AIN HOLDINGS

Summary of Financial Statements for the First Quarter of Fiscal Year Ending April 2019

[Japan GAAP] (Consolidated)

August 30, 2018

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		
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Date of filing quarterly securities report:	September 14, 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 first quarter of fiscal year ending April 30, 2019 (May 1, 2018 to July 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	%
Three months ended July 31, 2018	65,013	(1.6)	3,450	(12.9)	3,610	(12.7)	1,851	(12.7)
Three months ended July 31, 2017	66,095	14.3	3,963	73.7	4,135	74.0	2,120	54.6

(Note) Comprehensive income: Three months ended July 31, 2018: ¥1,854 million (-12.7%)
Three months ended July 31, 2017: ¥2,123 million (+53.4%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended July 31, 2018	52.27	–
Three months ended July 31, 2017	66.88	–

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of July 31, 2018	182,663	96,816	53.0	2,731.97
As of April 30, 2018	183,380	96,733	52.7	2,729.44

(Reference) Shareholders' equity: As of July 31, 2018: ¥96,786 million As of April 30, 2018: ¥96,697 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, 2018	–	0.00	–	50.00	50.00
Year ending April 30, 2019	–				
Year ending April 30, 2019 (forecast)		0.00	–	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, 2019 (May 1, 2018 to April 30, 2019)

(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
First six months	132,350	0.0	7,040	(15.9)	7,290	(15.9)	3,740	(15.4)	105.57
Full year	272,870	1.7	17,500	(10.8)	18,000	(10.6)	9,260	(12.4)	261.38

(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 July 31, 2018	35,428,212 shares	As of April 30, 2018	35,428,212 shares
2) Number of shares held in treasury:	As of July 31, 2018	688 shares	As of April 30, 2018	688 shares
3) Average number of shares outstanding:	Three months ended July 31, 2018	35,427,524 shares	Three months ended July 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

(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.

(Method of obtaining supplementary materials for the quarterly financial statements)

Supplementary materials for the quarterly financial statements are disclosed on the Company’s website appropriately as the financial statements.

(Change in monetary unit)

Amounts for items listed in the quarterly consolidated financial statements and for other items in the statements have been shown using thousand yen units. However, effective from the first quarter and the cumulative first quarter of the fiscal year under review, thousand yen units have been replaced with million yen units.

Contents of the Attachment

1. Qualitative information on consolidated results for the period under review

(1) Consolidated operating results

During the first three months of the current fiscal year (May 1, 2018 to July 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. Specifically, the Group opened new dispensing pharmacies and used M&A to expand the business. It also developed its cosmetic and drug store business.

In the first three months of the fiscal year, net sales decreased 1.6% year on year to ¥65,013 million, operating income declined 12.9% to ¥3,450 million, ordinary income dropped 12.7% to ¥3,610 million, and profit attributable to owners of parent decreased 12.7% to ¥1,851 million.

Financial results by business segment are as follows.

(Dispensing pharmacy business)

In drug price and dispensing fee revisions in April 2018, the role of pharmacies located near hospitals and pharmacies located in the same premises was reviewed, with primary care dispensing pharmacies and pharmacists receiving 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 continues 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 addition, we stepped up training for the 279 newly graduated pharmacists that joined the Group in April 2018 in order to enhance their skills as primary care pharmacists.

In June 2018, the Group was registered as Japan's first provider of remote drug guidance services in Aichi Prefecture's National Strategic Special Zone and started providing guidance online. This service allows patients who do not live close to a dispensing pharmacy or have difficulty visiting their local pharmacy for various reasons to receive guidance for drug usage via videophone or other methods, enabling fully integrated home-based healthcare, from medical examinations and guidance for drug usage to receipt of medicines. The Group intends to use this service to further increase convenience for patients and improve the quality of healthcare provision.

In business development, the Group pushed ahead with business expansion by opening new dispensing pharmacies and using M&A deals. Store operations are also being overhauled.

As a result, for the first three months of the fiscal year, the dispensing pharmacy business reported lower sales and profits, with sales decreasing 3.1% year on year to ¥57,090 million and segment income dropping 17.4% to ¥3,984 million.

