COMPANY RESEARCH AND ANALYSIS REPORT

Qol Holdings Co., Ltd. (Qol)

3034

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Summary

Aims to be a Comprehensive Healthcare Company through expansion of the Pharmacy Business and growth of the Medical Related 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 stands out in its operation of "one-on-one pharmacies" and deployment of "new format pharmacies" through alliance with companies of other industries. Other businesses besides pharmacy are the BPO business, mainly involving CMRs (contract MRs), and the Pharmaceutical Manufacturing Business entered via acquisition of Fujinaga Pharm Co., Ltd. in August 2019.

1. Increased sales and profits for the first time in two years in FY3/20 driven by contribution from M&As and an increase in the unit prices of prescriptions

Qol reported FY3/20 consolidated results with ¥165,411mn in net sales (up 14.2% YoY) and ¥7,733mn in operating income (up 9.7%), achieving higher sales and profits. Main drivers of roughly double-digit sales growth and higher profits were an increase in store openings, including through acquisitions, in the mainstay Pharmacy Business (up 39 stores YoY to 805 stores) and an upturn in the unit prices of prescriptions (up 5.8% YoY) on promotion of increasing generic drug dispensing premiums. Qol also made steady progress in the BPO business, such as setting an all-time high in dispatched CMRs at 572 people.

2. Healthy expansion of the Pharmacy Business and a new growth stage in the Medical Related Business with acquisition of a pharmaceutical manufacturer as a subsidiary

The Company has retained its existing medium- to long-term growth strategy without revisions. In the Pharmacy Business, it is pursuing a two-pronged strategy of expanding scale through strategic store openings and creating value of pharmacy. Japan updated the Pharmaceutical and Medical Device Act in 2019. Revisions include lifting the ban on online medicine-usage guidance in September 2020 and adoption of an approval system of secondary category (Community Medical Coordination Pharmacies and Pharmacies with Professional Medical Organization) in 2021. These changes are likely to accelerate the dominance of top industry firms. Qol aims to expand the Pharmacy Business by raising profitability with efforts to create value at existing stores and increasing the number of stores, including through M&A activities, mainly in urban areas. Furthermore, it intends to increase the scale of the Medical Related Business (the BPO business and Pharmaceutical Manufacturing Business) and boost profitability with a goal of stabilizing overall management. In the BPO business, it plans to increase the number of CMRs and accelerate growth in the Medical Professional Referral Dispatch Business for pharmacists and nurses. In the Pharmaceutical Manufacturing Business, it hopes to expand scale by maximizing Group synergies and achieve dramatic growth through further M&A deals. Future initiatives deserve attention as Qol strives toward attaining medium-term business goals of ¥300bn in net sales and ¥25bn in operating income.

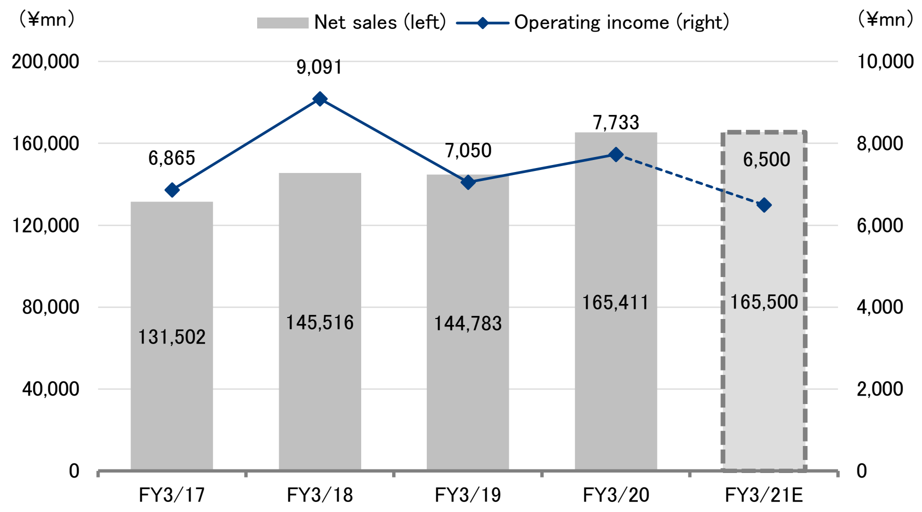
3. Forecasts lower profit on higher sales in FY3/21 assuming continued COVID-19 impact through September

Qol projects ¥165,500mn in net sales (up 0.1% YoY) and ¥6,500mn in operating income (down 15.9%) for FY3/21. It formulated this plan with an assumption of COVID-19 impact lasting through September 2020. The number of prescriptions fell sharply in April (down 16.9% YoY) because of a decline in outpatient volume at hospitals to avoid infections and extended prescription periods, and a setback in income from dispensing technical fees linked to the number of prescriptions weighed on earnings. Qol expects a 76.7% decline (or about ¥2.6bn) in 1H operating income to ¥800mn. We think this downturn mainly reflects weaker technical fee income in the Pharmacy Business. If the outbreak settles down from June, however, we expect shrinkage of the decline rate in the number of prescriptions and a possible upside in earnings. Qol plans to add about 50 stores, including through M&A. Meanwhile, the Medical Related Business aims to expand sales through reinforced CMR hiring and training and aggressive pursuit of the Medical Professional Referral Dispatch Business at APO PLUS CAREER Co., Ltd., a spin-off for the purpose of accelerating growth.

Key Points

- Increased the number of stores by 39 stores to 805 stores through M&A and lifted the unit prices of prescriptions by promoting the increase in generic drug dispensing premiums
- Expanding the Pharmaceutical Manufacturing Business as a stable income foundation and aiming for ¥300bn in net sales and ¥25bn in operating income via increased scale and improved profitability in the Medical Related Business
- Formulated the FY3/21 outlook on an assumption of COVID-19 impact lasting through September

Results trends



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

Company profile

Established in 1992. Under a holding company structure, the Company is currently developing two businesses, the Pharmacy Business and the Medical Related 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 Nihonbashi Kabutocho in 1993. In addition to opening its own stories, the Company has been expanding 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 placements and 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.

Additionally, Qol acquired Fujinaga Pharm as a subsidiary and entered the Pharmaceutical Manufacturing Business in August 2019. While the Pharmacy Business offers a stable income source, it comes with earnings fluctuation risk due to medical policy (revision of medical fees once every two years). Qol entered the Pharmaceutical Manufacturing Business as an area that supplements the Pharmacy Business and offers synergy potential with the aim of further strengthening the management base and enhancing stability. This strategy broadens business scale along with the BPO business and aims for further Group growth.

Looking at the earnings breakdown by segments (FY3/20 results), the Pharmacy Business is the primary area at 91.9% of net sales and 84.4% of operating income.

Pursuing an approach of “one-on-one pharmacies” and “new-format pharmacies” to increase the number of stores including through M&A activities

2. Pharmacy Business

(1) Business scale and positioning in the industry

The Pharmacy Business segment mainly involves running dispensing pharmacies. Looking at the number of stores as of the end of FY3/20, 784 (about 97%) of the 805 stores operated by Qol are dispensing pharmacies. The other 21 stores are shops located inside hospitals. Prescription net sales (dispensing net sales) amounted to ¥141,107mn (about 92%) of the ¥153,185mn in segment sales. Remaining sales came from product sales at pharmacies, convenience stores, and hospital shops and sales income for health foods, hygiene items, and other products on Qol’s official E-commerce site.

