COMPANY RESEARCH AND ANALYSIS REPORT

Qol Holdings Co., Ltd. (Qol)

3034

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Summary

Is steadily implementing measures to achieve the medium-term target of ¥25bn in operating income

Qol Holdings Co., Ltd. (Qol) <3034> ("the Company") 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). It stands out in its operation of "one-on-one pharmacies" and deployment of "new format pharmacies" through alliance with companies in other industries. In fields other than dispensing pharmacies, in addition to the CSO* business, which is mainly CMR (contract MRs) dispatches, it made a subsidiary of Fujinaga Pharm Co., Ltd., and expanded into the Pharmaceutical Manufacturing Business in August 2019.

* CSO stands for Contract Sales Organization and involves CMR (Contract Medical Representative) dispatch services.

1. In the 1H FY3/21 results, sales and profits declined due to the impact of the COVID-19, but were still higher than the initial forecasts

In the 1H FY3/21 (April to September 2020) consolidated results, net sales decreased 2.7% year-on-year (YoY) to ¥79,090mn and operating income declined 39.4% to ¥2,080mn. In the Medical Related Business, sales and profits steadily increased by double digits, including from the growth of the CSO business and the contribution to earnings by Fujinaga Pharm. However, sales and profits were lower mainly because of the declines in sales and profits in the mainstay Pharmacy Business, as people refrained from visiting medical facilities for consultations due to the impact of the COVID-19 pandemic, as well as a decline in the number of prescriptions due to the lengthening of prescription periods. However, results were still higher than the initial forecasts (net sales of ¥77,500mn and operating income of ¥800mn). Although it initially seemed that the impact of people refraining from visiting medical facilities would continue until around September 2020, the number of outpatient visits to medical facilities gradually recovered from July onwards and the number of prescriptions exceeded the forecast. In addition, the effects of outputs of cost optimization project, including reviewing deployment of personnel in pharmacies, contributed to the results.

2. For the FY3/21 results, has left the initial forecasts unchanged because the impact of the COVID-19 is uncertain

For the FY3/21 results, the Company has kept its initial forecasts of a 0.1% YoY increase in net sales to ¥165,500mn and a 15.9% decline in operating income to ¥6,500mn. This is because the number of people infected with the COVID-19 has once again started to increase and the impact of this on the future is uncertain. In fact, dispensing fees in October 2020 declined 4.9% compared to the same month in the previous fiscal year, so the situation continued unchanged from the 1H in which it declined 4.1%. In the Pharmacy Business, taking into account the effects of new store openings, the full fiscal year forecasts project net sales to decline 0.5% YoY and segment income to decrease 18.8%. However, new store openings, including those from M&A, are slightly behind schedule due to the impact of the COVID-19, and there is the risk that net sales will be below forecast. However, because orders of AIR BUSTER ozone sterilization deodorizers (hereafter, AIR BUSTER), which has been launched in the market as a countermeasure against the COVID-19 pandemic, are strong, annual sales of around ¥2bn are expected. This product was not included in the forecasts, so even if dispensing pharmacy sales are below forecast, the sales of this product may cover for this. Conversely, in the Medical Related Business, the forecasts are for net sales to increase 17.7% YoY and segment income to rise 32.7%.

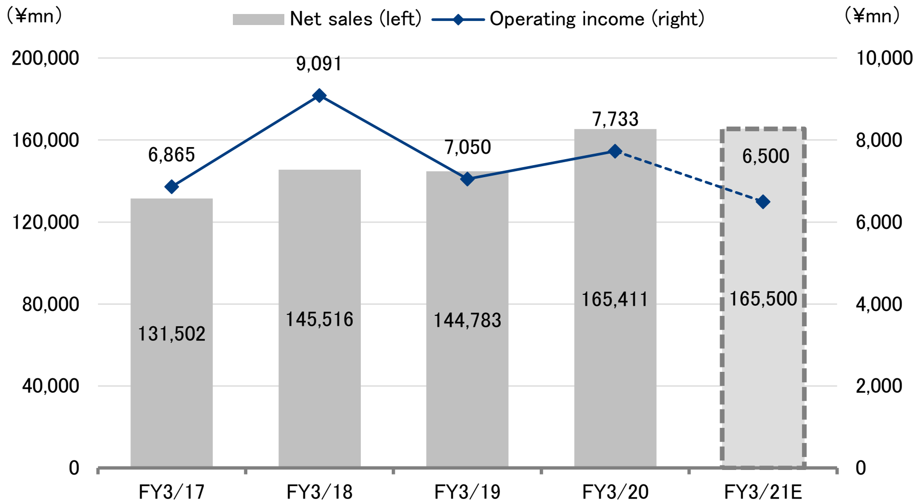
3. On the twin axes of the Pharmacy Business and the Medical Related Business, is aiming to achieve the medium-term target of ¥25bn in operating income

