COMPANY RESEARCH AND ANALYSIS REPORT

Qol Holdings Co., Ltd.

3034

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FISCO Ltd. Analyst

Hiroyuki Asakawa

FISCO

FISCO Ltd.

http://www.fisco.co.jp

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Summary

Announced entry into outsourced manufacture of pharmaceuticals. With the Pharmacy Business as the core business, is aiming to be a comprehensive healthcare company with three engines, including the BPO Business.

Qol Holdings Co., Ltd. (Qol) <3034> is a major dispensing pharmacy chain positioned at No.2 in dispensing pharmacy store quantity and No.3 in sales (using data from listed companies). Qol's strategy in the Pharmacy Business adopts a two-pronged approach of "one-on-one pharmacies" and new-format pharmacies developed through alliances with companies from other industries. In the BPO (business processing outsourcing) Business, Qol also runs CSO (contract sales organization) business, CRO (contract research organization) business, and dispatching services business.

1. In FY3/19, sales and profits declined due to the severe business environment in the Pharmacy Business

In the Company's FY3/19 results, sales and profits declined, with net sales of ¥144,783mn (down 0.5% year-on-year (YoY)) and operating income of ¥7,050mn (down 22.4%). In the mainstay Pharmacy Business, the prescription unit price decreased due to the impact of the revisions to dispensing fees and drug prices in April 2018, which overlapped with new pharmacy openings being less than planned due to the postponement of an M&A. Therefore, sales and profits declined YoY and were also below forecast in this business, which pushed-down earnings for the Company as a whole. The BPO Business achieved higher sales and profits as all four sub-segments secured increases in sales, but this was not enough to compensate for the struggles of the Pharmacy Business.

2. The axes of the growth strategy are expanding scale through M&A and new formats, and growing pharmacy earnings through utilizing the strengths of one-on-one pharmacies

The medium- to long-term growth strategy for the Pharmacy Business is comprised of two axes; expanding scale (the number of pharmacies) and growing existing pharmacies, and the Company has consistently implemented this strategy since the past. In FY3/19, it acquired 50 pharmacies through M&A, while it was able to take under its umbrella a chain of pharmacies that have a base in the Chubu and Kinki regions, in which it had been comparatively weak in terms of regions. Going forward, the policy is to deepen the cooperation between these pharmacies and the prescribing medical institutions in their respective commercial zones, and to enhance their functions as one-on-one pharmacies. For the Company's own pharmacy openings, it is focusing on developing new-format pharmacies through alliances with companies from other industries, and in the future, it intends to rapidly increase the number of pharmacies in the alliance with Lawson. For the existing pharmacies expansion strategy, its policy is to increase earnings on the unit of pharmacies through cooperation with medical institutions, which is one of the strengths of one-on-one pharmacies, and enhance their functions, such as family pharmacists and pharmacies.

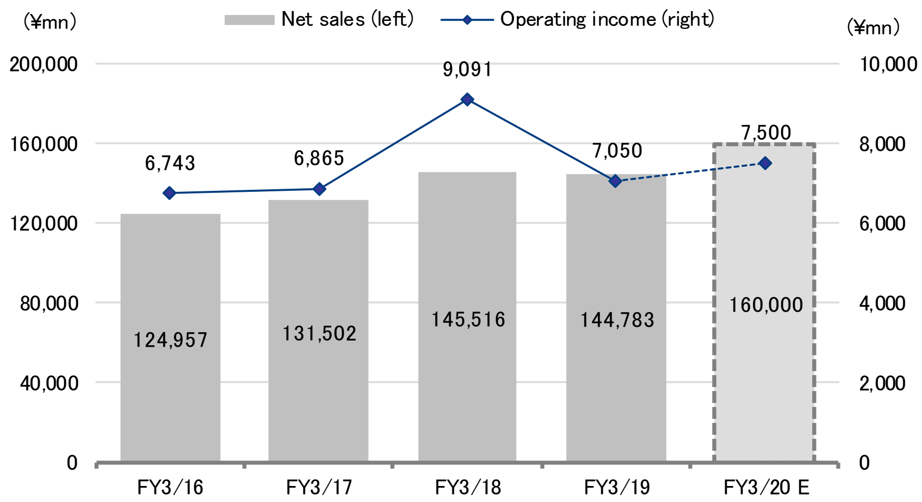
3. Announced plans to enter-into the outsourced manufacturing of pharmaceuticals as a new business

Since the past, the Company has envisaged launching a new business alongside the BPO business, and thereby building a structure that aims for growth from these three business engines, centered on the Pharmacy Business. As a specific measure for this, it recently announced that it will enter-into the pharmaceuticals manufacturing business. The details are to come, but it seems that it plans to enter-into it by focusing on the outsourced manufacturing of pharmaceuticals. In terms of the specific approach, it is estimated that the most effective methods will include the acquisition of plants, M&A, and capital participation. At FISCO, our first impression is that the business risk will be low as it will specialize in outsourced manufacturing and take the approach of acquiring existing plants and companies. It is considered that the Company is aiming to start this business at an early stage, so it is possible that concrete progress will be made within this fiscal period, and we will be keeping a close watch on developments in the near future.

Key Points

- No change to the Pharmacy Business strategy of aiming for growth on the two axes of expanding scale and creating value in existing pharmacies
- Intends to respond to the revised Pharmaceuticals and Medical Devices Act with a pharmacies strategy centered on one-on-one pharmacies and new-format pharmacies
- Announced plans to enter-into the outsourced manufacturing of pharmaceuticals as a new business

Resutls trends



Source: Prepared by FISCO from the Company's financial results

Company profile

Growth driven by robust M&A since being founded in 1992
Under a holding company structure, is developing two businesses, the Pharmacy Business and the BPO Business

1. History

Chairman Masaru Nakamura founded Qol Co., Ltd. in 1992. Qol Co., Ltd. steadily expanded its dispensing pharmacy network after opening the first location in Nihombashi Kabutocho in April 1993. In addition to opening its own stories, it expanded its dispensing pharmacy network through aggressive M&A and it also moved into related and peripheral areas, including SMO (site management organization) business with the founding of PhaseOn Co., Ltd. in 2003, as well as worker dispatching services business in 2008.

Subsequently, the Company arranged its businesses into two business segments, the Pharmacy Business and the BPO Business, and thereby aimed to improve management efficiency and expand its business. Moreover, the Company transitioned to a purely holding company structure on October 1, 2018. Following this, the Company changed its corporate name to Qol Holdings Co., Ltd., and it is leading the Group as a whole toward enhancing corporate governance and achieving the medium- to long-term growth strategy.

The two business segments are the responsibilities of the respective core business companies. Alongside the transition to a holding company structure, Qol Co., Ltd., was newly established and it inherited the Pharmacy Business from the Company. Qol manages nearly 800 pharmacies, together with a dispensing pharmacies subsidiary acquired in the past through an M&A (a subsidiary of a subsidiary from the perspective of the Company). APO PLUS STATION Co., Ltd., which is responsible for the BPO Business, is the same as before the transition to the holding company structure.

Business segment income composition in FY3/19 was Pharmacy Business at 92% and BPO Business at 8% in net sales and 82% and 18% respectively in operating income.

Pursuing a two-pronged approach of “one-on-one pharmacies” and “new-format pharmacies” (through alliances with companies from other industries)

2. Pharmacy Business

(1) Business scale and positioning in the industry

The content of the Pharmacy Business segment is the management of dispensing pharmacies and shop sales in hospitals. Among them, it is estimated that dispensing pharmacies constitute approximately 97% of the total number of pharmacies and shops, and that they also provide the same percentage of total net sales.

The Company is ranked second in store volume and third in sales in Japan's pharmacy industry. it had 766 pharmacies (745 in total including 21 shops) at the end of March 2019, putting it second after listed pharmacy chain AIN HOLDINGS <9627>. In sales, it ranks third in the industry among listed companies after AIN HOLDINGS and NIHON CHOUZAI <3341>. NIHON CHOUZAI CO., LTD. beats the Company in sales as its sales per pharmacy are higher than the industry average, whereas the Company's sales per pharmacy are about the industry average. The gap in their sales per pharmacy originates from their different pharmacy strategies.