Regarding positioning in the dispensing pharmacy industry, Qol ranks second in number of stores among listed dispensing pharmacy chains after Ain Holdings Inc. <9627> and third in sales after Ain Holdings and Nihon Chouzai Co., Ltd. <3341>. Nihon Chouzai is ahead of Qol in sales because of its many pharmacies located in front of hospitals that generate stronger store sales.

(2) Pharmacy development strategy

A feature of the Company's pharmacy development strategy is that it conducts the business 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 store 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. Furthermore, we think this should be effective in the authorization system for pharmacies with specific functions which will take effect from August 2021 (details covered later) under the revised Pharmaceutical and Medical Device Act from 2019.

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 others.

Qol views stores opened through the alliances as a "new format" because its target customer is different from that of "one-on-one pharmacies" as described previously. "One-on-one pharmacies" have somewhat restricted customer scope that enables Qol to improve efficiencies in drug inventory management. New-format pharmacies, meanwhile, target unspecified large number of 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). Qol positions "one-on-one pharmacies" as the core model and also aims to broaden the customer base through deployment of a new format.

Overall image of the pharmacy strategy

Business format	Pharmacy type	Location	Function	Opening method	Degree of focus
QOL Pharmacies	One-on-one	Urban type. Clinic-adjacent	Primary pharmacist and pharmacy function, health support function	Organic, M&A	◎
	Foot-traffic pharmacies		Primary pharmacist and pharmacy function, health support function	Organic, M&A	
	Hospital-adjacent pharmacies	Hospitals of a certain size	Primary 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	Primary pharmacist and pharmacy function, health support function	Organic	◎

Source: Prepared by FISCO from Company materials and interviews

As for the number of stores by region, Kanto leads with 326 stores (40.5% of the total volume), Kansai is next at 132 stores (16.4%), and Koshinetsu is third at 109 stores (13.5%). While Qol has many stores in the Kanto area because of store rollouts emanating from Tokyo as the founding location, Koshinetsu and Kansai stand out in increases since the end of FY3/16 with robust additions of 96 stores and 48 stores, respectively. Main drivers were the acquisition of Niigata-based Kyoeido Co., Ltd. as a subsidiary in October 2016 in the Koshinetsu area and multiple M&A deals during 2018-19 in the Kansai area. A key Qol characteristic is its store expansion strategy that consists of self-launched stores as well as robust use of acquisitions to increase the number of stores.

Number of stores by region and population composition comparisons

	End of FY3/16 Number of stores	End of FY3/20 Number of stores	Composition ratios	Increase volume	Population composition
Hokkaido	9	10	1.2%	1	4.2%
Tohoku	67	85	10.6%	18	7.0%
Kanto	290	326	40.5%	36	34.1%
Koshinetsu	13	109	13.5%	96	4.1%
Tokai, Hokuriku	38	67	8.3%	29	14.1%
Kansai	84	132	16.4%	48	16.3%
Chugoku, Shikoku	47	49	6.1%	2	8.8%
Kyushu, Okinawa	15	27	3.4%	12	11.4%
Total	563	805	100.0%	242	100.0%

Note: Japan's population composition based on national census data from 2018
Source: Prepared by FISCO from Company materials

Carries out the Medical Professional Referral Dispatch Business mainly for the CMR (contract MR) staffing CSO service, entered the Pharmaceutical Manufacturing Business too through acquisition of a pharmaceutical firm in August 2019

3. Medical Related Business

Qol previously operated the BPO business segment, but renamed it as the Medical Related Business from FY3/21 following the addition of the Pharmaceutical Manufacturing Business in 2019.

(1) BPO business

Subsidiary APO PLUS STATION Co., Ltd. is the core unit in the BPO business and operates the CSO* business (CMR staffing), Medical Professional Referral Dispatch Business for pharmacists, nurses, and other medical personnel, and CRO business. CSO generates 60-70% of segment sales. This business directly hires and trains MRs, regardless of experience, and dispatches them to contracted pharmaceutical companies.

* CSO stands for Contract Sales Organization, and its specific business content is dispatching CMRs (contract medical representatives).

MRs conduct sales activities with doctors and medical entities for drugs manufactured and sold by pharmaceutical companies while also providing information and other services related to the product. A major trend in the pharmaceutical industry over the past few years has been a shift in new drug development from primary drugs (treating lifestyle diseases, etc.) with broad customer opportunities (medical facilities and doctors) to specialty drugs (anti-cancer drugs, etc.) with limited customer scope. Given the prospect of future excess MR employment, pharmaceutical firms are reducing the number of their own MRs and moving toward outsourcing the service.

Qol has increased the number of CMR personnel with its strengths in hiring and education against this backdrop and held a top industry position in FY3/19 with a 15.2% share and just under 50 customer companies. According to a survey by the Japan CSO Association, the industry had 3,315 CMRs utilized by 128 companies as of February 2019.

The Medical Professional Referral Dispatch Business handles referral dispatch of pharmacists, nurses, registered sales personnel, and others. It focuses on pharmacists in pursuit of synergies with Qol's Pharmacy Business and continues to achieve strong growth due to chronic shortages in pharmacists. With the aim of accelerating the growth pace, Qol plans to conduct business through APO PLUS CAREER, which was spun off from APO PLUS STATION, from October 2020. We estimate that it ranks in the industry's top 10 for number of pharmacist referral dispatch.

The CRO business provides total solutions from testing and clinical research plans to publications in ethical drug, OTC drug, food, and healthcare fields. Subsidiary Medical QOL Co., Ltd. handles publishing-related business for drug sales promotional materials and pamphlets, books, magazines, and other consigned productions targeting medical-related personnel and patients. In recent years, it established a studio inside the company to accommodate customers amid the digitalization trend and offer support services for customer Internet distribution initiatives.

* CRO is the abbreviation of Contract Research Organization and refers to assistance business and other services for clinical tests and other activities.

(2) Pharmaceutical Manufacturing Business

The Pharmaceutical Manufacturing Business is conducted by Fujinaga Pharm, which was acquired as a subsidiary in August 2019. Fujinaga Pharm is a pharmaceutical manufacturer established in 1941 (founded in February 1924) that mainly covers psychiatry and dermatology fields. It manufactures brand-name drugs Phenobal and Hydantol, generic-drug Fujinaga lithium carbonate, and other products. Sales totaled ¥1,761mn and there appears to have been modest operating income in FY9/18. Management aims to establish a unique position and expand business through investment in production facilities and increased sales to dispensing pharmacies in the Qol Group.

Business trends

Realized higher sales and profits in FY3/20 with all earnings beating Company targets

1. Overview of FY3/20 results

Qol reported FY3/20 consolidated results with ¥165,411mn in net sales (up 14.2% YoY), ¥7,733mn in operating income (up 9.7%), ¥8,024mn in ordinary income (up 11.3%), and ¥4,067mn in profit attributable to owners of parent (up 4.1%), achieving higher sales and profit. Each profit item exceeded targets set in the revised forecast announced in October 2019. While net sales slightly undershot due to the decline in the number of prescriptions in March with the COVID-19 outbreak, we think it exceeded the target but for this factor.