During the period under review, the Group opened 5 new dispensing pharmacies, including those acquired through M&A deals, and closed 10 pharmacies, resulting in a total of 1,024.

(Cosmetic and drug store business)

In the cosmetic and drug 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* cosmetic and drug stores in the Tokyo metropolitan area and worked to make stores more appealing by refurbishing existing stores and strengthening merchandise lineups, particularly cosmetic and drug products. Stores opened in the previous fiscal year made a significant contribution to sales, while sales from existing stores also increased year on year. 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 three months of the fiscal year, the cosmetic and store business reported an increase in sales of 11.6% year on year to ¥6,505 million and a rise in segment income of 866.1% to ¥364 million.

During the period under review, there were no store openings or closures, resulting in a total of 48 cosmetic and drug stores at the end of the period.

(Other businesses)

Net sales from other businesses rose 5.9% year on year to ¥1,417 million and segment loss was ¥67 million compared with the loss of ¥238 million a year earlier.

(2) Consolidated financial position

The balance of total assets at the end of the first quarter decreased by ¥717 million from the end of the previous fiscal year to ¥182,663 million.

That mainly reflected an increase in inventories against decreases in cash on hand and in banks and goodwill.

The balance of liabilities decreased ¥800 million to ¥85,846 million, mainly reflecting an increase in accounts payable and decreases in accrued income taxes and the balance of long-term debt.

The balance of short- and long-term debts decreased by ¥689 million to ¥17,538 million.

Total net assets increased by ¥83 million to ¥96,816 million and the shareholders' equity ratio improved 0.3 percentage points to 53.0%.

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

The Group has made no change to its earnings forecasts for the first six months of the fiscal year and for the full fiscal year, announced on June 5, 2018.

2. Quarterly consolidated financial statements and major notes

(1) Quarterly consolidated balance sheet

(Million yen)

	Fiscal year ended April 30, 2018 (As of April 30, 2018)	Three months ended July 31, 2018 (As of July 31, 2018)
Assets		
Current assets		
Cash on hand and in banks	63,779	61,725
Notes and accounts receivable	10,466	11,511
Merchandise	9,372	11,014
Supplies	208	213
Short-term loans	641	664
Other accounts receivable	7,751	7,899
Other current assets	2,470	1,657
Allowance for doubtful accounts	(131)	—
Total current assets	94,557	94,685
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	14,934	14,773
Land	10,041	10,197
Other property, plant and equipment, net	2,878	2,912
Total property, plant and equipment	27,853	27,884
Intangible fixed assets		
Goodwill	38,011	37,266
Other intangible fixed assets	2,121	2,018
Total intangible fixed assets	40,132	39,285
Investments and other assets		
Investment securities	2,375	2,320
Deferred tax assets	3,772	3,819
Deposits and guarantees	11,339	11,414
Other investments and other assets	3,785	3,515
Allowance for doubtful accounts	(540)	(354)
Total investments and other assets	20,732	20,715
Total fixed assets	88,718	87,885
Deferred assets	103	92
Total assets	183,380	182,663

(Million yen)

	Fiscal year ended April 30, 2018 (As of April 30, 2018)	Three months ended July 31, 2018 (As of July 31, 2018)
Liabilities		
Current liabilities		
Accounts payable	38,728	41,646
Short-term debt	6,717	7,486
Accrued income taxes	4,947	1,577
Deposits received	12,675	14,162
Allowance for bonuses to employees	1,911	1,663
Allowance for bonuses to directors	16	7
Reserve for reward obligations	420	431
Provision for sales returns	6	—
Other current liabilities	4,525	3,764
Total current liabilities	69,950	70,739
Long-term liabilities		
Long-term debt	11,511	10,052
Net defined benefit liability	2,625	2,693
Other long-term liabilities	2,560	2,361
Total long-term liabilities	16,696	15,106
Total liabilities	86,646	85,846
Net assets		
Shareholders’ equity		
Common stock	21,894	21,894
Capital surplus	20,500	20,500
Retained earnings	54,268	54,349
Treasury stock	(1)	(1)
Total shareholders’ equity	96,662	96,743
Accumulated other comprehensive income		
Unrealized holding gains on securities	84	95
Remeasurements of defined benefit plans	(50)	(51)
Total accumulated other comprehensive income	34	43
Non-controlling interests	36	29
Total net assets	96,733	96,816
Total liabilities and net assets	183,380	182,663