(2) Pharmacy development strategy

A feature of the Company's business strategy in the Pharmacy Business is that it conducts it through two formats that are largely different in type. The first type is the "one-on-one pharmacies", and the second type is new-format pharmacies through business alliances with different industries such as the group companies of major convenience store operator Lawson, Inc. <2651>, the West Japan Railway Company (JR-West) <9021> Group, and others.

"One-on-one pharmacies" is a concept that defines the fundamental stance in store operations for ordinary QOL pharmacies. It is also the "core business" in its business model. The point for them is the close cooperation between the prescribing medical institutions and QOL pharmacies. Our understanding at FISCO is that the phrase "one-on-one" is used to express the pharmacies' deep, cooperative relationships with medical institutions. From the phrase "one-on-one," the tendency is to imagine a deep relationship between only one QOL pharmacy and only one prescribing medical institution. But in fact, it seems that in many cases, one pharmacy builds deep cooperative relationships with multiple medical institutions.

In its one-on-one pharmacies, the Company is aiming to utilize cooperation with medical institutions to realize efficient and low-cost operations, and to invest the results of this into improving services for patients. More specifically, it is aiming to open these pharmacies by adjusting physical designs and functions in accordance with factors such as the departments of target medical institutions (mainly self-run clinics and smaller hospitals) and local characteristics. The funds for this are generated from the pharmacies' low-cost structures, including more efficient drug inventories, which is one of the benefits of one-on-one management. Based on the concept of one-on-one pharmacies, the Company positions its opening of pharmacies that have high-use value for patients and that are therefore selected by patients as the core of its pharmacy strategy. In addition, the concept of one-on-one pharmacies, which essentially entails cooperation with medical institutions, can be said to be in line with the Japanese Government's Vision of Pharmacies for Patients, which is also an important point for the growth strategy.

The catalyst for Qol's pursuit of new-format pharmacies through alliances with companies from other industries, which is also another type of industry, was a reform in the Revised Pharmaceuticals Affair Law from June 2009 that lets convenience stores, drugstores, supermarkets, and other industry stores sell OTC drugs as registered businesses. Qol responded to subsequent efforts by companies from other industries to start dispensing pharmacy businesses by arranging business alliances with the two above-mentioned companies. It also entered into business alliances with BIC CAMERA INC. <3048> and other partners from different industries.

Qol views stores opened through the alliances as a "new format" because they cater to different target customer segments than the "one-on-one pharmacies" described earlier. "One-on-one pharmacies" have somewhat restricted customer scope that enables Qol to improve efficiencies in drug inventory management. New-format pharmacies, meanwhile, target undefined customers in locations with heavy people flow, so-called foot-traffic type pharmacies. While these sites require larger inventory investments and other outlays than the "one-on-one pharmacies," they are likely to attract more customers (and thus receive more prescriptions). We think Qol views "one-on-one pharmacies" as its core model and aims to accelerate growth with the new format.

Developing four businesses in the BPO Business, including the core CSO business that dispatch CMRs, and CRO business

3. The BPO Business

BPO stands for Business Process Outsourcing (continuous outsourcing of some business processes to external specialist companies). The BPO Business segment basically handles business consignments from other companies. Its four main areas are CSO business, dispatching services business, CRO business, and publishing related business.

(1) CSO business

CSO stands for Contract Sales Organization, and within the BPO Business segment, the CSO business has an overwhelmingly large weight and is positioned as the core business. It seems that the combined net sales of the CSO business and dispatching services business, which as described below is mainly for medical personnel, provide around 90% of net sales in the BPO Business segment. Therefore, when looking at the BPO Business, it can be said that the important points to look at are the CSO industry's business environment and the labor demand-and-supply trends for medical personnel.

The CSO business receives consignments from pharmaceutical companies to support and conduct marketing and other sales activities and provide a full range of services related to drug sales based on contracts. It could be called a type of dispatching business. Specifically, APO PLUS STATION hires medical representatives (MR) and dispatches them to pharmaceutical companies that have contracts. These dispatched contract MRs (CMRs) conduct sales of drugs for the pharmaceutical companies they cover to medical institutions and medical personnel.

(2) Dispatching services business

While dispatching services business handle a wide range of medical professionals, it involves a large number of pharmacists. We estimate that the Company ranks in the industry's top ten in dispatching pharmacists.

The Company's dispatching services business continue to grow rapidly amid constant shortages of manpower in the medical industry, and dispatching services business in the BPO Business are positioned for further growth. The Company aims to sustain high growth by pursuing synergies with Pharmacy Business.

(3) CRO business

CRO is an abbreviation of Contract Research Organization. The CRO business provides total solutions from testing and clinical research plans to publications in ethical drug, OTC drug, food, and healthcare fields. The most typical format is total support for some clinical tests based on a consignment from pharmaceutical companies.

(4) Publishing related business

The publishing-related business is conducted by the subsidiary, Medical Qol Co., Ltd. It mainly involves the outsourced production of drug sales promotion materials, pamphlets used by medical personnel and patients, books, magazines, and other materials. The Group possesses extensive knowledge in this field and distribution channels both with medical institutions and patients through the Pharmacy Business and the CSO and CRO businesses, and this business leverages these resources. In recent years, in line with the trend of digitization, it has established an in-house studio for customers and is also developing a support business for customers' Web delivery.

Business trends

Sales and profits declined due to the impact of revisions to dispensing fees and drug prices

1. Review of FY3/19 results

Qol reported FY3/19 results with lower sales and profits at ¥144,783mn in net sales (down 0.5% YoY), ¥7,050mn in operating income (down 22.4%), ¥7,208mn in ordinary income (down 22.8%), and ¥3,908mn in profit attributable to owners of parent (down 21.6%).

The Company maintained its initial results forecasts, but the results were below these forecasts, net sales by 4.7% (¥7,217mn) and operating income by 11.9% (¥950mn).

Overview of FY3/19 results

(¥mn)

	FY3/18			FY3/19					
	1H	2H	Full year	1H	2H	Full-year forecast	Full-year results	YoY	vs. forecast
Net sales	71,397	74,119	145,516	69,025	75,758	152,000	144,783	-0.5%	-4.7%
Gross profit	9,413	10,235	19,648	8,238	9,625	20,995	17,863	-9.1%	-14.9%
SG&A expenses	5,161	5,396	10,557	5,169	5,643	12,995	10,812	2.4%	-16.8%
Operating income	4,251	4,840	9,091	3,069	3,981	8,000	7,050	-22.4%	-11.9%
Operating margin	6.0%	6.5%	6.2%	4.4%	5.3%	5.3%	4.9%	-	-
Ordinary income	4,290	5,043	9,333	3,171	4,037	8,000	7,208	-22.8%	-9.9%
Profit attributable to owners of parent	2,415	2,571	4,986	1,975	1,933	4,500	3,908	-21.6%	-13.2%

Source: Prepared by FISCO from the Company's financial results

Net sales declined 0.5% YoY. In the Pharmacy Business segment, net sales decreased 0.7% due to the impact of the April 2018 revisions to dispensing fees and drug prices, and the increase in sales in the BPO Business segment could not cover for this decline. Sales were 4.6% below forecast, but this was mainly because of the postponement of the timing of the completion of a large-scale M&A (it had been scheduled for October 2018, but it was actually completed in January 2019).

In profits, gross profit decreased 9.1% (¥1,785mn) YoY. In the revisions to dispensing fees, the dispensing technical fee was reduced, but in these recent revisions the requirements to recover the reduced part of the dispensing technical fee were more severe than in the past, which seems to have had a major impact on gross profit. SG&A expenses increased ¥255mn, which is considered to be mainly because of the rise in personnel expenses alongside the increase in personnel, including pharmacists, and the expenses associated with the transition to a holding company structure in October 2018. As a result of the above, operating income declined 11.9% (¥2,041mn).

By business segment, in the Pharmacy Business, sales and profits declined due to the impact of the revisions to dispensing fees and drug prices. But in the BPO Business, sales and profits increased thanks to the strong results in each business, including the CSO business.