Furthermore, operating income incurred a setback of about ¥400mn from one-time costs due to M&A-related expenses, and the absence of ¥366mn in gain on sales of investment securities booked as extraordinary income in FY3/19 restricted profit attributable to owners of parent to a single-digit gain. Without these factors, net income also increased at a double-digit rate. EBITDA rose 10.6% YoY to ¥12,353mn, reflecting upbeat expansion of cash-based profitability.

FY3/20 Consolidated performance

(¥mn)

	FY3/19		FY3/20					
	Results	% of sales	Initial plan	Revised plan	Results	% of sales	YoY	Versus the revised plan
Net sales	144,783	-	160,000	170,000	165,411	-	14.2%	-2.7%
Gross profit	17,863	12.3%	-	-	21,094	12.8%	18.1%	-
SG&A expenses	10,812	7.5%	-	-	13,361	8.1%	23.6%	-
Operating income	7,050	4.9%	7,500	7,600	7,733	4.7%	9.7%	1.8%
Ordinary income	7,208	5.0%	7,500	7,600	8,024	4.9%	11.3%	5.6%
Profit attributable to owners of parent	3,908	2.7%	4,000	4,050	4,067	2.5%	4.1%	0.4%
EBITDA*	11,168	7.7%	-	-	12,353	7.5%	10.6%	-

* EBITDA = Operating income + Depreciation + Amortization of goodwill
Source: Prepared by FISCO from the Company's financial results

The Pharmacy Business reported ¥153,185mn in net sales (up 14.2% YoY) and ¥8,263mn in segment income prior to fees for Holding Company (up 20.2%), despite the COVID-19 impact around year-end, thanks to robust store additions, including M&A, and an upturn in the unit prices of prescriptions on promotion of generic drug dispensing premiums. The Medical Related Business, meanwhile, booked ¥12,226mn in net sales (up 14.7% YoY) on upbeat the BPO business, mainly from CMR staffing, and the addition of Fujinaga Pharm as a consolidated entity from 2H. While segment income prior to fees for Holding Company only had a modest 3.8% increase to ¥1,447mn, we think recognition of Fujinaga Pharm acquisition costs and other items affected the result. Fujinaga Pharm provided an extra just under ¥1bn in net sales and only had a minor impact on operating income, including amortization of goodwill. Amortization of goodwill climbed ¥513mn YoY to ¥2,730mn in the Pharmacy Business and ¥59mn to ¥240mn in the Medical Related Business.

Breakdown by business segments

(¥mn)

	FY3/19			FY3/20			
	Results	Fee for Holding Company	After adjustment	Results	Fee for Holding Company	After adjustment	Change rate after adjustment
Pharmacy Business							
Net sales	134,122	-	134,122	153,185	-	153,185	14.2%
Segment income	6,349	527	6,876	7,255	1,008	8,263	20.2%
% of Net Sales	4.7%	-	5.1%	4.7%	-	5.4%	-
Medical Related Business							
Net sales	10,660	-	10,660	12,226	-	12,226	14.7%
Segment income	1,366	28	1,394	1,344	103	1,447	3.8%
% of Net Sales	12.8%	-	13.1%	11.0%	-	11.8%	-

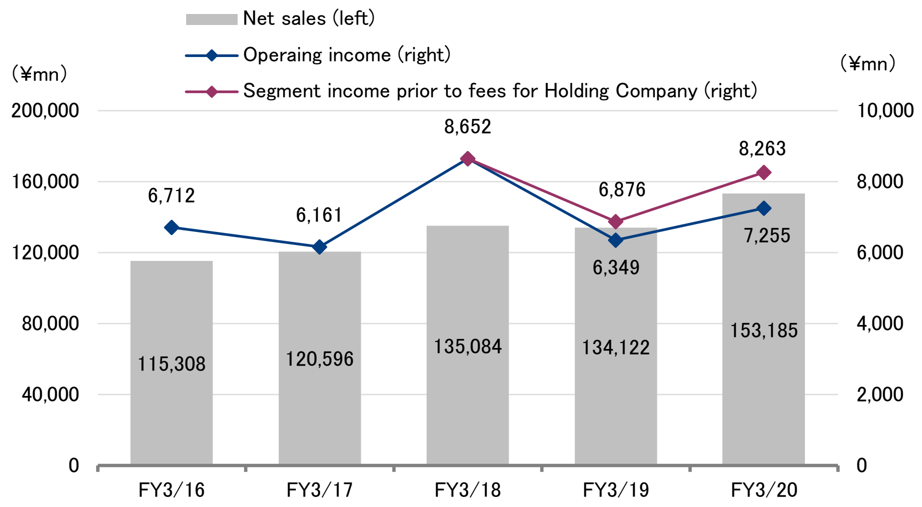
Note: Costs related to Group transactions (fee for Holdings Company) affect segment incomes following the transition to a holding company organization in October 2018.
Source: Prepared by FISCO from the Company's financial results

Increased the number of stores by 39 stores to 805 stores through M&A and lifted the unit prices of prescriptions by promoting the increase in generic drug dispensing premiums

2. Trends in the Pharmacy Business

The Pharmacy Business reported ¥153,185mn in net sales (up 14.2% YoY) and ¥7,255mn in segment income (up 14.3%). Fee for Holdings Company related to Group transactions have been affecting segment income following the transition to a holding company organization in October 2018. Segment income excluding this factor totaled ¥8,263mn (up 20.2%), and the operating margin rose 0.3ppt to 5.4%. Profitability improved on a real basis.

Results trends in Pharmacy Business segment



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

(1) Status of prescription net sales

Net sales in the Pharmacy Business consist of both dispensing pharmacy and shop sales. While dispensing net sales technically reflect sales from prescriptions (below, referred to as prescription net sales for simplicity) and product sales, we think they are roughly equal to prescription net sales.

Prescription net sales expanded 15.0% YoY to ¥141,107mn in FY3/20. Looking at the breakdown by store-opening period and store format, Qol divides self-launched stores into existing store and new store categories. Existing-store sales increased 5.6%, or ¥2,201mn, and new-store sales rose 28.1%, or ¥197mn, on full-year contributions by stores opened during FY3/19 and income from stores opened during FY3/20. Prescription sales from stores acquired through M&As, meanwhile, were up 19.4% YoY, or ¥16,026mn, providing a large sales boost (though are somewhat difficult to assess due to lack of division into existing and new store categories).

Details of prescription net sales by the pharmacy opening period and format

(¥mn)

	FY3/19			FY3/20		
	Results	Change	Growth rate	Results	Change	Growth rate
Existing pharmacies	39,542	-280	-0.7%	41,744	2,201	5.6%
Newly opened pharmacies	703	-456	-39.3%	901	197	28.1%
M&A, etc.	82,435	-563	-0.7%	98,462	16,026	19.4%
All stores	122,681	-1,300	-1.0%	141,107	18,426	15.0%

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

Dispensing net sales are the product of multiplying the number of prescriptions and the unit prices of prescriptions. In FY3/20, the number of prescriptions rose 8.7% YoY to 14,823,000 and the unit prices of prescriptions climbed 5.8% to ¥9,519. These are both healthy advances. We will examine look at these values in detail because they are affected by other factors such as the opening period, M&A, and others.