The Company's medium- to long-term growth strategies have remained consistent and have not been changed. In the Pharmacy Business, it is aiming for stable growth by working on "expanding scale through strategic store openings" and "creating value of pharmacies." For strategic store openings, it will open them at a pace of 50 to 70 a year, including through M&A, mainly in the Tokyo, Nagoya, and Osaka areas, and intends to achieve a network of 1,000 stores in FY3/23 (819 stores as of the end of 1H FY3/21). Additionally, due to the revisions to the Pharmaceutical and Medical Devices Act in 2019, an authorization system for pharmacies with specific functions for two types of pharmacies (Community Medical Coordination Pharmacies and Pharmacies with Professional Medical Organization) will be introduced from August 2021, which is expected to further accelerate the movement toward consolidating pharmacies by major industry players. The Company's strategy is to increase profitability by working to create value in its existing pharmacies. As a service to respond to new ways of living in the coronavirus era, it is continuing introduction and verification of lockers that enable the contactless passing of pharmaceuticals in some pharmacies. From September 2020, it also started online drug administration guidance and cashless payments through QR codes. Meanwhile, in the Medical Related Business, it is aiming for high growth by working to "deepen specialties" and "maximize Group synergies." In the CMR market, in which demand is expected to grow in the future, it is targeting further increasing market share by strengthening in specialized fields. In addition, in order to accelerate the speed of growth of the Medical Professional Referral Dispatch Business, which includes dispatches of pharmacists, occupational health nurses, and registered sales personnel, this business is now being developed by APO PLUS CAREER Co., Ltd., which was established through a spin-off in October 2020. To "maximize Group synergies," the Group's dispensing pharmacies have started to handle the products of Fujinaga Pharm. Going forward, the plan is to increase the number of products handled and developing an outsourced manufacturing business. By advancing these initiatives, the Company is aiming to achieve the medium-term targets, which are net sales of ¥300bn and operating income of ¥25bn.

Key Points

- In the 1H FY3/21 results, sales and profits declined due to the impact of the COVID-19, but were higher than the initial forecasts
- Is progressing a variety of initiatives that utilize ICT for "creating value of pharmacies"
- In addition to the growth of CMR dispatches, will expand the areas of the Medical Professional Referral Dispatch Business, and is aiming for high growth in the Pharmaceutical Manufacturing Business by utilizing Group synergies

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). In order to further strengthen and increase the stability of the business foundation, the Company launched the Pharmaceutical Manufacturing Business as a business for which synergies could be expected with the Pharmacy Business, while also complementing it. Its strategy is to expand its business scale in combination with the CSO business and the Medical Professional Referral Dispatch Business, aiming for the further growth of the Group.

Since FY3/21, the reporting segment name of the BPO business has been changed to the Medical Related Business.

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 1H FY3/21, 797 (about 97%) of the 819 stores operated by Qol are dispensing pharmacies. The other 22 stores are shops located inside hospitals. Prescription net sales (dispensing net sales) amounted to about 92% of the 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> (1,081 stores as of the end of July 2020) 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>, BIC CAMERA Inc.<3048>, 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 key point lies in 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 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 339 stores (41.4% of the total volume), Kansai is next at 133 stores (16.2%), and Koshinetsu is third at 111 stores (13.6%). 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 98 stores and 49 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 2018-20 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	End of FY3/20		End of 1H FY3/21		Increase on end of FY3/16	Population composition
	Number of stores	Number of stores	Composition ratios	Number of stores	Composition ratios		
Hokkaido	9	10	1.2%	10	1.2%	1	4.2%
Tohoku	67	85	10.6%	84	10.3%	17	7.0%
Kanto	290	326	40.5%	339	41.4%	49	34.1%
Koshinetsu	13	109	13.5%	111	13.6%	98	4.1%
Tokai, Hokuriku	38	67	8.3%	66	8.1%	28	14.1%
Kansai	84	132	16.4%	133	16.2%	49	16.3%
Chugoku, Shikoku	47	49	6.1%	49	6.0%	2	8.8%
Kyushu, Okinawa	15	27	3.4%	27	3.3%	12	11.4%
Total	563	805	100.0%	819	100.0%	256	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

The Medical Related Business includes the CSO business (CMR dispatches), and the CRO* business (clinical trials support services), which are mainly conducted by APO PLUS STATION Co., Ltd.; the Medical Professionals (pharmacists, registered sales personnel, nurses, doctors, etc.) The Medical Professional Referral Dispatch Business conducted by APO PLUS CAREER, which was established through a spin-off in October 2020; and the Pharmaceutical Manufacturing Business conducted by Fujinaga Pharm, which joined the Group in August 2019.

