounts receivables	48,973	52,518
Real estate rental expenses	63,387	73,099
Other non-operating expenses	41,810	52,389
Total non-operating expenses	274,485	269,489
Ordinary income	10,019,621	14,760,147
Extraordinary income		
Gains on sales of investments in securities	152,400	8,773
Gains on sales of fixed assets	10,717	28,041
Insurance income	70,379	31,710
Other extraordinary income	65,349	53,114
Total extraordinary income	298,847	121,639
Extraordinary losses		
Losses on disposal and sales of fixed assets	289,660	442,383
Impairment losses on investments in securities	72,827	177,044
Other extraordinary losses	59,121	259,182
Total extraordinary losses	421,610	878,610
Income before income taxes	9,896,858	14,003,176
Income taxes	4,472,517	6,090,453
Profit	5,424,340	7,912,723
Profit attributable to non-controlling interests	(14,460)	(18,595)
Profit attributable to owners of parent	5,438,800	7,931,318

Quarterly consolidated statements of comprehensive income

(Thousand yen)

	Nine months ended January 31, 2017 (May 1, 2016 to January 31, 2017)	Nine months ended January 31, 2018 (May 1, 2017 to January 31, 2018)
Profit	5,424,340	7,912,723
Other comprehensive income		
Unrealized holding gains on securities	176,542	22,298
Remearurements of defined benefit plans, net of tax	(24,513)	(33,499)
Total other comprehensive income (loss)	152,029	(11,200)
Comprehensive income	5,576,369	7,901,522
Comprehensive income attributable to owners of parent	5,590,829	7,920,118
Comprehensive loss attributable to non-controlling interests	(14,460)	(18,595)

(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)

The Company issued new shares through a public offering, disposed treasury stock through a public offering and issued new shares through a private placement, all with a payment date of September 6, 2017. The Company also issued new shares through a private placement for a secondary offering using an over-allotment option with a payment date of October 3, 2017. As a result, during the first nine months of the fiscal year, capital increased ¥13,212,000 thousand, capital reserves increased ¥14,133,097 thousand and treasury stock declined ¥418,102 thousand, resulting in capital of ¥21,894,976 thousand and capital reserves of ¥20,500,942 thousand as of the end of the third quarter.

(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 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.

II Nine months ended January 31, 2018 (May 1, 2017 to January 31, 2018)

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	178,136,270	17,779,688	4,127,620	200,043,578	-	200,043,578
(2) Intersegment sales	-	-	231,875	231,875	(231,875)	-
Total sales	178,136,270	17,779,688	4,359,495	200,275,454	(231,875)	200,043,578
Segment income (loss)	16,013,564	425,194	(326,271)	16,112,487	(1,352,340)	14,760,147

Notes: 1. The adjustment of ¥(1,352,340) thousand to segment income (loss) includes ¥2,670,465 thousand in corporate expenses, ¥(1,294,461) thousand in (income) losses that are not allocated to reportable segments, and ¥(23,663) 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 4 dispensing pharmacy companies. During the first nine months of the fiscal year, the increase in goodwill related to these companies was ¥569,252 thousand.