Breakdown by business segments

(¥mn)

		FY3/18			FY3/19					
		1H	2H	Full year	1H	2H	Full year (forecast)	Full year	YoY	vs. forecast
Net sales	Pharmacy Business	66,137	68,972	135,109	63,751	70,397	140,600	134,148	-0.7%	-4.6%
	BPO Business	5,362	5,462	10,824	5,526	5,818	12,000	11,344	4.8%	-5.5%
	Prior to adjustment	71,499	74,435	145,934	69,278	76,214	152,600	145,492	-0.3%	-4.7%
	Adjusted value	-101	-316	-417	-252	-457	-600	-709	-	-
	Net sales total	71,397	74,119	145,516	69,025	75,758	152,000	144,783	-0.5%	-4.7%
Operating income	Pharmacy Business	3,903	4,749	8,652	2,850	3,499	7,600	6,349	-26.6%	-16.5%
	BPO Business	755	586	1,341	657	709	1,700	1,366	1.9%	-19.6%
	Prior to adjustment	4,659	5,335	9,994	3,507	4,208	9,300	7,715	-22.8%	-17.0%
	Adjusted value	-407	-495	-902	-438	-226	-1300	-664	-	-
	Operating income total	4,251	4,840	9,091	3,069	3,981	8,000	7,050	-22.4%	-11.9%
Operating margin	Pharmacy Business	5.9%	6.9%	6.4%	4.5%	5.0%	5.4%	4.7%	-	-
	BPO Business	14.1%	10.7%	12.4%	11.9%	12.2%	14.2%	12.0%	-	-
	Company total	6.0%	6.5%	6.2%	4.4%	5.3%	5.3%	4.9%	-	-

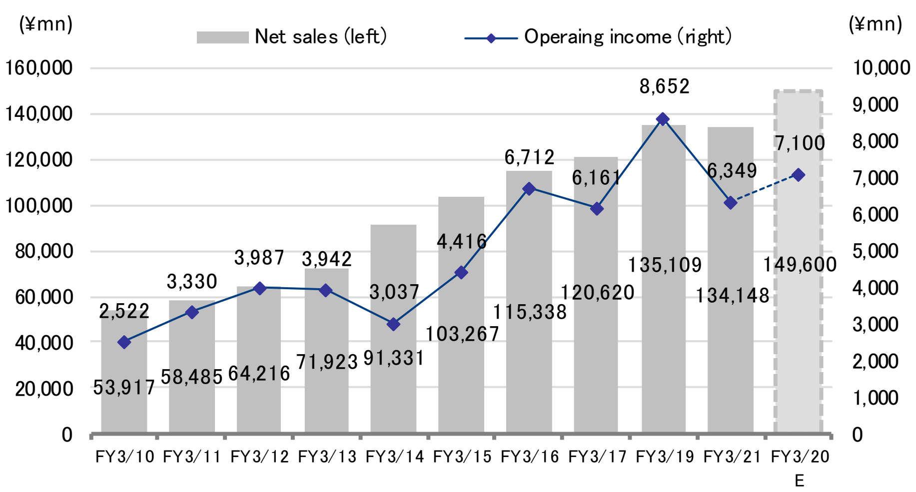
Source: Prepared by FISCO from the Company's financial results

In existing pharmacies, the number of prescriptions increased 4% YoY and performed well. But results were significantly impacted by the fall in the prescription unit price and the postponement of an M&A.

2. Detailed trends in Pharmacy Business

In the Pharmacy Business in FY3/19, sales and profits decreased, with net sales of ¥134,148mn (down 0.7% YoY) and operating income of ¥6,349mn (down 26.6%). The results were also below the initial forecasts, net sales by 4.6% and operating income by 16.5%.

Results trends in Pharmacy Business segment



Source: Prepared by FISCO from the Company's financial results

In the Pharmacy Business, the Company analyzes and discloses net sales from prescriptions (calculated by deducting sales of non-pharmacies from segment net sales, which constitutes dispensing net sales in the narrow sense), into deriving from existing pharmacies, newly opened pharmacies, or M&A and related. The Company's own pharmacies are categorized by opening period, of existing pharmacies (opened in previous fiscal years) and newly opened pharmacies, meaning pharmacies opened in the last 12 months. On the other hand, as the name suggests, M&A and related indicates pharmacies acquired through M&A and business transfers. These are not broken down by pharmacy opening period, and existing pharmacies and newly acquired pharmacies within the period are both totaled together.

Net sales from prescriptions from existing pharmacies decreased 0.7% YoY to ¥39,542mn. Breaking this down, the number of prescriptions increased 4.1% to 3,959,000, but the prescription unit price fell 4.6% to ¥9,987. As previously explained, the fall in the prescription unit price was due to the impact of the April 2018 revisions to dispensing fees and drug prices. It seems that the increase in the number of prescriptions was slightly less than expected, in light of the 5.1% increase in FY3/18.

Net sales from prescriptions from newly opened pharmacies decreased 39.3% to ¥703mn. As is described below, in FY3/19 the Company opened 17 pharmacies, which is fewer than in FY3/18 when it opened 20 pharmacies. In terms of the timing of the pharmacy openings also, it only opened 3 pharmacies in the 1H (total of Q1 and Q2), so most of the openings were in the 2H. This led to the decline in net sales from prescriptions.

Net sales from prescriptions from pharmacies from M&A and related decreased 0.7% YoY to ¥82,435mn. Although the number of prescriptions increased 4.4% to 9,563,000, the prescription unit price fell 4.9% to ¥8,620. In FY3/19, the Company acquired 50 pharmacies from M&A and related, (subsidiary acquisitions and business transfers), but the timing of these openings was generally focused in the 2H, including opening 13 pharmacies in October 2018 and 25 pharmacies in January 2019. It seems that as a result of this, the same trend occurred as with existing pharmacies described above.

Details of prescription net sales, the prescription unit price, and the number of prescriptions by the pharmacy opening period and format

(¥mn)

	FY3/19					
	Prescription net sales		Number of prescriptions		Prescription unit price	
	Growth rate	Net sales	Growth rate	Prescriptions (thousands)	Growth rate	Unit price (¥)
Existing pharmacies	-0.7%	39,542	4.1%	3,959	-4.6%	9,987
New pharmacies	-39.3%	703	-7.1%	115	-34.7%	6,098
M&A, etc.	-0.7%	82,435	4.4%	9,563	-4.9%	8,620
All pharmacies	-1.0%	122,681	4.2%	13,638	-5.1%	8,995

Source: Prepared by FISCO from the Company's results briefing materials

For pharmacy openings and closures in FY3/19, the Company newly opened 67 pharmacies and closed 19 pharmacies, for a net increase of 48 pharmacies. Breaking down the new openings, 17 were the Company's own pharmacies and 50 were pharmacies from M&A and related. It had targeted opening 100 pharmacies in FY3/19, but in the end it only opened 67 pharmacies due to the postponement of an M&A. It acquired 28 pharmacies in the large-scale M&A that was postponed to April 2019, so it could be said that in actuality, it almost achieved the target.

