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

[Japan GAAP] (Consolidated)

December 4, 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: December 17, 2018
Start of dividend payment: –
Supplementary documents for quarterly results: Yes
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, 2019 (May 1, 2018 to October 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	%
Six months ended October 31, 2018	131,781	(0.4)	6,731	(19.6)	7,018	(19.0)	3,639	(17.6)
Six months ended October 31, 2017	132,342	13.3	8,367	65.7	8,665	62.1	4,418	54.7

(Note) Comprehensive income: Six months ended October 31, 2018: ¥3,573 million (-19.2%)
Six months ended October 31, 2017: ¥4,422 million (+52.2%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended October 31, 2018	102.73	–
Six months ended October 31, 2017	134.91	–

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of October 31, 2018	184,564	98,535	53.4	2,780.64
As of April 30, 2018	183,380	96,733	52.7	2,729.44

(Reference) Shareholders' equity: As of October 31, 2018: ¥98,511 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	–	0.00			
Year ending April 30, 2019 (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, 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
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 (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, 2018	35,428,212 shares	As of April 30, 2018	35,428,212 shares
2) Number of shares held in treasury:	As of October 31, 2018	728 shares	As of April 30, 2018	688 shares
3) Average number of shares outstanding:	Six months ended October 31, 2018	35,427,511 shares	Six months ended October 31, 2017	32,753,470 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 six months of the current fiscal year (May 1, 2018 to October 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.

Some dispensing pharmacies were forced to close temporarily due to a series of typhoons and the Hokkaido Eastern Iburi Earthquake, but rapid recovery efforts minimized the damage and the impact on earnings was limited.

In the first six months of the fiscal year, net sales decreased 0.4% year on year to ¥131,781 million, operating income declined 19.6% to ¥6,731 million, ordinary income decreased19.0% to ¥7,018 million, and profit attributable to owners of parent dropped 17.6% to ¥3,639 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 business development, the Group continued to overhaul dispensing pharmacy operations and pushed ahead with business expansion by opening new dispensing pharmacies and using M&A deals. In September 2018, two companies became subsidiaries of the Group, KOM MEDICAL INC. (Sanjo, Niigata Prefecture), and ABC PHARMACY INC. (Nagaoka, Niigata Prefecture), which together operate a total of 56 dispensing pharmacies, mainly in Niigata Prefecture.

As a result, for the first six months of the fiscal year, the dispensing pharmacy business reported lower sales and profits, with sales decreasing 1.4% year on year to ¥116,376 million and segment income dropping 18.8% to ¥7,875 million.

During the period under review, the Group opened 78 new dispensing pharmacies, including those acquired through M&A deals, and closed 26 pharmacies, resulting in a total of 1,081.

(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 original brands and an overhaul of procurement activities.

As a result, for the first six months of the fiscal year, the cosmetic and drug store business reported an increase in sales of 8.5% year on year to ¥12,544 million. And segment income increased 238.3% to ¥552 million.

During the same period, the Group opened four *ainz & tulpe* stores: *ainz & tulpe* HIGASHI IKEBUKURO (Toshima Ward, Tokyo), *ainz & tulpe* olinas KINSHICHO (Sumida Ward, Tokyo), *ainz & tulpe* SHIBUYA KOEN DORI (Shibuya Ward, Tokyo) and *ainz & tulpe* SOKA VARIE (Soka, Saitama Prefecture), resulting in a total of 52 cosmetic and drug stores at the end of the second quarter.

(Other businesses)

Net sales from other businesses rose 2.7% year on year to ¥2,860 million and segment loss was ¥163 million compared with the loss of ¥330 million a year earlier.

(2) Consolidated financial position

The balance of total assets at the end of the second quarter increased by ¥1,184 million from the end of the previous fiscal year to ¥184,564 million. That mainly reflected new store openings and M&A, which led to increases in fixed assets such as inventories, land and buildings, as well as goodwill, outweighing a decline in cash on hand.

The balance of liabilities decreased ¥617 million to ¥86,028 million.

The balance of short- term and long-term debts decreased by ¥1,425 million to ¥16,803 million.

Total net assets increased by ¥1,802 million to ¥98,535 million and the shareholders' equity ratio increased 0.7 percentage points to 53.4%.

(Cash flows)

In the first six months of the fiscal year, cash and cash equivalents ("cash") decreased by ¥6,642 million from the previous fiscal year end to ¥56,590 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 ¥4,402 million, compared with ¥6,886 million provided in the same period a year earlier. The main cash inflows were profit before income taxes of ¥6,668 million, depreciation and amortization of ¥1,795 million and amortization of goodwill of ¥2,007 million. The main cash outflow was income taxes paid of ¥5,495 million.