Total number of prescriptions rose 8.7% YoY, though the number of prescriptions in existing stores, which are closer to the actual level, slowed from the previous fiscal year's 4.1% increase to a 2.8% increase. We attribute the slowdown to fewer influenza patients in the current season and a decline in the number of prescriptions in March because of the COVID-19 outbreak. These factors were responsible for net sales missing the target. The number of patients going to hospital declined as people sought to avoid infection, and prescription periods lengthened.

Number of prescriptions by store-opening period and format (details)

(thousands)

	FY3/19			FY3/20		
	Results	Change	Growth rate	Results	Change	Growth rate
Existing pharmacies	3,959	157	4.1%	4,068	109	2.8%
Newly opened pharmacies	115	-8	-7.1%	125	9	8.5%
M&A, etc.	9,563	405	4.4%	10,628	1,065	11.1%
All stores	13,638	553	4.2%	14,823	1,184	8.7%

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

The unit prices of prescriptions climbed 5.8% YoY on an overall basis and recovered to a 2.7% increase at the existing-store level (from a 4.6% decline in FY3/19), which is closer to reality. Change in the unit prices of prescriptions largely stems from three factors. One is drug prices. This fundamentally refers to the downward trend due to drug price revisions. Another is the drug sales breakdown. A typical example is impact from change in prescription volume for high-priced drugs. The third factor is dispensing technical fees. While revisions to dispensing fees implemented at a pace of once every two years often lower fees, it is possible to recover and raise fees subsequently through various point acquisition measures.

Drug price updates conducted in FY3/20 for the consumption tax hike in October 2019 had a modest negative impact. These changes did not affect the unit prices of prescriptions result because of lengthened prescription periods through year-end (raising the average price). Dispensing technical fees, meanwhile, improved by promoting measures to increase basic dispensing fees, community support system incentives, generic drug dispensing system incentives, and others. In particular, the generic drug handling ratio (volume basis) at the Group level increased from 79.1% in April 2019 to 81.0% in April 2020. Qol's initiatives clearly paid off with the percentage of stores obtaining the maximum 26 points (stores with handling ratio of 85% or more) expanding from 30.8% in April 2019 to 46.0% in March 2020 and substantially beating the initial goal of 40%. Dispensing technical fees reflect assessment of initiatives to bolster capabilities as a family pharmacy and lower pharmacy costs. Since this corresponds to store added value, the extent to which the average technical fee is raised strongly affects store profitability.

Unit prices of prescriptions by store-opening period and format (details)

(¥)

	FY3/19			FY3/20		
	Results	Change	Growth rate	Results	Change	Growth rate
Existing pharmacies	9,987	-486	-4.6%	10,259	272	2.7%
Newly opened pharmacies	6,098	-3,244	-34.7%	7,197	1,099	18.0%
M&A, etc.	8,620	-443	-4.9%	9,264	644	7.5%
All stores	8,995	-480	-5.1%	9,519	524	5.8%

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

(2) Status of opening and closing of pharmacies and M&A

The Company had a net increase of 39 stores in FY3/20 with 60 new stores and 21 closures (including the 3 new openings and 3 closures for shops). Breakdown of the 57 newly opened dispensing pharmacies was 18 self-launched stores and 39 acquired stores through M&A.

Status of changes in pharmacies in FY3/20

		End of FY3/19	FY3/20 Full year			End of FY3/20
			Opened		Closed	
QOL Pharmacies		698	Self-launched	14	15	736
			M&A, etc.	39		
New-format	Lawson	35	2		2	35
	BIC CAMERA	5	0		0	5
	JR-West	7	2		1	8
Shops		21	3		3	21
Total		766	60		21	805

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

In store formats, 10 stores of the 14 self-launched stores were ordinary "one-on-one" Qol Pharmacies and four stores were the new format (2 Lawson stores, 2 West Japan Railway Group stores). (Stores acquired through M&As are generally categorized as one-on-one pharmacies.)

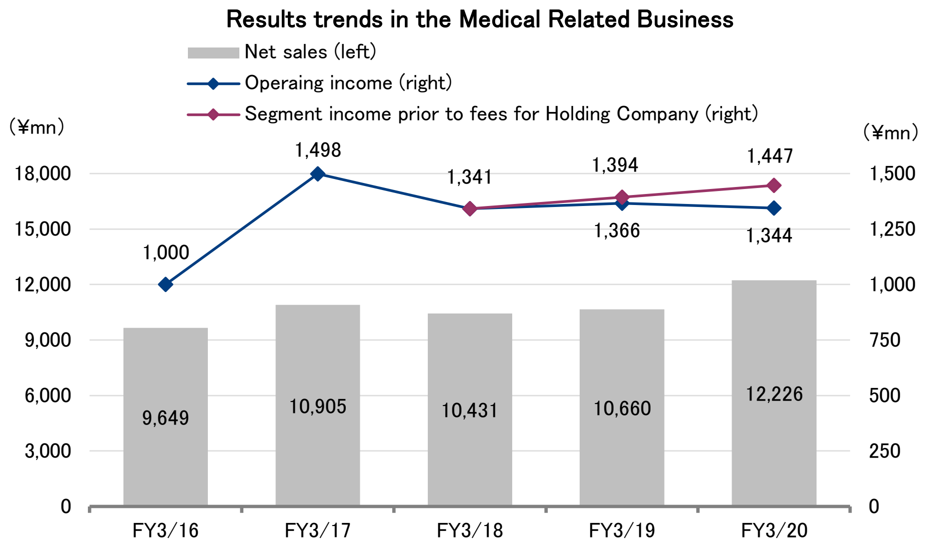
As for M&A activities, Qol acquired Natural Life Co., Ltd. (19 stores in Ishikawa Prefecture, 9 stores in Saga Prefecture) in April 2019 and SERA MEDIC Co., Ltd. (9 stores in Osaka Prefecture and 1 store in Nara Prefecture) in August 2019 as subsidiaries. Both groups have healthy businesses and retain customers with deep-rooted local strategies. Sales scale per store hence is relatively large. These M&As should contribute to building networks in these areas by giving store networks in areas where Qol's presence is relatively thin due to its heavy reliance on the Kanto area.

The Hokuriku region, where Natural Life operates, offers room to expand store volume because of the low percentage of separation of medical and dispensing practices. Sera Medic is based in the eastern area of Osaka Prefecture where the Qol Group's presence was thinner. We think this addition has important implications because Kinki is a strategic area for store expansion as one of the three major metropolitan areas along with Kanto and Chubu.

The core CSO business reached an all-time high in the number of CMRs, steadily expanding the Pharmacist Referral Dispatch Business at a double-digit pace

3. Trends in the Medical Related Business

The Medical Related Business booked ¥12,226mn in net sales (up 14.7% YoY) and ¥1,344mn in segment income (down 1.6%). While profit fell because of business management fee impact on segment income, it rose prior to management fee deduction by 3.8% to ¥1,447mn.