Status of changes in pharmacies in FY3/19

			FY3/19			
		End of FY3/18	Opened		Closed	End of FY3/19
QOL pharmacies		650	The Company's pharmacy openings	12	14	698
			M&A, etc.	50		
New format	Lawson	35		2	2	35
	BicCamera	4		1	0	5
	JR-West	5		2	0	7
Shops		24		0	3	21
Total		718		67	19	766

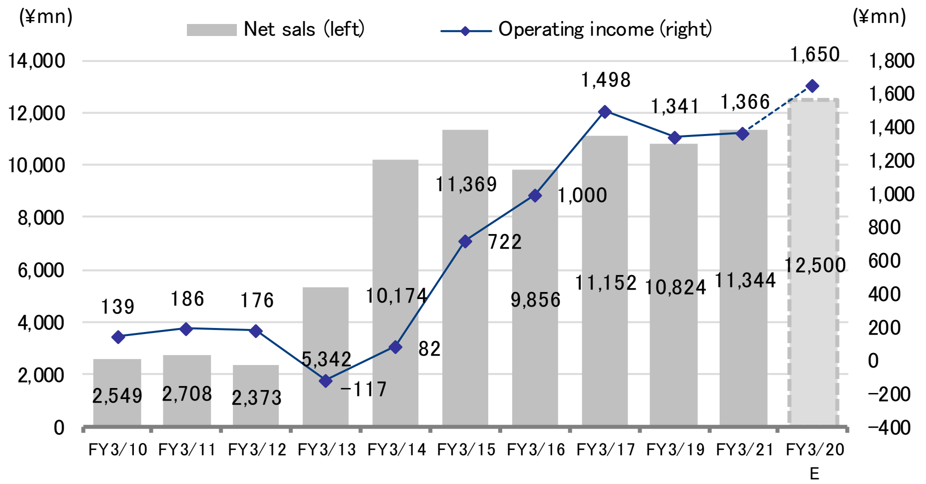
Source: Prepared by FISCO from the Company's financial statement of results, briefing materials and supplementary materials

The two business companies, including APO PLUS STATION, achieved increases in sales YoY in all four sub-segments

3. Detailed trends in BPO Business

The BPO Business reported higher sales on profits with ¥11,344mn in net sales (up 4.8% YoY) and ¥1,366mn in operating income (up 1.9%) for FY3/19.

Results trends in BPO Business segment

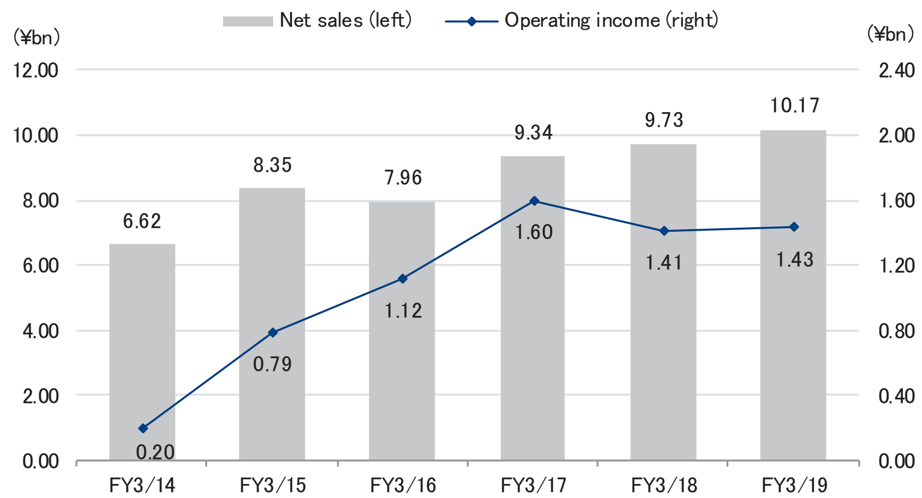


Source: Prepared by FISCO from the Company's financial results

APO PLUS STATION, which is the core subsidiary in the BPO business, secured higher sales and profits, with net sales of ¥10.17bn (up 5% YoY) and operating income of ¥1.43bn (up 1%). In the CSO business, which is the core business, on the one hand it focused on training highly specialized MR, while on the other hand it strengthened sales to pharmaceutical companies. These efforts proved successful, and while maintaining the highest number of contracting companies in its history, the number of MR dispatch contracts also steadily increased. In the dispatching and placements services business, it renewed the homepage toward acquiring human resources, which led to an increase in the number of entries for each occupational category. The increase in the number of pharmacists dispatched led to a rise in sales in the dispatching and placements services business also. The CRO business worked to strengthen sales with the aim of increasing orders, and it achieved higher sales. As described above, sales increased in all of APO PLUS STATION's three sub-segments, which contributed to the higher sales in this segment as a whole. The publishing-related business, which is managed by Medical Qol, also achieved an increase in sales YoY.

Conversely, on the profit side, expenses rose as a whole as the CSO business increased expenses to recruit and train MR, while in the dispatching and placements services business, expenses to acquire human resources rose sharply. As a result, the operating income margin fell, and the extent of the increase in segment operating income was 1.9% (¥25mn) YoY.

Results trends in APO PLUS STATION Business



Note: APO PLUS STATION's results are on units of ¥10mn
Source: Prepared by FISCO from the Company's results briefing materials

Medium- to long-term growth strategy and progress

Is aiming to be the comprehensive healthcare company, from the three engines of the Pharmacy Business, which is as the core business, the BPO Business, and the pharmaceuticals manufacturing business

1. Overview of the medium-term growth strategy

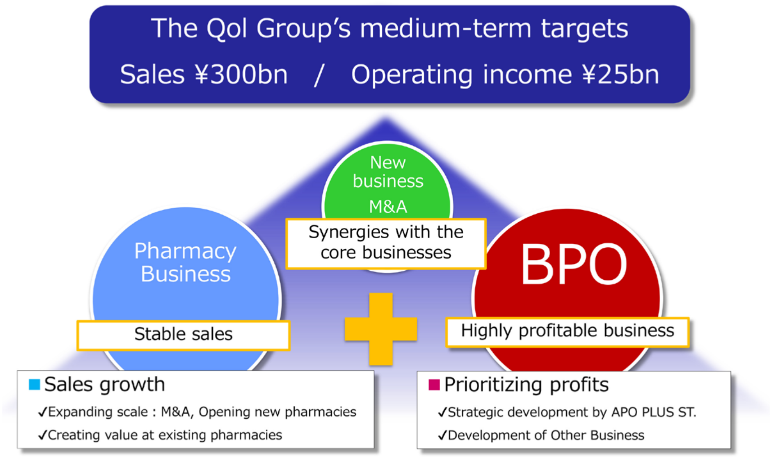
The Company has set the medium-term targets for the Qol Group of net sales of ¥300bn and operating income of ¥25bn. Toward realizing these targets, since the past it has consistently implemented the same medium- to long-term growth strategy. With the existing Pharmacy Business and the BPO Business as the core businesses, it is developing a new business to be launched at an early stage to serve as the third pillar of earnings comparable to the BPO Business, and it is building a management foundation on which it can realize sustainable growth.

In the Pharmacy Business, the primary target is to grow net sales, and to achieve this the Company has set two axes; 1) expanding scale (the number of pharmacies), and 2) creating value in existing pharmacies. To expand scale, its policy is to actively utilize M&A, and to focus on new-format pharmacies through alliances with companies from other industries when opening its own pharmacies. For existing pharmacies, the Company intends to grow net sales from pharmacies by further enhancing their roles and functions as pharmacies; namely, of having advanced pharmaceutical management functions and coordinating with regional medical institutions and others.

The strategy for the BPO Business is to utilize its high profit margin. In the Pharmacy Business, the operating income margin is around 5%, but in contrast, the level in the BPO Business is around 15 to 20%. While maintaining this high level of profitability, the Company's policy is to strategically expand and grow the businesses of APO PLUS STATION, which is the core business company.

The Company has yet to make any specific announcements about the new business, as it is currently considering various measures. But it recently announced that it was to enter-into the pharmaceuticals manufacturing field (the details are given below). The main scenario for the growth strategy for the future is to develop the pharmaceuticals manufacturing business to be a business pillar comparable to the BPO Business, and to establish at an early stage a structure toward becoming a comprehensive healthcare company in a form that has the Pharmacy Business as the main engine supported by the two supplementary engines, of the BPO Business and the pharmaceuticals manufacturing business.

Overview of the growth strategy



Source: The Company's results briefing materials

Strategy is unchanged, of aiming for growth on the two axes of expanding scale and creating value at existing pharmacies

2. The Pharmacy Business growth strategy and the progress made

As previously stated, the Company's growth strategy for the Pharmacy Business is comprised of two axes, 1) expanding scale (the number of pharmacies) and 2) creating value at existing pharmacies, which it has consistently implemented without change since the past.