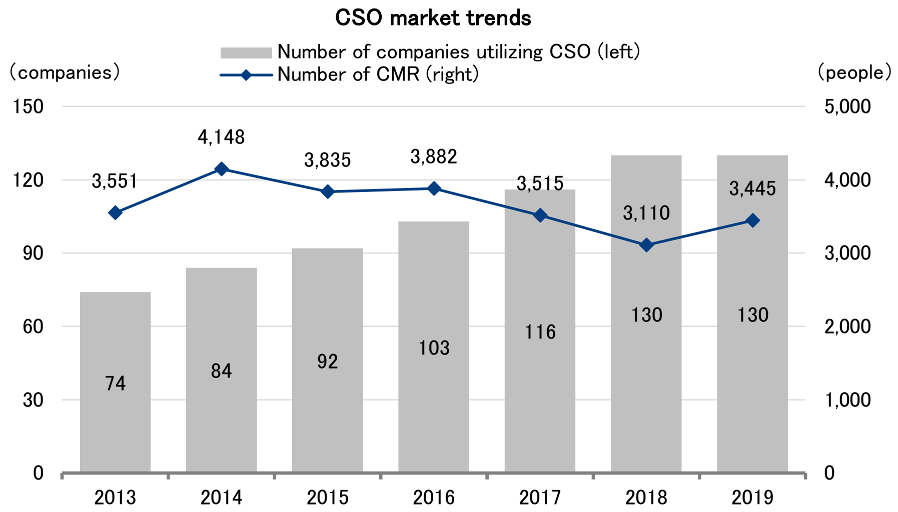
* CRO is the abbreviation of Contract Research Organization and refers to assistance business and other services for clinical tests and other activities.

(1) CSO business and CRO business

The CSO business involves recruiting and training MR and dispatching them to the contracted manufacturing companies. MR refers to sales representatives for pharmaceutical companies who provide doctors, pharmacists, and others with knowledge and information on the pharmaceuticals that are sold. In the last few years in the pharmaceutical industry, the trend of newly developed drugs has shifted from primary medicine (for lifestyle related diseases, etc.), which has many target customers (medical facilities and doctors), to specialty drugs (anti-cancer drugs, etc.), for which the target customers are limited. As a result, a sense has begun to emerge that there is a surplus of MR personnel. In order to respond to this change to the market environment, there has been a growing movement within pharmaceutical companies toward reducing their in-house MR personnel and responding to needs through outsourcing.

In this situation, the Company has been leveraging its strengths of recruitment and training capabilities, and increasing its recruitment of CMR personnel. In 1H FY3/21, it had 587 CMR, which is an industry share of around 16%, and it holds the leading position in the industry for the number of customers as well, with 50 to 60 companies. According to a survey by the Japan CSO Association, as of October 2019, there were 3,445 CMR in Japan who were being utilized by 130 companies.

The CRO business provides total solutions from testing and clinical research plans to publications in ethical drug, OTC drug, food, and healthcare fields.



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

(2) Medical Professional Referral Dispatch Business

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.

(3) 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. Its annual sales scale before joining the Group was around ¥1.8bn. But going forward, the intention is to establish an independent position and expand its business by investing in manufacturing equipment and increasing its sales to the Group's dispensing pharmacies.

Business trends

In the 1H FY3/21 results, sales and profits declined due to the impact of the COVID-19, but were higher than the initial forecasts

1. Summary of the 1H FY3/21 results

In the 1H FY3/21 consolidated results, sales and profits declined, with net sales decreasing 2.7% YoY to ¥79,090mn, operating income decreasing 39.4% to ¥2,080mn, ordinary income decreasing 41.7% to ¥2,109mn, and profit attributable to owners of parent decreasing 65.6% to ¥630mn. This was mainly because although in the Medical Related Business, sales and profits steadily increased by double digits, mainly in the CSO business and the Pharmaceutical Manufacturing Business, sales and profits in the mainstay Pharmacy Business decreased due to the COVID-19 pandemic. In order to avoid the risk of infection, people refrained from visiting medical facilities for consultations, while the amount of demand for prescriptions declined due to the lengthening of prescription periods, which resulted in the declines in sales and profits.