Source: Prepared by FISCO from the Company's financial results and FY3/20 1H results report

In the BPO business, sales increased in the CSO service, the main area for APO PLUS STATION. Demand in the CMR industry declined from 2017, but switched to a recovery in 2019 on progress in the shift from MRs to CMRs. Key sources of stronger sales in this environment were aggressive hiring and initiatives to cultivate CMRs with robust expertise. The number of CMRs for dispatch rose from 530 people in the previous fiscal year to 572 people, setting an all-time high. Furthermore, the referral dispatch business for pharmacists and other medical-related personnel benefited from upbeat demand amid chronic personnel shortages, and Pharmacist Referral Dispatch Business sales rose 43% YoY.

Qol added the Pharmaceutical Manufacturing Business to consolidated scope in 3Q, providing an extra just under ¥1bn in net sales.

Medium- to long-term growth strategy and progress

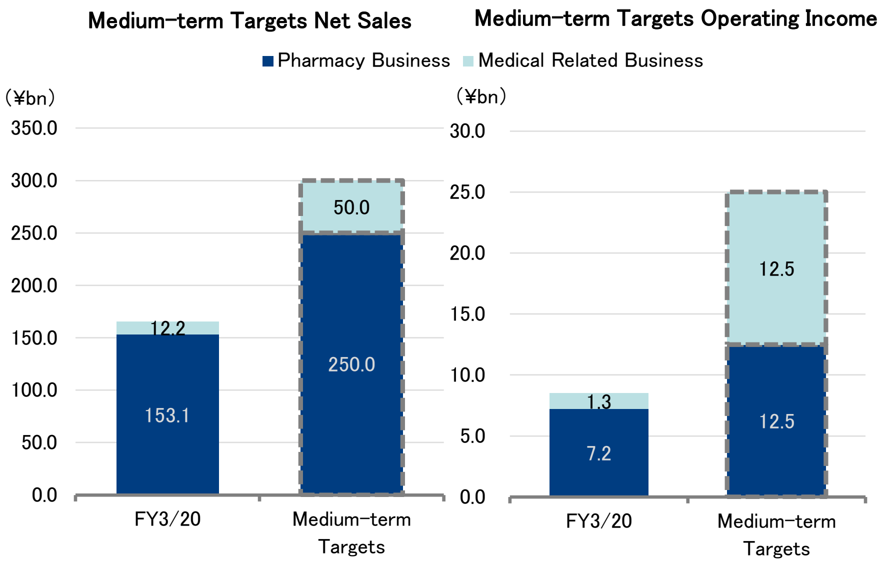
Expanding the Pharmaceutical Manufacturing Business as a stable income foundation and aiming for ¥300bn in net sales and ¥25bn in operating income via increased scale and improved profitability in the Medical Related Business

1. Overview of the medium-term growth strategy

The Company's medium-term targets and growth strategy have always been consistent and therefore no changes have been made so far.

The Company is targeting ¥300bn in net sales and ¥25bn in operating income as medium-term numerical goals. Segment targets are ¥250bn in net sales, a 1.6-fold YoY increase, in the Pharmacy Business and ¥50bn in net sales, a 4.1-fold increase, in the Medical Related Business. Operating income targets are both ¥12.5bn. The Medical Related Business breakdown consists of ¥20bn in net sales and ¥4bn in operating income from the BPO business and ¥30bn in net sales and ¥8.5bn in operating income from the Pharmaceutical Manufacturing Business and other new business. The management strategy is to build a balanced earnings portfolio in the future through the continued expansion of the Pharmacy Business and improved profitability of the Medical Related Business by further increasing its size.

Medium-term targets and ideal business portfolio



Source: The Company's results briefing materials

In the Pharmacy Business, the Company retained its two-pronged policy of (1) expanding scale through strategic store openings and (2) creating value of pharmacies.

The Medical Related Business, meanwhile, has an ambitious strategy of increasing sales in the BPO business and Pharmaceutical Manufacturing Business and attaining an operating margin of at least 20%. In the BPO business, the Company hopes to achieve rapid growth by expanding the CSO business at APO PLUS STATION, the core operating company, and strategically growing the Medical Professional Referral Dispatch Business for pharmacists, nurses, and other medical-related personnel. In the Pharmaceutical Manufacturing Business, meanwhile, it wants to bolster the income foundation by proactively handling drugs produced and sold by Fujinaga Pharm at Group pharmacies and utilize its network with pharmaceutical firms to broaden business scope with expansion of consigned manufacturing business. It also intends to accelerate growth with further M&A activities if it successfully builds a business expansion model at Fujinaga Pharm.

Growth strategies of each business segments and progress are as follows.

Pursuing growth by expanding scale through strategic store openings and creating value of pharmacies

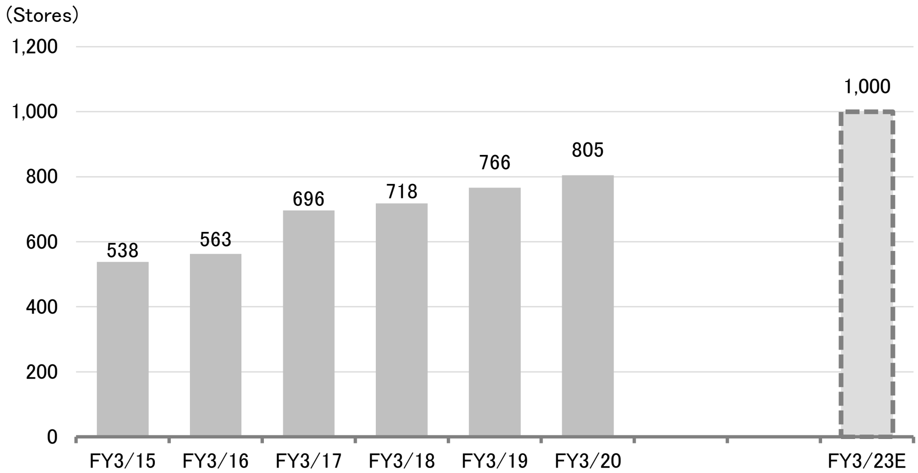
2. Pharmacy Business growth strategy and progress

In the dispensing pharmacy industry, the Company aims to achieve growth by expanding scale through strategic store openings and creating value of pharmacies.

(1) Expanding scale through strategic pharmacy openings

Qol set a goal of increasing the number of stores from 805 stores at the end of FY3/20 to 1,000 stores in FY3/23. It intends to focus on areas with large populations, such as the three major urban areas and efficiently increase the number of stores with a dominance opening strategy. For future M&As too, it is targeting companies that can enhance local collaboration in major city areas. This includes areas located close to pharmaceutical universities where it is relatively easy to hire pharmacists. Qol plans to add about 50 stores through self-launch and M&A. As the store format, it continues to open one-on-one pharmacies that are its strength and target the same model in M&A. While it closes a certain number of stores each year, main reasons for closures are vacating locations at properties slated for redevelopment and shutdowns due to aging of doctors issuing prescriptions. Despite resulting continuation of closures at some level, Qol should be capable of reaching the 1,000-store goal with new openings and acquisitions at an even faster pace. We think this is likely to be a passage point in the overall growth trajectory. Qol has created pharmacist hiring teams in each region as part of efforts to bolster hiring capabilities and support a hiring pace of 200 people a year.