Meanwhile, there is the likelihood of significant changes occurring in the business environment. During the current 198th regular session of the Diet (January 28th to June 26th, 2019), a bill to partially revise the Pharmaceuticals and Medical Devices Act has been submitted. In terms of the items relating to the Dispensing Pharmacy business, from the viewpoint of pharmacies' functions, they can be grouped into two types; 1) "regional-cooperation type," to provide home medical care services and integrated management of drug therapy in regional areas, and 2) "specialized medical facilities cooperation type," to provide highly specialized services for medical treatment, such as for cancer, based on cooperation between medical facilities. It can be said that the major changes are the important points that these types are to be defined as laws (legislated).

It was indicated that the purpose of the revisions is to make it possible for patients to select for themselves the pharmacy best suited to them. Correspondingly, the names, of community coordination pharmacies and specialist medical institution coordination pharmacies, are to be used for a so-called name-monopoly system, in which the name can only be used after acquiring certification from the prefectural governor. Up to the present time, policy guidance has been carried out by the Japanese Government for businesses through weighting the points for dispensing fees, but there were differences in how they were received depending on the business, because they acted something like a "remedial measure" and also there were no time breaks. However, following the revisions, the position of each pharmacy will be made clearer alongside the name designations, which will give patients a wider choice. It is anticipated that many pharmacy businesses will find themselves in a severe situation as a result of this.

Even when faced with this environmental change, the Company has not changed its growth strategy. The content of the above-described partial revisions to the Pharmaceuticals and Medical Devices Act is consistent with the Japanese Government's previously announced Vision of Pharmacies for Patients. Therefore, for the Company, which has been opening pharmacies and developing its businesses in line with this vision, it can be said that the revisions were well within the expected scope. As was described in the Company Profile section, the Company is aiming to develop two types of pharmacies, of one-on-one pharmacies and new-format pharmacies from alliances with companies from other industries, and it is confident that it can respond to the revisions to the Pharmaceuticals and Medical Devices Act through its current pharmacies strategy.

(1) Expanding scale (the number of pharmacies)

Within the pharmacies-expansion strategy, there has been no change to the policy for the pharmacy-opening method, of actively utilizing M&A (including subsidiary acquisitions and business transfers). As previously explained, in FY3/19 the Company acquired 50 pharmacies through M&A. If including the M&A for Natural Life, for which the closure of the deal was postponed until April 2019, in FY3/19 it acquired 78 pharmacies through M&A. Combined with the 17 pharmacies it opened itself, the Company opened 95 pharmacies, so it can be said to have almost achieved its initial forecast of 100 pharmacies.

The Company's awareness of its approach to regional pharmacy openings seems to be one model of a dominant strategy in the retailing industry. This can be said to match its strengths of low-cost operation of one-on-one pharmacies. It also has the approach of wanting to open pharmacies in areas that are highly efficient based on demographics; namely, metropolitan areas. The current distribution of pharmacies is 322 pharmacies in the Kanto region, 177 pharmacies in the Chubu region, and 122 pharmacies in the Kinki region. This as a result of the fact that from FY3/19 until recently, many of the M&A were from deals for businesses that had been developing pharmacy networks in the Chubu and Kinki regions. The Company has strengthened in these regions, in which it had been relatively weak compared to in the Kanto region, and it can be said to have made ideal progress. Although it cannot be optimistic that it will able to continue in this form in the future, it is estimated that the Company is aiming to develop pharmacies in areas such as the three metropolitan areas and government designated cities.

Recent M&A results

Fiscal year	M&A period	Target company	Pharmacy region	No. of pharmacies
FY3/19	April 2018	Donguri	Kinki area	8
	October 2019	Ai Pharmacy G	Chubu	13
	January 2019	NICHIHOS G	Kinki/Chubu	25
FY3/20	April 2019	Natural Life	Chubu/Kyushu	28

Note: G stands for Group
Source: Prepared by FISCO from the Company's results briefing materials

On the other hand, in the pharmacies-expansion strategy, as previously stated the Company has two axes for the pharmacies' formats; one-on-one pharmacies and new-format pharmacies (from alliances with companies from other industries). On superimposing the relationship between the methods of opening pharmacies and the pharmacy formats, we see that the new format pharmacies are the ones being opened by the Company itself, including through the alliances with the group companies of Lawson and West Japan Railway Company, and they are the Company's own organic pharmacy openings. On the other hand, the pharmacy format of the pharmacies acquired though M&A and pharmacies opened independently by the Company are those being developed as one-on-one pharmacies. Looking at the table that separates out the hospital-adjacent pharmacies, when considering that the essence of one-on-one pharmacies is "close cooperation between medical institutions and pharmacies," it would seem possible to consider hospital-adjacent pharmacies to be one type of one-on-one pharmacy.

In relation to the previously described revised Pharmaceuticals and Medical Devices Act, it seems that the Company is aiming for one-on-one pharmacies to be recognized as community coordination pharmacies by utilizing their strength of close cooperation with medical institutions, and based on this, enhancing their functions, including of being family pharmacists and pharmacies. Among them, it is considered that the pharmacies that are coordinating deeply with university hospitals and core hospitals are aiming to be certified as specialist medical institution coordination pharmacies (as described below, in the revised Pharmaceuticals and Medical Devices Act, this has an important relation with the section "Creating value at existing pharmacies"). Although the new-format pharmacies will be so-called foot traffic-type pharmacies, it is thought that the aim is even for these pharmacies to be certified as community coordination pharmacies through deepening their coordination with medical institutions and supplementing their functions, including as family pharmacists and pharmacies.

Needless to say, the definitions and the requirements for the new types of pharmacy have not been determined at the current time. It is considered that when these points are clarified in the future, the Company will fine tune its pharmacy-opening model accordingly.

Relationships between methods of opening pharmacies and pharmacy formats

Business format	Pharmacy type	Location	Function	Opening method	Degree of focus
QOL-pharmacies	One-on-one	Urban type, Clinic-adjacent	Family pharmacist and phamacy function, health support function	Organic, M&A	◎
	Hospital-adjacent pharmacies	Hospitals of a certain size	Family pharmacist and pharmacy function, advanced pharmaceutical management function, health support function	Organic, M&A	○
New format pharmacies	Foot-traffic pharmacies	Within shopping districts, within and near to train stations	Family pharmacist and pharmacy function, health support function	Organic	◎

Source: Prepared by FISCO from Company materials and interviews
Note: ◎ = Very high degree of focus ○ = high degree of focus

In terms of the specific targets for measures for new-format pharmacies, the Company has clarified that its policy is to expand QOL + LAWSON pharmacies based on its alliance with Lawson. As of the end of March 2019, it had 35 QOL + LAWSON pharmacies, and in FY3/19, the total annual sales of these 35 pharmacies exceeded ¥10bn (QOL + LAWSON pharmacies are all pharmacies operated by the Company as Lawson's franchisee, and net sales are the sum of the convenience store part of sales and the dispensing pharmacy part). Based on this result, the Company is aiming to have a network of 100 QOL + LAWSON pharmacies in the Tokyo metropolitan area, while its policy is also to open them in other metropolitan areas, including Osaka and Kyoto (horizontal development). On the one hand it is said that the convenience store market has reached saturation, but on the other hand there are emerging reforms to ways of working and the problem of business succession. So in the situation of these developments, the Company's scenario is that franchises through a corporation, such as itself, will have room to expand through acting as the receptacle to acquire individually managed franchises, which are currently the mainstream.

At FISCO, we think that the measures for new formats, including for QOL + LAWSON, will grow increasingly important in the future for pharmacy openings to become comparable with M&A. The main reason for thinking this is the trend in the number of prescriptions in FY3/19. The number of prescriptions at existing pharmacies increased 4.1% YoY, a high rate of growth compared to other companies in the same industry. Although it is not the case that all the factors behind this can be attributed to the new formats, it is estimated that as foot traffic-type pharmacies are growing, the technique of combining "dispensing pharmacies + other formats" is functioning effectively, which contributed significantly to this increase. For QOL + LAWSON, we consider that this approach is sufficiently persuasive also in terms of feasibility. The alliances with West Japan Railway Company and BicCamera are considered to have many restrictions in terms of location, but there are fewer such restrictions with Lawson. We shall be paying attention to developments in the future.