However, net sales and each profit item were higher than their initial forecasts. Although it initially seemed that the impact of people refraining from visiting medical facilities would continue until around September 2020, the number of outpatient visits to medical facilities gradually recovered from July onwards, and the amount of demand for prescriptions exceeded the forecast. In addition, the effects of implementing projects to optimize costs, including reviewing deployments of personnel in pharmacies, contributed to profits being higher than forecast.

1H FY3/21 results (consolidated)

(¥mn)

	1H FY3/21		1H FY3/21				
	Results	% of sales	Initial plan	Results	% of sales	YoY	Compared to forecast
Net sales	81,249	-	77,500	79,090	-	-2.7%	2.1%
Gross profit	10,128	12.5%	-	9,082	11.5%	-10.3%	-
SG&A expenses	6,695	8.2%	-	7,001	8.9%	4.6%	-
Operating income	3,432	4.2%	800	2,080	2.6%	-39.4%	160.0%
Ordinary income	3,616	4.5%	800	2,109	2.7%	-41.7%	163.6%
Extraordinary income	2	-	-	-223	-	-	-
Profit attributable to owners of parent	1,830	2.3%	200	630	0.8%	-65.6%	215.0%
EBITDA*	5,672	7.0%	-	4,377	5.5%	-22.8%	-
Profit before amortization of goodwill	3,272	4.0%	-	2,159	2.7%	-34.0%	-

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

Looking at the results by business segment, in the Pharmacy Business, net sales decreased 4.4% YoY to ¥72,336mn and segment income prior to fees for Holding Company declined 37.0% to ¥2,402mn. The unit price of prescriptions increased 8.3% YoY, mainly due to the lengthening of prescription periods, but the number of prescriptions decreased 11.4%, and as a result, dispensing pharmacy net sales fell 4.1% to ¥66,752mn. In particular, income from technical fees, which seem to provide around 20% of the unit price of prescriptions, is structured in such a way that an increase or decrease in the number of prescriptions leads directly to an increase or decrease in profits because the unit price per prescription is determined per pharmacy. Although the average technical fee also rose, due in part to the improvement in the generic drugs handling ratio, this was insufficient to completely cover for the decline in the number of prescriptions. In costs, the Company provide an appreciation bonus of tens of thousands of yen per person to pharmacists and other medical-related employees for working under coronavirus conditions in 1Q, which became a factor causing profits to decline.

Conversely, in the Medical Related Business, net sales increased 20.4% YoY to ¥6,754mn and segment income prior to fees for Holding Company rose 20.0% to ¥935mn. Although the COVID-19 pandemic had an impact to some extent, higher sales and profits were still achieved mainly because the CSO business utilized its strength of having a base of top-ranking customers in the industry to secure stable demand, while the Pharmaceutical Manufacturing Business, which was launched when Fujinaga Pharm joined the Group in August 2019, contributed for the full fiscal year.

FY3/21 Consolidated performance

(¥mn)

	1H FY3/21			1H FY3/21			
	Results	Fee for Holding Company	After adjustment	Results	Fee for Holding Company	After adjustment	Change rate after adjustment
Pharmacy Business							
Net sales	75,639	-	75,639	72,336	-	72,336	-4.4%
Segment income	3,309	504	3,813	1,604	797	2,402	-37.0%
% of net sales	4.4%	-	5.0%	2.2%	-	3.3%	
Medical Related Business							
Net sales	5,609	-	5,609	6,754	-	6,754	20.4%
Segment income	727	51	779	871	63	935	20.0%
% of net sales	13.0%	-	13.9%	12.9%	-	13.8%	

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

The number of dispensing pharmacies increased by 14 from the end of the previous period to 819 due to M&A and organic store openings

2. Trends in the Pharmacy Business

(1) Dispensing pharmacy net sales conditions

In the Pharmacy Business, net sales are comprised of dispensing pharmacies' sales and product sales in stores. Within that, in 1H FY3/21, dispensing pharmacy net sales decreased 4.1% YoY to ¥66,752mn. Looking at the breakdown by pharmacy opening period and format, among the Company's organic openings, sales at existing pharmacies declined 2.7% YoY, while on a monetary basis, they fell ¥563mn. For newly opened pharmacies, those opened in the previous fiscal year contributed to the full fiscal year, while those opened in 1H FY3/21 also contributed, so sales increased 1.3%, resulting in a ¥7mn increase on a monetary basis. Conversely, for pharmacies acquired through M&A and related methods, although it is difficult to distinguish their results as they are not separated from existing pharmacies and newly opened pharmacies, it seems that their sales decreased 4.7% YoY, and declined ¥2,279mn on monetary basis.

