AIN HOLDINGS

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

[Japan GAAP] (Consolidated)

March 5, 2019

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:	March 18, 2019
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:	No

(Amounts are rounded down to the nearest million yen.)

1. Consolidated results for the third quarter of fiscal year ending April 30, 2019 (May 1, 2018 to January 31, 2019)

(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, 2019	202,522	1.2	11,909	(16.8)	12,425	(15.8)	6,781	(14.5)
Nine months ended January 31, 2018	200,043	9.9	14,310	49.2	14,760	47.3	7,931	45.8

(Note) Comprehensive income: Nine months ended January 31, 2019: ¥6,713 million (-15.0%)
Nine months ended January 31, 2018: ¥7,901 million (+41.7%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended January 31, 2019	191.41	–
Nine months ended January 31, 2018	235.74	–

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of January 31, 2019	183,029	101,674	55.5	2,869.48
As of April 30, 2018	183,380	96,733	52.7	2,729.44

(Reference) Shareholders' equity: As of January 31, 2019: ¥101,658 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 (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, 2019	35,428,212 shares	As of April 30, 2018	35,428,212 shares
2) Number of shares held in treasury:	As of January 31, 2019	728 shares	As of April 30, 2018	688 shares
3) Average number of shares outstanding:	Nine months ended January 31, 2019	35,427,502 shares	Nine months ended January 31, 2018	33,644,821 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.

(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 nine months of the current fiscal year (May 1, 2018 to January 31, 2019), 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 nine months of the fiscal year, net sales rose 1.2% year on year to ¥202,522 million, operating income decreased 16.8% to ¥11,909 million, ordinary income decreased 15.8% to ¥12,425 million, and profit attributable to owners of parent decreased 14.5% to ¥6,781 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 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), and in February 2019, the Company concluded a share transfer agreement with TSUCHIYA YAKUHIN INC. (Nagano, Nagano Prefecture) to make it a subsidiary. TSUCHIYA YAKUHIN operates a chain of 36 dispensing pharmacies in Nagano Prefecture.

As a result, for the first nine months of the fiscal year, the dispensing pharmacy business reported sales of ¥179,397 million, up 0.7% year on year, and segment income of ¥13,488 million, down 15.8%.

During the same period, the Group opened a total of 93 dispensing pharmacies, including those acquired through M&A deals. As part of an overhaul of store operations, the Group closed 15 dispensing pharmacies and sold 24, resulting in a total of 1,083.

(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 nine months of the fiscal year, the cosmetic and drug store business reported an increase in sales of 6.5% year on year to ¥18,927 million. And segment income increased 74.5% to ¥741 million.

During the same period, the Group opened five *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) , *ainz & tulpe* SOKA VARIE (Soka, Saitama Prefecture), and *ainz & tulpe* FUCHU FORIS (Fuchu, Tokyo) and closed one store, resulting in a total of 52 cosmetic and drug stores at the end of the third quarter.

(Other businesses)

Net sales from other businesses rose 1.7% year on year to ¥4,198 million and segment loss was ¥107 million compared with the loss of ¥326 million a year earlier.

(2) Consolidated financial position

The balance of total assets at the end of the third quarter declined by ¥350 million from the end of the previous fiscal year to ¥183,029 million. That mainly reflected a decline in cash on hand and in banks due to the repayment of loans and income taxes paid, which outweighed an increase in fixed assets such as inventories, land and buildings, as well as goodwill, due to new store openings and M&A.

The balance of liabilities decreased ¥5,292 million to ¥81,354 million.

The balance of short- term and long-term debts decreased by ¥4,273 million to ¥13,955 million.

Total net assets increased by ¥4,941 million to ¥101,674 million and the shareholders' equity ratio increased 2.8 percentage points to 55.5%.

(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)	Nine months ended January 31, 2019 (As of January 31, 2019)
Assets		
Current assets		
Cash on hand and in banks	63,779	53,494
Notes and accounts receivable	10,466	11,172
Merchandise	9,372	12,524
Supplies	208	201
Short-term loans	641	672
Other accounts receivable	7,751	7,843
Other current assets	2,470	2,486
Allowance for doubtful accounts	(131)	(2)
Total current assets	94,557	88,391
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	14,934	15,978
Land	10,041	10,368
Other property, plant and equipment, net	2,878	3,313
Total property, plant and equipment	27,853	29,660
Intangible fixed assets		
Goodwill	38,011	40,138
Other intangible fixed assets	2,121	2,214
Total intangible fixed assets	40,132	42,352
Investments and other assets		
Investments in securities	2,375	2,267
Deferred tax assets	3,772	3,989
Deposits and guarantees	11,339	12,832
Other investments and other assets	3,785	5,260
Allowance for doubtful accounts	(540)	(1,796)
Total investments and other assets	20,732	22,553
Total fixed assets	88,718	94,567
Deferred assets	103	70
Total assets	183,380	183,029