(2) Creating value at existing pharmacies

For the growth of the existing pharmacies, the change from the expression of "growing sales" used up to the present time to "creating value" is considered to have in mind the previously described partial revisions to the Pharmaceuticals and Medical Devices Act. It seems that there is an awareness that responding to the revised Pharmaceuticals and Medical Devices Act will be a prerequisite for sales growth.

One-on-one pharmacies, which are the Company's main format, are pharmacies that have built close cooperative relationships with specific medical institutions, and "one-on-one" expresses this close cooperation. The phrase "one-on-one" invites misunderstanding (for example, our company was itself previously an offender), but it is not the case that the Company's one-on-one pharmacies are one-person pharmacies, nor does it mean that they only target one medical institution.

The Company's number of pharmacists per pharmacy, based on the number of full-time employees, is 2.86 people (FY3/19 result, calculated by FISCO from published materials). If calculated to include non-full-time employees as well, it is estimated to be slightly under 4 people. For the targeted medical institutions, if in urban areas, there are many large and small-scale medical institutions within commercial zones, and the Company is working to build close cooperative relations with each one. If looking at the By region, the image is cooperating with clinics existing around core hospitals. Even though the pharmacies are referred to as one-on-one pharmacies, the reality is that it is usually one for many targeted medical institutions (one-on-n). The Company itself does not emphasize this point much, but in the event of one-on-n, there are concerns that the boundary with foot traffic-type pharmacies becomes ambiguous. The "value" in the pharmacies that the Company opens is ultimately these strong cooperative relationships with medical institutions, and the intention to emphasize this is included in the name of "one-on-one pharmacies."

These principles for the Company's pharmacy openings are expected to be effective even for its response to the revised Pharmaceuticals and Medical Devices Act. As previously stated, if the bill for the revised Pharmaceuticals and Medical Devices Act is passed, community coordination pharmacies and specialist medical institution coordination pharmacies will become new types of pharmacy. It goes without saying that the Company's one-on-one pharmacies coordinate with medical institutions, but in addition to this, they have enhanced family pharmacy functions, so they are expected to first acquired certification as community coordination pharmacies. Among them, it is considered that the pharmacies that target institutions such as university hospitals and regional core hospitals will acquire certification as specialist medical institution coordination pharmacies that are equipped with advanced pharmaceutical management functions. The Company itself cannot estimate what percentage of its nearly 800 pharmacies will be able to obtain what kind of certification, because it does not know the requirements and definition of each pharmacy type. However, at FISCO we estimate that it is extremely highly likely that the one-on-one pharmacies opened by the Company itself will be certified as community coordination pharmacies.

For creating value at existing pharmacies, up to the present time and unrelated to the revised Pharmaceuticals and Medical Devices Act, the Company has worked toward strengthening the functions of its pharmacies, including increasing the numbers of family pharmacists and pharmacies, expanding health-support pharmacies, and developing human resources. Of these, at FISCO we consider educating and developing human resources to be the most important. The Japanese Government (the Ministry of Health, Labour and Welfare) has clarified its stance for the work duties of pharmacists of promoting the enhancement of interpersonal work, but also promoting increasing the efficiency of operations related to property damage. It is thought that this stance will be reflected in policies in the future, such as changes to the allocation of dispensing fees. With regards to this, the Company is working to improve the skills of its pharmacists by utilizing internal and external qualification systems. Also, toward improving the efficiency of objective work that is inextricably linked to this, since the past it has been working to proactively use dispensing equipment and IT technologies, and it is taking various measures in line with the government's policies.

In the mainstay CSO business, CMR share is steadily rising in the context of the increase in the number of companies utilizing CSO

3. The BPO Business growth strategy and the progress made

The BPO Business is mainly the businesses of the two subsidiaries, APO PLUS STATION and Medical Qol. As stated in the Company Profile section, the core company, APO PLUS STATION, conducts three businesses, the CSO business, the dispatching and placements services business, and the CRO business, while Medical Qol conducts the publishing-related business. So this business can be divided into four sub-segments.

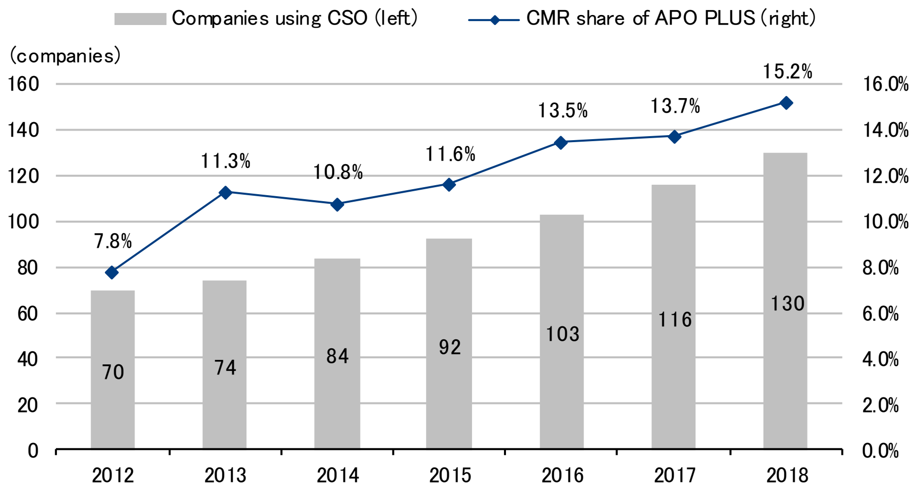
There has been no change to the BPO Business growth strategy that was described in the report dated December 17, 2018. Below, the conditions in the CSO business, which provides nearly two thirds of total net sales in the BPO Business, and the dispatching and placements services business, which is the second largest sub-segment, are updated.

(1) CSO business progress

The CSO business entails dispatching CMR (abbreviation of contract medical representatives (MR), meaning MR who are contracted and dispatched to worksites) to pharmaceutical manufacturers. The pharmaceutical industry is in the process of reducing the number of full-time MR and outsourcing their work to external companies. This is the basis for the growth scenario of CMR businesses, such as the Company's.

The number of MRs in the pharmaceutical industry peaked at 65,752 people in 2013, but has been declining since 2014. In this situation, the Company is implementing a strategy to realize profit growth through utilizing the number of companies it conducts transactions with (pharmaceutical companies), for which it ranks top in the industry, to increases its CMR share (the percentage of the number of the Company's CMR to the total number of CMR). Specifically, it is targeting a share of 20% in FY3/22. This assumes that at that time, there will be a total of 4,500 to 5,000 CMR, so provisionally calculated, it will have a structure of 900 to 1,000 CMR as 20% of this total number. In FY3/19, the Company had 530 CMR for a CMR share of 15.2%. This was an increase of 1 percentage point from 14.2% in FY3/18, so it can be said to be making steady progress. But in order to achieve the current growth target in the remaining three years up to FY3/22, it would be preferable to accelerate the pace of growth.

Trends in the number of companies utilizing CSO and the CMR share of APO PLUS STATION



Source: Prepared by FISCO from the Company's results briefing materials

(2) Progress made in the dispatching and placements services business for medical personnel

The Company's dispatching and placements services business targets medical practitioners. A strength is that it targets a wide range of occupations, but in terms of the earnings structure, it seems that about two thirds of total sales are from pharmacists, and the remainder is divided approximately into two, from nurses and registered sales staff. In addition to these three occupations, it also provides dispatching and placement services for other occupations, including midwives, public health nurses, registered dietitians, and medical clerical staff.

For the mainstay dispatching and placements services for pharmacists, the Company ranks second for scale among companies conducting a dispensing pharmacies business, (first is Pharma Staff, part of the NIHON CHOUZAI Group), and it would seem to be among the top ten of companies conducting a pharmacist dispatching and placement services business.

In FY3/19, the number of pharmacists dispatched steadily increased and higher sales were secured. In the situation of the trend in the dispensing pharmacies industry toward more advanced functions in pharmacies, it would seem that the number of pharmacists per pharmacy is increasing, and this is considered to be the basis for the growth of the pharmacist dispatch market. As this is a structural development, at FISCO we think that the growth trend in the pharmacist dispatch business will continue in the future also.