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

(Million yen)

	Three months ended July 31, 2017 (May 1, 2017 to July 31, 2017)	Three months ended July 31, 2018 (May 1, 2018 to July 31, 2018)
Net sales	66,095	65,013
Cost of sales	55,034	54,325
Gross profit	11,060	10,687
Selling, general and administrative expenses	7,096	7,236
Operating income	3,963	3,450
Non-operating income		
Interest income	16	13
Dividend income	19	23
Commissions received	20	9
Real estate rental revenue	59	48
Consignment income	46	42
Other non-operating income	102	110
Total non-operating income	265	248
Non-operating expenses		
Interest expenses	33	25
Losses on sales of accounts receivables	17	17
Real estate rental expenses	25	16
Other non-operating expenses	17	29
Total non-operating expenses	92	89
Ordinary income	4,135	3,610
Extraordinary income		
Gain on sales of fixed assets	1	3
Gain on transfer of business	5	83
Surrender value of insurance	17	—
Other extraordinary income	5	0
Total extraordinary income	31	87
Extraordinary losses		
Losses on disposal and sales of fixed assets	71	174
Directors' retirement benefits	70	—
Other extraordinary losses	41	80
Total extraordinary losses	183	254
Profit before income taxes	3,983	3,442
Income taxes	1,865	1,597
Profit	2,118	1,845
Losses attributable to non-controlling interests	(2)	(6)
Profit attributable to owners of parent	2,120	1,851

Quarterly consolidated statement of comprehensive income

(Million yen)

	Three months ended July 31, 2017 (May 1, 2017 to July 31, 2017)	Three months ended July 31, 2018 (May 1, 2018 to July 31, 2018)
Profit	2,118	1,845
Other comprehensive income:		
Unrealized holding gains on securities	16	10
Remeasurements of defined benefit plans, net of tax	(10)	(1)
Total other comprehensive income	5	9
Comprehensive income	2,123	1,854
Comprehensive income attributable to owners of parent	2,126	1,861
Comprehensive income attributable to non-controlling interests	(2)	(6)

(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.

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

To calculate tax expenses, the effective tax rate on income 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 income before income taxes for the quarterly period.

(Supplementary information)

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

Effective from the first quarter of the current fiscal year, the Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018). As a result, the Company now classifies deferred tax assets as investments and other assets, and deferred tax liabilities as non-current liabilities.

(Segment information, etc.)

I Three months ended July 31, 2017 (May 1, 2017 to July 31, 2017)

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 business	Total		
Sales						
(1) Sales to third parties	58,929	5,827	1,338	66,095	—	66,095
(2) Intersegment sales	—	—	84	84	(84)	—
Total sales	58,929	5,827	1,423	66,180	(84)	66,095
Segment income (loss)	4,821	37	(238)	4,620	(484)	4,135

Notes: 1. The adjustment of ¥(484) million to segment income (loss) includes ¥930 million in corporate expenses, ¥(440) million in (income) loss that is not allocated to reportable segments, and ¥(5) million in eliminations due to intersegment transactions.
Overall group 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]:
There are no applicable matters to be reported.

II Three months ended July 31, 2018 (May 1, 2018 to July 31, 2018)

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 business	Total		
Sales						
(1) Sales to third parties	57,090	6,505	1,417	65,013	—	65,013
(2) Intersegment sales	—	—	38	38	(38)	—
Total sales	57,090	6,505	1,456	65,051	(38)	65,013
Segment income (loss)	3,984	364	(67)	4,281	(671)	3,610

Notes: 1. The adjustment of ¥(671) million to segment income (loss) includes ¥1,109 million in corporate expenses, ¥(427) million in (income) loss that is not allocated to reportable segments, and ¥(10) million in eliminations due to intersegment transactions.
Overall group 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]:

There are no applicable matters to be reported.