Net cash used in investing activities amounted to ¥5,860 million, compared with ¥1,279 million used in the same period a year earlier. The main uses of cash were ¥1,923 million for purchases of property, plant and equipment and intangible fixed assets and ¥4,018 million for purchases of subsidiaries' shares resulting in obtaining controls.

Net cash used in financing activities totaled ¥5,183 million, compared with ¥21,769 million provided in the same period a year earlier. The main cash outflows were net repayment of ¥3,104 million from short-term and long-term debt repayment and proceeds and ¥1,771 million for cash dividends paid.

(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 ending April 30, 2019, 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)	Six months ended October 31, 2018 (As of October 31, 2018)
Assets		
Current assets		
Cash on hand and in banks	63,779	57,337
Notes and accounts receivable	10,466	10,835
Merchandise	9,372	11,882
Supplies	208	206
Short-term loans	641	743
Other accounts receivable	7,751	8,166
Other current assets	2,470	2,154
Allowance for doubtful accounts	(131)	(2)
Total current assets	94,557	91,323
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	14,934	15,732
Land	10,041	10,376
Other property, plant and equipment, net	2,878	3,230
Total property, plant and equipment	27,853	29,339
Intangible fixed assets		
Goodwill	38,011	40,993
Other intangible fixed assets	2,121	2,071
Total intangible fixed assets	40,132	43,064
Investments and other assets		
Investments in securities	2,375	2,254
Deferred tax assets	3,772	3,915
Deposits and guarantees	11,339	11,540
Other investments and other assets	3,785	4,946
Allowance for doubtful accounts	(540)	(1,901)
Total investments and other assets	20,732	20,755
Total fixed assets	88,718	93,159
Deferred assets	103	81
Total assets	183,380	184,564

(Million yen)

	Fiscal year ended April 30, 2018 (As of April 30, 2018)	Six months ended October 31, 2018 (As of October 31, 2018)
Liabilities		
Current liabilities		
Accounts payable	38,728	42,131
Short-term debt	6,717	8,143
Accrued income taxes	4,947	3,126
Deposits received	12,675	12,027
Allowance for bonuses to employees	1,911	2,295
Allowance for bonuses to directors	16	18
Reserve for reward obligations	420	439
Provision for sales returns	6	-
Other current liabilities	4,525	4,215
Total current liabilities	69,950	72,397
Long-term liabilities		
Long-term debt	11,511	8,660
Net defined benefit liability	2,625	2,721
Other long-term liabilities	2,560	2,249
Total long-term liabilities	16,696	13,631
Total liabilities	86,646	86,028
Net assets		
Shareholders’ equity		
Common stock	21,894	21,894
Capital surplus	20,500	20,500
Retained earnings	54,268	56,137
Treasury stock	(1)	(2)
Total shareholders’ equity	96,662	98,530
Accumulated other comprehensive income		
Unrealized holding gains on securities	84	30
Remeasurements of defined benefit plans	(50)	(50)
Total accumulated other comprehensive income	34	(19)
Non-controlling interests	36	24
Total net assets	96,733	98,535
Total liabilities and net assets	183,380	184,564

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statements of income

(Million yen)

	Six months ended October 31, 2017 (May 1, 2017 to October 31, 2017)	Six months ended October 31, 2018 (May 1, 2018 to October 31, 2018)
Net sales	132,342	131,781
Cost of sales	109,951	110,368
Gross profit	22,390	21,413
Selling, general and administrative expenses	14,022	14,681
Operating income	8,367	6,731
Non-operating income		
Interest income	34	31
Dividend income	21	24
Commissions received	34	19
Real estate rental revenue	111	92
Consignment income	96	80
Other non-operating income	180	254
Total non-operating income	477	501
Non-operating expenses		
Interest expenses	64	82
Losses on sales of accounts receivables	34	34
Real estate rental expenses	50	36
Other non-operating expenses	29	59
Total non-operating expenses	179	214
Ordinary income	8,665	7,018
Extraordinary income		
Gains on sales of investments in securities	5	2
Gains on sales of fixed assets	22	1
Gain on transfer of business	15	164
Insurance income	31	22
Other extraordinary income	22	0
Total extraordinary income	97	191
Extraordinary losses		
Losses on disposal and sales of fixed assets	301	230
Impairment losses on investments in securities	121	73
Loss on sales of shares of subsidiaries and associates	-	127
Other extraordinary losses	236	110
Total extraordinary losses	659	541
Profit before income taxes	8,104	6,668
Income taxes	3,694	3,041
Profit	4,409	3,627
Losses attributable to non-controlling interests	(9)	(11)
Profit attributable to owners of parent	4,418	3,639