It seems that it is the placements business that will require some attention. In the placements business, revenue received per placement is large and it has a greater impact on short-term earnings than the dispatch business. However, it is considered that there is a risk in depicting a growth strategy based on the placements business. This is because while the dispatch business is a so-called stock-type model, the placements business is a flow-type model, so earnings can fluctuate greatly. It is said that there is a tendency among pharmacists holding qualifications to want to use these qualifications to be able to work with greater freedom and that they are not necessarily inclined to become fulltime employees. It is thought that this may spur earnings volatility.

As a new business, the Company announced plans to enter-into the outsourced manufacturing of pharmaceuticals business. The details are not yet clear, but the first impression is that the plan is for a low-risk business.

4. The pharmaceuticals manufacturing business

At its FY3/19 financial results briefing, the Company clarified its plan to enter-into the pharmaceuticals manufacturing field, as the specific details of the new business that it had been investigating since the past.

There remain many things that the Company has not yet clarified for this business, but the summary of what is known is as follows. The earnings model would seem to be a policy of specializing in manufacturing that is outsourced from pharmaceutical manufacturers. As the specific methods to enter into this business and the form, it is thought that the Company is not planning to newly construct plants, and instead it has in mind acquiring plants and acquiring or partially investing in pharmaceutical manufacturers. In terms of the schedule for this business, it looks like it intends to make substantial moves from FY3/20.

The background to the Company arriving at this decision is the major premise that pharmaceuticals manufacturers are focusing their resources on the research and development of new drugs, and so are outsourcing their actual production. Based on this, it seems to have arrived at this decision because it has many human resources who previously worked for pharmaceutical manufacturers, so it can draw on the expertise that they possess in pharmaceuticals-manufacturing management.

With regards to the Company's entry-into the pharmaceuticals manufacturing business, at FISCO we think that on the one hand it is comparatively low risk, but on the other hand, if it gets on track, it has the potential to grow to be a business with a sense of presence. The point for business risk is that it will first specialize in outsourced manufacturing, which will reduce the burden for R&D. In addition to not having to build new plants, this will also enable it to keep down the burden from depreciation expenses associated with capital investment. Moreover, it will lead to a reduction in the time until production is launched. M&A and acquisitions of businesses are often described as "buying time," and when considering the time period to construct a plant and after that the time required to obtain approval as a pharmaceuticals production plant, it is estimated that pharmaceutical manufacturing requires a lead time of at least two years. So it can be said that the advantage of acquisitions is particularly applicable here. Of course, the current situation is that matters such as the names and the number of pharmaceutical manufacturers from which it will outsource manufacturing, and the items to be manufactured, have not yet been determined.

One more point in the current plan is that because it is the outsourcing of pharmaceuticals manufacturing, it does not require sales activities. This is also likely to contribute to the reduction of business risk. However, there is also the point that this makes it difficult to see the synergies with the Pharmacy Business. Although there may be the negative view that there will be no synergies with the Pharmacy Business, at FISCO we think that the business model should first be rated highly on the point that it keeps down risk.

At the current time, there has been no indication regarding the sense of scale of the pharmaceuticals manufacturing business. Breaking down the previously described medium-term results targets (net sales of ¥300bn and operating income of ¥25bn), it is stated that the new business will contribute net sales of ¥30bn and operating income of ¥8.5bn. As it is considered that the pharmaceuticals manufacturing business will constitute the core of this new business, at FISCO we estimate that these figures will first be its medium-term targets. On the other hand, in the outsourced manufacture of pharmaceuticals business, if the Company's sales are seen from the side of the pharmaceutical manufacturers it is outsourcing for, depending on the manufacturing costs of the types of pharmaceuticals to be manufactured (new drugs or generics), the pharmaceutical sales prices will be equivalent to the region of ¥60bn to ¥80bn. Therefore, it is necessary to be aware that this is not at all a low hurdle to clear.

Outlook

The outlook is for both sales and profits increased in the Pharmacy Business and higher sales and profits are expected Company-wide . The focus will be on the progress made in the pharmaceuticals manufacturing business.

For FY3/20, the Company forecasts YoY rises 10.5% in net sales to ¥160,000mn, 6.4% in operating income to ¥7,500mn, 4.0% in ordinary income to ¥7,500mn, and 2.3% in profit attributable to owners of parent to ¥4,000mn.

Overview of FY3/20 outlook

(¥mn)

	FY3/19			FY3/20					
	1H	2H	Full year	1H E	YoY	2H E	YoY	Full-year E	YoY
Net sales	69,025	75,758	144,783	72,100	4.5%	87,900	16.0%	160,000	10.5%
Operating income	3,069	3,981	7,050	3,200	4.3%	4,300	8.0%	7,500	6.4%
Operating margin	4.4%	5.3%	4.9%	4.4%	-	4.9%	-	4.7%	-
Ordinary income	3,171	4,037	7,208	3,200	0.9%	4,300	6.5%	7,500	4.0%
Profit attributable to owners of parent	1,975	1,933	3,908	1,700	-14.0%	2,300	19.0%	4,000	2.3%

Source: Prepared by FISCO from the Company's financial results

In the Pharmacy Business, the forecasts are for higher sales and profits, with net sales of ¥149,600mn (up 11.5% YoY) and operating income of ¥7,100mn (up 11.8%). As there will be no revisions to dispensing fees and drug prices in FY3/20, the prescription unit price is expected to rise YoY. In addition to this, the forecast is for a double-digit increase in sales mainly because the number of prescriptions is set to grow 4% to 5% compared to the previous fiscal year from the full fiscal year contributions of the pharmacies opened and acquired in the previous fiscal year, and also from the contributions of pharmacies newly opened and acquired during the period.

For the number of newly opened pharmacies in FY3/20 (the total of the Company's own openings and from M&A), the forecast is for a net increase of 84 pharmacies for a total of 850 pharmacies at the end of the period. Although there is the uncertain element of M&A, based on the results in the last few years and that it has closed a major large-scale M&A deal at the beginning of the period (April), it can be said to have already made a smooth start toward achieving the forecast. On the other hand, it closed 19 pharmacies in the previous fiscal year, which is a comparatively large number, but in this fiscal period it seems it will return to the usual pace of closing 10 to 15 pharmacies. As a result, it seems certain that the number of pharmacies at the end of the period will exceed 800 pharmacies, which can be said to be sufficiently in sight of achieving the forecast number of 850 pharmacies.

In the BPO Business, the forecasts are for the higher sales and profits to continue from the previous fiscal year, with net sales of ¥12,500mn (up 10.2% YoY) and operating income of ¥1,650mn (up 20.8%). In the mainstay CSO business, in the context of the rise in the number of companies utilizing CMR, the adoption of the Company's CMR is steadily increasing, while it remains an industry leader in terms of the number of contracting companies. So its CMR share is continuing to rise, and it seems that this will drive the increase in sales. In the dispatching and placements services business, demand not only for pharmacists, but also for nurses and registered sales staff is set to remain strong, which is expected to contribute to the growth of earnings in the BPO segment.

At FISCO, we think that the biggest point to focus on in FY3/20 will be the developments for the pharmaceuticals manufacturing business. The Company is expected to make progress in areas such as the acquisition of plants, M&A, and capital participation from the viewpoints of reducing business risk and the time required until launch, and as the Company is aiming to launch this business at an early stage, we estimate that it it will very likely take some specific steps for the new business during this fiscal period .