(Million yen)

	Fiscal year ended April 30, 2018 (As of April 30, 2018)	Nine months ended January 31, 2019 (As of January 31, 2019)
Liabilities		
Current liabilities		
Accounts payable	38,728	43,016
Short-term debt	6,717	6,935
Accrued income taxes	4,947	1,690
Deposits received	12,675	12,573
Allowance for bonuses to employees	1,911	868
Allowance for bonuses to directors	16	7
Reserve for reward obligations	420	444
Provision for sales returns	6	-
Other current liabilities	4,525	3,700
Total current liabilities	69,950	69,235
Long-term liabilities		
Long-term debt	11,511	7,020
Net defined benefit liability	2,625	2,739
Other long-term liabilities	2,560	2,359
Total long-term liabilities	16,696	12,118
Total liabilities	86,646	81,354
Net assets		
Shareholders’ equity		
Common stock	21,894	21,894
Capital surplus	20,500	20,500
Retained earnings	54,268	59,278
Treasury stock	(1)	(2)
Total shareholders’ equity	96,662	101,672
Accumulated other comprehensive income		
Unrealized holding gains on securities	84	31
Remeasurements of defined benefit plans	(50)	(45)
Total accumulated other comprehensive income	34	(13)
Non-controlling interests	36	16
Total net assets	96,733	101,674
Total liabilities and net assets	183,380	183,029

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statements of income

(Million yen)

	Nine months ended January 31, 2018 (May 1, 2017 to January 31, 2018)	Nine months ended January 31, 2019 (May 1, 2018 to January 31, 2019)
Net sales	200,043	202,522
Cost of sales	164,849	168,768
Gross profit	35,193	33,753
Selling, general and administrative expenses	20,883	21,844
Operating income	14,310	11,909
Non-operating income		
Interest income	49	55
Dividend income	34	38
Commissions received	51	19
Real estate rental revenue	162	242
Fiduciary obligation fee	154	119
Other non-operating income	266	344
Total non-operating income	719	819
Non-operating expenses		
Interest expenses	91	109
Losses on sales of accounts receivables	52	52
Real estate rental expenses	73	64
Other non-operating expenses	52	76
Total non-operating expenses	269	303
Ordinary income	14,760	12,425
Extraordinary income		
Gains on sales of investments in securities	8	2
Gains on sales of fixed assets	28	11
Gains of transfer of business	23	247
Insurance income	31	14
Other extraordinary income	29	0
Total extraordinary income	121	278
Extraordinary losses		
Losses on disposal and sales of fixed assets	442	386
Impairment losses on investments in securities	177	95
Other extraordinary losses	259	352
Total extraordinary losses	878	834
Income before income taxes	14,003	11,868
Income taxes	6,090	5,107
Profit	7,912	6,761
Loss attributable to non-controlling interests	(18)	(19)
Profit attributable to owners of parent	7,931	6,781

Quarterly consolidated statements of comprehensive income

(Million yen)

	Nine months ended January 31, 2018 (May 1, 2017 to January 31, 2018)	Nine months ended January 31, 2019 (May 1, 2018 to January 31, 2019)
Profit	7,912	6,761
Other comprehensive income		
Unrealized holding gains (losses) on securities	22	(53)
Remeasurements of defined benefit plans, net of tax	(33)	5
Total other comprehensive income	(11)	(47)
Comprehensive income	7,901	6,713
Comprehensive income attributable to owners of parent	7,920	6,733
Comprehensive income attributable to non-controlling interests	(18)	(19)

(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 Nine months ended January 31, 2018 (May 1, 2017 to January 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	178,136	17,779	4,127	200,043	-	200,043
(2) Intersegment sales	-	-	231	231	(231)	-
Total sales	178,136	17,779	4,359	200,275	(231)	200,043
Segment income (loss)	16,013	425	(326)	16,112	(1,352)	14,760

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

II Nine months ended January 31, 2019 (May 1, 2018 to January 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 business	Total		
Sales						
(1) Sales to third parties	179,397	18,927	4,198	202,522	-	202,522
(2) Intersegment sales	-	-	97	97	(97)	-
Total sales	179,397	18,927	4,295	202,620	(97)	202,522
Segment income (loss)	13,488	741	(107)	14,122	(1,697)	12,425

Notes: 1. The adjustment of ¥(1,697) million to segment income (loss) includes ¥3,077 million in corporate expenses, ¥(1,357) million in (income) losses that are not allocated to reportable segments, and ¥(22) 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 7 dispensing pharmacy companies. During the first nine months of the fiscal year, the increase in goodwill related to these companies was ¥5,059 million.