Trends in the number of stores



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

Number of new store openings

	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20
Newly opened pharmacies (self-launched)	16	11	18	20	17	14
M&A	16	34	125	14	50	39
Shops	0	0	0	1	0	3
Total	32	45	143	35	67	56

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

Qol is also adding new format pharmacies through collaboration with partners in other industries each year. It had 48 new-format stores at the end of FY3/20, an increase of 9 stores since FY3/16. The breakdown includes 35 Lawson collaborative stores (up by 3 stores), 5 stores located at BIC CAMERA locations (up by 1 store), and 8 Station QOL stores (up by 5 stores). Thanks to heightened awareness of mainstay Lawson collaborative stores, sales have risen 17.4% versus FY3/16 and profitability is improving too with progress made in accumulating know-how. However, some stores are struggling to achieve profits. Qol intends to implement scrap & build as necessary while fulfilling the role of social infrastructure through deployment of stores in highly convenient locations and recruiting self-medication* demand.

* The World Health Organization (WHO) defines self-medication as "the use of drugs to treat self-diagnosed disorders or symptoms, or the intermittent or continued use of a prescribed drug for chronic or recurrent disease or symptoms."

M&A activity by large companies has picked up in the dispensing pharmacy industry over the past few years, and we expect further acceleration of this trend. Japan currently has roughly 59,000 dispensing pharmacies nationwide with a market size of about ¥8trn. Total sales of the top 10 firms in dispensing net sales amounts to about ¥1trn, which is only an 18% share of the overall market. We see room for further progress in market consolidation by major companies considering the 71% share held by the top 10 firms in the drugstore industry. Qol, the No. 3 dispensing pharmacy operator, only holds a 1.9% market share in terms of net sales and has significant growth potential. The revised Pharmaceutical and Medical Device Act from 2019 is likely to serve as a catalyst in accelerating the consolidation trend.

Key revision points are lifting the ban on online drug administration guidance (from September 2020), requiring an understanding of patient drug usage as necessary, not only when issuing a prescription, and providing suitable medicine-usage guidance (from September 2020), and deployment of a governor authorization system for pharmacies based on function with the aim of supporting appropriate pharmacy choices by patients (from August 2021).

Lifting the ban on online drug administration guidance improves customer convenience, and reduces the competitiveness of pharmacies unable to support online capabilities. Additionally, the obligation to give medicine-usage guidance during the period of using medications increases interaction with people and might substantially raise the burden on smaller stores. Adoption of the pharmacy authorization system will clarify the functionality of pharmacies by classifying them into two categories: Community Medical Coordination Pharmacies and Pharmacies with Professional Medical Organization. Pharmacies not satisfying a certain level of functionality will not obtain authorization and face the risk of a decline in the number of their patients.

The Ministry of Health, Labour, and Welfare formulated and disclosed a "Pharmacy Vision for Patients" in 2015 that cited "Primary Pharmacists and Pharmacies" and "Advanced Pharmaceutical Management" as specific functions required of pharmacies. Since revisions to incentives in the revised dispensing fee sought to bolster these functions, the authorization system to be adopted this time is on track with existing initiatives. We expect the latest revisions to widen the gap in competitiveness between major firms with business wherewithal and smaller pharmacies and contribute to further consolidation by major firms. This trend should provide an excellent opportunity for Qol to expand its store volume through M&A.

(2) Creating value of pharmacies

In response to pharmacy function differentiation accompanying revisions to the Pharmaceutical and Medical Device Act and amid further clarification of a shift from drug preparation tasks to human interaction tasks in revised medical fees from April 2020, Qol is promoting a strategy of acquiring loyal customers and raising profitability through creating value of pharmacies by enhancing the communication capabilities of pharmacists, a strength of the one-on-one pharmacy model, developing high-quality pharmacies, boosting work efficiency through utilization of advanced technologies, and raising service quality (structural shift from product-centric activities to people-centric activities).

To accommodate pharmacy function differentiation, Qol aims to leverage its one-on-one pharmacy advantage and foster pharmacies preferred by customers through enhancement of information collaboration with medical entities, promotion of home medicine, and expansion of follow-up efforts for Community Medical Coordination Pharmacies. It intends to train personnel with advanced skills through improvements in internal education because of the need to conduct high-level pharmaceutical control for Pharmacies with Professional Medical Organization.

An example of utilizing advanced technology is trial deployment of an automated drug picking system aimed at reducing pharmacist workload and shortening patient wait time at the Ebisu store. Qol plans to assess the effect and then steadily deploy it at various stores. It also has started a drug delivery service using a locker installed at stores for the purpose of manpower savings and enhanced patient convenience. It wants to deploy a communication service using an avatar robot and accelerate use of online medicine-usage guidance because of the prospect of wider inroads by distance medical services. Qol has more than 3mn QOL card members and intends to use this big data to enhance service quality further.

Aims to promote CMR dispatch growth, accelerate growth in the Medical Professional Referral Dispatch Business, and utilize Group synergies in the Pharmaceutical Manufacturing Business

3. Medical Related Business growth strategy and progress

Qol calls for “deepening of specialty” in the BPO business and “maximizing of Group synergies” in the Pharmaceutical Manufacturing Business as a growth strategy in the Medical Related Business with the hope of expanding sales scale and raising profitability.

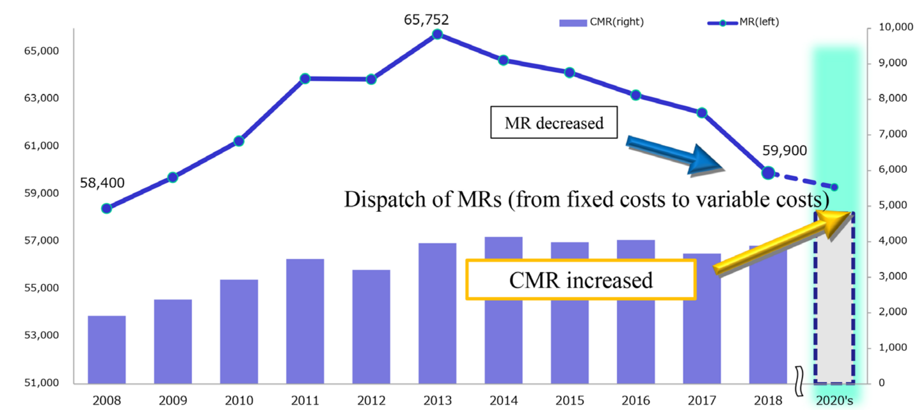
(1) BPO business

In the BPO business, besides growth in CMR staffing, Qol wants to strengthen the Medical Professional Referral Dispatch Business for pharmacists, nurses, and other medical human resources in robust demand and thereby accelerate the growth pace.

(2) CSO business

Market direction in CMR service under the CSO business shows a growing switch to CMRs as pharmaceutical firms reduce their MR employment levels further against a backdrop of a shift in new drugs from primary drugs to specialty drugs, as explained above. While the CMR ratio among MRs is still only about 5% in Japan, since US and European markets have reached 10-20% levels, we think Japan’s CMR ratio is likely to climb to about 10% relatively soon. According to the Japan CSO Association, active CMRs totaled just over 3,300 people as of February 2019. We expect a rise to more than 5,000 people if the CMR ratio improves to 10% or higher.