Outlook by business segments for FY3/20

(¥mn)

		FY3/19			FY3/20		
		1H	2H	Full year	Full year E	YoY	Change
Net sales	Pharmacy Business	63,751	70,397	134,148	149,600	11.5%	15,452
	BPO Business	5,526	5,818	11,344	12,500	10.2%	1,156
	Prior to adjustment	69,278	76,214	145,492	162,100	11.4%	16,608
	Adjusted value	-252	-457	-709	-2100	196.2%	-1,391
	Net sales total	69,025	75,758	144,783	160,000	10.5%	15,217
Operating income	Pharmacy Business	2,850	3,499	6,349	7,100	11.8%	751
	BPO Business	657	709	1,366	1,650	20.8%	284
	Prior to adjustment	3,507	4,208	7,715	8,750	13.4%	1,035
	Adjusted value	-438	-226	-664	-1,250	88.3%	-586
	Operating income total	3,069	3,981	7,050	7,500	6.4%	450
Operating margin	Pharmacy Business	4.5%	5.0%	4.7%	4.7%	-	-
	BPO Business	11.9%	12.2%	12.0%	13.2%	-	-
	Company total	4.4%	5.3%	4.9%	4.7%	-	-

Source: Prepared by FISCO from the Company's results briefing materials

Income statement

(¥mn)

	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20	
					1H E	Full year E
Net sales	124,957	131,502	145,516	144,783	72,100	160,000
YoY	9.3%	5.2%	10.7%	-0.5%	4.5%	10.5%
Gross profit	15,793	16,876	19,648	17,863	-	-
Gross margin	12.6%	12.8%	13.5%	12.3%	-	-
SG&A expenses	9,050	10,010	10,557	10,812	-	-
SG&A expense ratio	7.2%	7.6%	7.3%	7.5%	-	-
Operating income	6,743	6,865	9,091	7,050	3,200	7,500
YoY	-	1.8%	32.4%	-22.4%	4.3%	6.4%
Operating margin	5.4%	5.2%	6.2%	4.9%	4.4%	4.7%
Ordinary income	6,688	7,065	9,333	7,208	3,200	7,500
YoY	-	5.6%	32.1%	-22.8%	0.9%	4.0%
Profit attributable to owners of parent	3,709	4,353	4,986	3,908	1,700	4,000
YoY	-	17.4%	14.5%	-21.6%	-14.0%	2.3%
Split-adjusted EPS	107.78	128.35	141.19	101.73	44.24	104.10
Split-adjusted dividend	24.00	24.00	28.00	28.00	14.00	28.00
Split-adjusted BPS	602.36	652.42	936.74	1,006.55	-	-

Note: YoY not presented for profit items in FY3/16 because of changes in accounting policy
Source: Prepared by FISCO from the Company's financial results

Balance sheet

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19
Current assets	26,534	37,824	36,578	42,288	46,127
Cash and deposits	8,236	16,523	14,174	19,820	20,220
Accounts receivable-trade	12,079	15,242	15,785	16,640	17,330
Inventory assets	4,306	4,254	4,660	4,719	5,156
Others	1,913	1,805	1,959	1,109	3,421
Noncurrent assets	33,023	31,996	44,668	44,952	48,087
Property, plant and equipment	8,276	8,969	10,373	10,544	11,079
Intangible assets	20,380	18,474	29,483	27,938	30,075
Investments and other assets	4,366	4,551	4,812	6,469	6,933
Deferred assets	15	27	43	29	21
Total assets	59,573	69,847	81,290	87,270	94,236
Current liabilities	26,312	29,344	31,183	33,991	34,424
Accounts payable-trade	15,212	18,096	17,626	18,265	17,741
Short-term loans payable, etc.	5,394	4,696	6,373	7,629	9,430
Others	5,706	6,552	7,184	8,097	7,253
Noncurrent liabilities	14,108	19,481	28,473	17,343	20,795
Long-term loans payable, etc.	12,793	18,498	27,234	16,361	19,443
Others	1,315	983	1,239	982	1,352
Shareholders' equity	19,059	20,394	21,149	35,694	38,734
Capital stock	2,828	2,828	2,828	5,786	5,786
Capital surplus	10,880	9,354	9,366	13,489	13,489
Retained earnings	6,938	9,680	13,137	17,245	20,064
Treasury stock	-1,588	-1,469	-4,182	-827	-607
Total accumulated other comprehensive income	92	368	167	241	24
Non-controlling interests	-	259	315	-	259
Total net assets	19,152	21,022	21,632	35,935	39,017
Total liabilities and net assets	59,573	69,847	81,290	87,270	94,236

Source: Prepared by FISCO from the Company's financial results

Cash flow statement

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19
Cash flow from operating activities	7,841	7,539	5,813	11,116	5,773
Cash flow from investing activities	-5,066	-3,348	-15,392	-3,775	-8,287
Cash flow from financing activities	278	4,085	7,435	-1,685	2,906
Effect of exchange rate changes on cash and cash equivalents	1	0	1	0	1
Net increase (decrease) in cash and cash equivalents	3,054	8,275	-2,143	5,656	392
Cash and cash equivalents at the beginning of the period	4,957	8,011	16,287	14,144	19,800
Cash and cash equivalents at the end of the period	8,011	16,287	14,144	19,800	20,193

Source: Prepared by FISCO from the Company's financial results

Shareholder returns

Announced its dividend forecast of ¥28 will remain unchanged in FY3/20

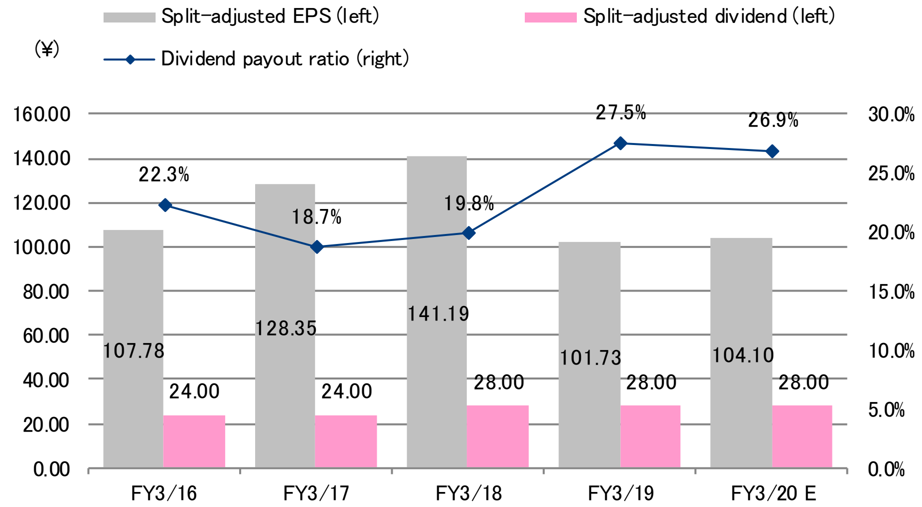
Qol primarily relies on dividends as shareholder compensation. Its basic policy advocates steady return of profits to shareholders while also retaining profits in order to pursue future business initiatives and reinforce corporate operations. It does not set an official payout ratio or other standards on dividend value.

For FY3/20, the Company has announced a dividend forecast of ¥28 (an interim dividend of ¥14 and a year-end dividend of ¥14), which is the same as in the previous fiscal year. The dividend payout ratio will be 27.5%. For FY3/20, the Company has announced an unchanged dividend forecast of ¥28 (an interim dividend of ¥14 and a year-end dividend of ¥14). Based on the forecast earnings per share (EPS) of ¥104.10, the dividend payout ratio will be 23.9%.

In FY3/19, profits decreased YoY due to the impact of the revisions to drug prices and dispensing fees, but the Company kept the dividend unchanged based on its basic stance of stably and continuously paying dividends. In FY3/20, profits are forecast to increase YoY, but it is considered that the profit-increase rate will be low, so it will keep the dividend payout ratio at around the same level as usual.

The Company also announced on June 18th that it was to buy back shares with the aim of facilitating the flexible implementation of capital policies in response to changes in its business environment. The acquisition upper limit is 1.2mn shares, which is 3.08% of outstanding shares, at a cost of ¥1.5bn, and the acquisition period is from June 19 to September 20, 2019. The Company has been buying-back its own shares since the acquisition of 1.15mn shares in after-hours trading in January 2017.

Dividend per share and dividend payout ratio



Source: Prepared by FISCO from the Company's financial results

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■ For inquiry, please contact: ■
FISCO Ltd.
5-11-9 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (Financial information Dept.)
Email: support@fisco.co.jp