Quarterly consolidated statements of comprehensive income

(Million yen)

	Six months ended October 31, 2017 (May 1, 2017 to October 31, 2017)	Six months ended October 31, 2018 (May 1, 2018 to October 31, 2018)
Profit	4,409	3,627
Other comprehensive income		
Unrealized holding gains (losses) on securities	35	(54)
Remearurements of defined benefit plans, net of tax	(22)	0
Total other comprehensive income (loss)	13	(53)
Comprehensive income	4,422	3,573
Comprehensive income attributable to owners of parent	4,432	3,585
Comprehensive income attributable to non-controlling interests	(9)	(11)

(3) Quarterly consolidated statements of cash flows

(Million yen)

	Six months ended October 31, 2017 (May 1, 2017 to October 31, 2017)	Six months ended October 31, 2018 (May 1, 2018 to October 31, 2018)
Cash flows from operating activities		
Profit before income taxes	8,104	6,668
Depreciation and amortization	1,735	1,795
Amortization of goodwill	1,983	2,007
Loss on sales of shares of subsidiaries and associates	-	127
Increase in defined benefit liability	29	86
Increase in allowance for bonuses to employees	313	367
Increase in allowance for bonuses to directors	0	2
Interest and dividend income	(55)	(55)
Interest expenses	64	82
Losses on disposal and sales of fixed assets	279	228
Increase (decrease) in accounts receivable	(92)	1,030
Increase in inventories	(583)	(1,953)
(Increase) decrease in other accounts receivable	1,265	(364)
Increase in accounts payable	806	994
Other, net	(4,039)	(1,095)
Subtotal	9,811	9,924
Interest and dividends received	59	56
Interest paid	(64)	(83)
Income taxes paid	(2,919)	(5,495)
Net cash provided by operating activities	6,886	4,402
Cash flows from investing activities		
Payments for purchases of property, plant and equipment and intangible fixed assets	(1,247)	(1,923)
Proceeds from sales of property, plant and equipment and intangible fixed assets	221	263
Payments for purchase of investments in securities	(50)	(28)
Proceeds from sales of investments in securities	61	13
Purchase of subsidiaries’ shares resulting in obtaining controls	(418)	(4,018)
Payments for loans receivable	(204)	(40)
Proceeds from collections of loans receivable	250	60
Payments for time deposits	(36)	(36)
Proceeds from withdrawal of time deposits	157	7
Other, net	(13)	(158)
Net cash used in investing activities	(1,279)	(5,860)

(Million yen)

	Six months ended October 31, 2017 (May 1, 2017 to October 31, 2017)	Six months ended October 31, 2018 (May 1, 2018 to October 31, 2018)
Cash flows from financing activities		
Net increase in short-term debts	178	472
Repayments of long-term debts	(4,092)	(3,577)
Repayments of lease obligations	(366)	(307)
Proceeds from issuance of common shares	26,296	-
Payments for purchase of treasury stock	(0)	(0)
Proceeds from sales of treasury shares	1,339	-
Cash dividends paid	(1,585)	(1,771)
Net cash (used in) provided by financing activities	21,769	(5,183)
Net increase (decrease) in cash and cash equivalents	27,376	(6,642)
Cash and cash equivalents at beginning of the period	29,234	63,233
Cash and cash equivalents at end of the period	56,611	56,590

(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 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 Six months ended October 31, 2017 (May 1, 2017 to October 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	117,991	11,566	2,784	132,342	-	132,342
(2) Intersegment sales	-	-	165	165	(165)	-
Total sales	117,991	11,566	2,949	132,507	(165)	132,342
Segment income (loss)	9,702	163	(330)	9,535	(869)	8,665

Notes: 1. The adjustment of ¥(869) million to segment income (loss) includes ¥1,765 million in corporate expenses, ¥(884) million in income that are not allocated to reportable segments, and ¥(11) million 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 four dispensing pharmacy companies. During the first six months of the fiscal year, the increase in goodwill related to these companies was ¥569 million.

II Six months ended October 31, 2018 (May 1, 2018 to October 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	116,376	12,544	2,860	131,781	-	131,781
(2) Intersegment sales	-	-	49	49	(49)	-
Total sales	116,376	12,544	2,910	131,831	(49)	131,781
Segment income (loss)	7,875	552	(163)	8,265	(1,246)	7,018

Notes: 1. The adjustment of ¥(1,246) million to segment income (loss) includes ¥2,108 million in corporate expenses, ¥(842) million in income that are not allocated to reportable segments, and ¥(19) million 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 seven dispensing pharmacy companies. During the first six months of the fiscal year, the increase in goodwill related to these companies was ¥5,059 million.