Market trends



CMR Ratio	3.0%	3.8%	5.0%	5.3%	5.6%	6.3%	5.9%	6.1%	5.6%	5.0%

(Reference: MR White Paper published by MR Education & Accreditation Center of Japan, research result made by Japan CSO Association related to CSO business in Japan)

Source: The Company's results briefing materials

Given this prospect, Qol outlined goals of expanding CMR personnel from 572 people at the end of FY3/20 by 1.7 times to 1,000 people at the end of March 2022 and a 20% industry share. It intends to ramp up hiring in support of this effort. An advantage of Qol's CSO business is the training staff of 20 people for MR education, a top-class level in the industry. The team has a robust educational curriculum that broadly covers from basic areas to advanced specialties. In particular, CMR demand is rising in oncology and other specialized areas recently, and we think this should enable Qol to further leverage its strength.

In the Medical Professional Referral Dispatch Business, meanwhile, Qol plans to pursue opportunities through APO PLUS CAREER, a newly established spin-off from APO PLUS STATION, with the aim of accelerating the growth pace from October 2020. Demand for pharmacists, nurses, and other medical personnel is likely to expand amid chronic medical personnel shortages and diversification of workstyles, and Qol aims to improve synergies, such as dispatching pharmacists to Group pharmacies, and expand business by bolstering sales operations. Key points for achieving growth in pharmacist referral dispatch are obviously recruitment of customers looking for staff and also the extent to which it is capable of increasing registrants. We will be closely monitoring Qol's measures. Qol ranks second in the pharmacist referral dispatch business among firms that operate dispensing pharmacy businesses and in the top 10 among all pharmacist referral dispatch operators.

The Company is also striving to enhance arrangement of nurses, public health nurses, registered salespeople, and other medical professionals other than pharmacists. While many other companies in the same industry focus on placements business for doctors with expensive annual salaries that support strong profitability, the Company does not intend to enter this area because of strong existing companies and concerns about tough competition due to increase in market entrants. At FISCO, we think this choice is very rational and reasonable.

(3) Pharmaceutical Manufacturing Business

The Company decided to enter the Pharmaceutical Manufacturing Business with the aim of becoming a Comprehensive Healthcare Company. Besides being a top-class dispensing pharmacy chain in Japan, it dispatches CMRs for pharmaceutical sales as a CSO business and supports drug R&D activities as a CRO business. By entering the Pharmaceutical Manufacturing Business, Qol aims to provide seamless robust service in the healthcare field that begins with R&D and extends to manufacturing, sales, and pharmacy provision.

Aiming to be a Comprehensive Healthcare Company

Source: The Company's results briefing materials

Qol targets ¥300bn in net sales and ¥25bn in operating income as medium-term result goals, including ¥30bn in net sales and ¥8.5bn in operating income in the Pharmaceutical Manufacturing Business and other new businesses. It aims to maximize Group synergies and realize goals through utilization of M&A. In Group synergies, as explained above, it wants to bolster sales of products with Fujinaga Pharm at Group dispensing pharmacies and strengthen consignment manufacturing from pharmaceutical firms by leveraging its network. It currently has just under ¥2bn in net sales and is likely to need capital investments to bolster capacity in order to attain goals at some point. These outlays might weigh on profits depending on the scale. Nevertheless, it is first important to solidify the current business foundation and generate a growth trend.

Outlook

Formulated the FY3/21 outlook on an assumption of COVID-19 impact lasting through September

● FY3/21 outlook

The Company forecasts ¥165,500mn in net sales (up 0.1% YoY), ¥6,500mn in operating income (down 15.9%), ¥6,500mn in ordinary income (down 19.0%), and ¥3,300mn in profit attributable to owners of parent (down 18.9%) for FY3/21. It formulated the plan with an assumption of COVID-19 impact lasting through September 2020. While there is almost no impact on the Medical Related Business, the number of prescriptions fell sharply in April (down 16.9% YoY) in the Pharmacy Business, and a setback in income from dispensing technical fees linked to the number of prescriptions weighed on earnings. If the outbreak settles down, however, we expect moderation of the decline rate in filled prescription volume and a possible upside in 1H earnings.

FY3/21 outlook

(¥mn)

	FY3/20		FY3/21					
	Full year Results	YoY	1H Plan	YoY	2H Plan	YoY	Full year Plan	YoY
Net sales	165,411	14.2%	77,500	-4.6%	88,000	4.6%	165,500	0.1%
Operating income	7,733	9.7%	800	-76.7%	5,700	32.5%	6,500	-15.9%
Ordinary income	8,024	11.3%	800	-77.9%	5,700	29.3%	6,500	-19.0%
Profit	4,067	4.1%	200	-89.1%	3,100	38.6%	3,300	-18.9%
EBITDA	12,353	-	-	-	-	-	11,382	-7.9%
Profit per share (yen)	107.23	-	5.27	-	81.73	-	87.00	-

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

Financial Results by Business Segment

(¥mn)

	FY3/20 Results	FY3/21		
		Company plan	Increase (decrease)	Change rate after adjustment
Pharmacy Business				
Net sales	153,221	152,356	-865	-0.5%
Segment income	7,255	5,887	-1,368	-18.8%
% of Net Sales	4.7%	3.9%	-0.8%	-
Medical Related Business				
Net sales	13,452	15,832	2,380	17.7%
Segment income	1,344	1,784	440	32.7%
% of Net Sales	10.0%	11.2%	1.2%	-

* Net sales shown prior to deducting inter-segment transactions
Source: Prepared by FISCO from the Company's results briefing materials

(1) Pharmacy Business

In the Pharmacy Business, Qol targets ¥152,356mn in net sales (prior to deducting inter-segment transactions; down 0.5% YoY) and ¥5,887mn in operating income (down 18.8%) for FY3/21. It expects to add about 50 new stores, including through M&A. Dispensing fee revisions for April 2020 appear to have only moderately affected Qol*, and the Company intends to continue promoting initiatives, such as increasing generic drug pharmacy operation premium, with the aim of raising the average technical fee.

* Adjustments to basic dispensing fees in the latest revisions took the heaviest toll on pharmacy chains with a concentration rate of just over 95% and roughly 20 stores (about ¥4bn in annual sales). This corresponds to smaller companies running on-site pharmacies and pharmacies in front of medical institutions.

Below we review anticipated impact of the COVID-19 outbreak on results. Qol fills an average of 1.23mn prescriptions a month. Since the technical fee applied to individual prescriptions is fixed, fluctuations in the total number of prescriptions directly affect earnings. We estimate a setback in operating income of ¥240mn a month (123,000 prescriptions x ¥2,000) assuming a 10% YoY decline in the number of prescriptions and a ¥2,000 technical fee. We hence think the trend in the number of prescriptions is a vital factor in FY3/21 income.

(2) Medical Related Business

In the Medical Related Business, Qol targets ¥152,832mn in net sales (prior to deducting inter-segment transactions; up 17.7% YoY) and ¥1,784mn in operating income (up 32.7%) in FY3/21. This forecast factors in full-year contribution from Fujinaga Pharm results and growth in the CSO business and Medical Professional Referral Dispatch Business.

While COVID-19 itself has almost no impact, Qol anticipates stronger profitability due to increase in the operating rate of CMR dispatch and boosts from improved business efficiency at APO PLUS CAREER and curtailed investments.

Income statement and main indicators

(¥mn)

	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20
Net sales	124,957	131,502	145,516	144,783	165,411
YoY growth rate	9.3%	5.2%	10.7%	-0.5%	14.2%
Gross profit	15,793	16,876	19,648	17,863	21,094
Gross margin	12.6%	12.8%	13.5%	12.3%	12.8%
SG&A expenses	9,050	10,010	10,557	10,812	13,361
SG&A expense ratio	7.2%	7.6%	7.3%	7.5%	8.1%
Operating income	6,743	6,865	9,091	7,050	7,733
YoY growth rate	-	1.8%	32.4%	-22.4%	9.7%
Operating margin	5.4%	5.2%	6.2%	4.9%	4.7%
Ordinary income	6,688	7,065	9,333	7,208	8,024
YoY growth rate	-	5.6%	32.1%	-22.8%	11.3%
Profit	3,709	4,353	4,986	3,908	4,067
YoY growth rate	-	17.4%	14.5%	-21.6%	4.1%
Split-adjusted EPS	107.78	128.35	141.19	101.73	107.23
Split-adjusted dividend	24.00	24.00	28.00	28.00	28.00
Split-adjusted BPS	602.36	652.42	936.74	1,006.55	1,074.57

Note: YoY not presented for profit items in FY3/16 because of changes in accounting policy

Balance sheet

(¥mn)

	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20
Current assets	37,824	36,578	42,288	46,127	45,881
Cash and deposits	16,523	14,174	19,820	20,220	15,802
Accounts receivable-trade	15,242	15,785	16,640	17,330	22,862
Inventory assets	4,254	4,660	4,719	5,156	5,224
Others	1,805	1,959	1,109	3,421	1,993
Noncurrent assets	31,996	44,668	44,952	48,087	56,976
Property, plant and equipment	8,969	10,373	10,544	11,079	13,055
Intangible assets	18,474	29,483	27,938	30,075	36,642
Investments and other assets	4,551	4,812	6,469	6,933	7,278
Deferred assets	27	43	29	21	14
Total assets	69,847	81,290	87,270	94,236	102,872
Current liabilities	29,344	31,183	33,991	34,424	38,730
Accounts payable-trade	18,096	17,626	18,265	17,741	18,623
Short-term loans payable, etc.	4,696	6,373	7,629	9,430	11,626
Others	6,552	7,184	8,097	7,253	8,481
Noncurrent liabilities	19,481	28,473	17,343	20,795	23,139
Long-term loans payable, etc.	18,498	27,234	16,361	19,443	21,024
Others	983	1,239	982	1,352	2,115
Shareholders' equity	20,394	21,149	35,694	38,734	40,532
Capital stock	2,828	2,828	5,786	5,786	5,786
Capital surplus	9,354	9,366	13,489	13,489	13,490
Retained earnings	9,680	13,137	17,245	20,064	23,057
Treasury stock	-1,469	-4,182	-827	-607	-1,801
Total accumulated other comprehensive income	368	167	241	24	-15
Non-controlling interests	259	315	-	259	485
Total net assets	21,022	21,632	35,935	39,017	41,001
Total liabilities and net assets	69,847	81,290	87,270	94,236	102,872

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

Cash flow statement

(¥mn)

	FY3/16	FY3/17	FY3/18	FY3/19 1H	FY3/19	FY3/20
Cash flow from operating activities	7,539	5,813	11,116	1,596	5,773	4,468
Cash flow from investing activities	-3,348	-15,392	-3,775	-1,667	-8,287	-8,670
Cash flow from financing activities	4,085	7,435	-1,685	2,098	2,906	-225
Cash and cash equivalents at the end of the period	16,287	14,144	19,800	21,828	20,193	15,766

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

Shareholder return

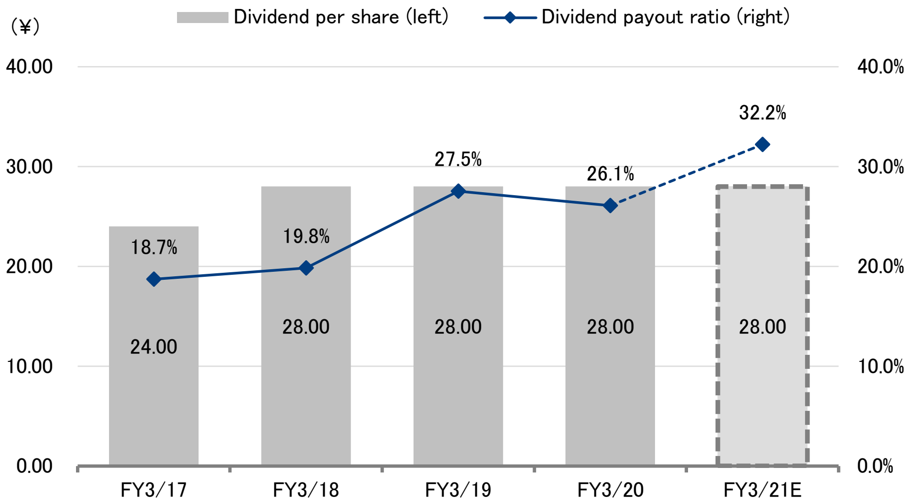
Adheres to stable profit return as a basic policy and announced reinforcement of the shareholder benefit program

Qol primarily relies on dividends as shareholder compensation. Its basic policy is to make stable 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.

Based on this basic policy, Qol is planning a flat dividend (YoY) in FY3/21 at ¥28 (dividend payout ratio of 32.2%). It also implemented share buybacks for 1mn shares (¥1.5bn increase in purchase value) in FY3/20 as part of carrying out dynamic capital policy and intends to consider further share buybacks if necessary in the future.

Additionally, Qol disclosed expansion of content in the shareholder return program in February 2020 with the aim of increasing long-term shareholders. It previously provided a single package (worth ¥3,000) of "Delicious Green Juice with Dietary Fiber," a Group private-brand product to shareholders as of the end of March each year. In the updated version, it intends to give catalog gifts, mainly covering Group private-brand products, selected by shareholders in accordance with the number of shares owned and duration. Shareholders who hold the basic unit of 100 shares receive a gift worth ¥3,000 when held for less than a year and ¥5,000 when held for a year or longer. Investment yield combining the dividend and shareholder benefit works out to the 4% range for ownership of less than a year and about 6% for a year or longer using the closing price on June 11 (¥1,247).

Dividend per share and dividend payout ratio



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

Content of shareholder benefits

Sustained ownership period	Number of shares owned	
	100-499 shares	500 shares or more
Less than a year	Catalog gifts worth ¥3,000	Catalog gifts worth ¥5,000
One year or longer	Catalog gifts worth ¥5,000	Catalog gifts worth ¥7,000

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