Details of dispensing pharmacy net sales by opening period and by format

(¥mn)

	1H FY3/21			1H FY3/21		
	Results	Change	Growth rate	Results	Change	Growth rate
Existing pharmacies	20,511	1,409	7.4%	19,948	-563	-2.7%
Newly opened pharmacies	546	178	48.3%	553	7	1.3%
M&A, etc.	48,529	9,951	25.8%	46,250	-2,279	-4.7%
All pharmacies	69,588	11,539	19.9%	66,752	-2,835	-4.1%

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

On breaking down dispensing pharmacy net sales into the number of prescriptions and the unit price of prescriptions, in 1H FY3/21, the number of prescriptions declined 11.4% YoY to 6,510,000 prescriptions, while the unit price of prescriptions increased 8.3% to ¥10,253. We will look at these values in detail because they are affected by other factors such as the opening period, M&A, and others.

The total number of prescriptions declined 11.4% YoY, which is considered to be close to the actual situation at existing pharmacies where the number of prescriptions declined 11.8%. As previously explained, the main reasons for this are that due to the impact of the COVID-19 pandemic, people refrained from visiting medical facilities for consultations to avoid the risk of infection, and also because of the lengthening of prescription periods.

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

(thousands)

	1H FY3/21			1H FY3/21		
	Results	Change	Growth rate	Results	Change	Growth rate
Existing pharmacies	2,019	91	4.7%	1,780	-238	-11.8%
Newly opened pharmacies	63	20	46.8%	48	-15	-23.6%
M&A, etc.	5,267	758	16.8%	4,680	-586	-11.1%
All pharmacies	7,351	869	13.4%	6,510	-840	-11.4%

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

Conversely, the unit price of prescriptions overall increased 8.3% YoY, while if limited to existing pharmacies that are close to the actual situation, it rose 10.3%, which is significantly higher than the 2.5% increase in the same period in the previous fiscal year. In terms of the factors behind this increase, the rise in dispensing fees per prescription due to the lengthening of the prescription period was significant. For example, if the prescription period is doubled from one week to two weeks, simply calculated, the dispensing fees also double, and it seems that dispensing fees per prescription increased by more than 10% in 1H FY3/21.

On the other hand, it appears that the average dispensing technical fee also rose by around several percentage points. The dispensing technical fee can be improved by a company's own efforts, including progressing measures for basic dispensing fees, community support system incentives, and generic drug dispensing system incentives. In particular, the generic drug handling ratio (volume basis) for the Group as a whole rose from 79.1% in April 2019 to 82.9% in September 2020, clearing the level targeted by the Ministry of Health, Labour and Welfare of 80%. The percentage of Group pharmacies acquiring 28 points (a handling ratio of 85% or more), which is the maximum number of points, is now more than half, rising from 30.8% at the end of April 2019, to 47.8% at the end of April 2020, and to 51.2% at the end of September 2020, which is the main reason for the rise in the average dispensing technical fee. 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 price of prescriptions by store-opening period and format (details)

(¥)

	1H FY3/21			1H FY3/21		
	Results	Change	Growth rate	Results	Change	Growth rate
Existing pharmacies	10,157	250	2.5%	11,202	1,046	10.3%
Newly opened pharmacies	8,548	85	1.0%	11,334	2,786	32.6%
M&A, etc.	9,213	658	7.7%	9,881	668	7.3%
All pharmacies	9,466	510	5.7%	10,253	787	8.3%

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

(2) Store openings and closures and M&A conditions

At the end of 1H FY3/21, the number of stores had increased by 14 from the end of the previous fiscal period to 819 stores. There were 21 new store openings and 7 store closures. Breaking down the 21 new store openings, 14 were from organic openings and 7 were acquired through M&A.

Store openings and closures and M&A conditions

		End of FY3/20	1H FY3/21			
			Opened		Closed	End of 1H
QOL Pharmacies		736	Organic openings	9	6	746
			M&A, etc.	7		
New-format	Lawson	35	4		1	38
	BIC CAMERA	5	0		0	5
	JR-West	8	0		0	8
Shops		21	1		0	22
Total		805	21		7	819

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

By store format, among the 14 organic openings, 9 were the ordinary (one-to-one) QOL pharmacies, 4 were the new format pharmacies (collaborative stores with Lawson), and the remaining 1 was a product-sales store. Through M&A in 2020, the Company acquired 6 stores in July and August in Ibaraki Prefecture and 1 store in August in Osaka Prefecture. Both are areas that the Company is focusing on and were acquisitions within the dominance strategy that it is advancing.

The Company's policy is to open new stores at a pace of 50 to 70 a year, including some from M&A. However, overall it has made a slow start in FY3/21, with delays in M&A negotiations, mainly due to the impact of the COVID-19.

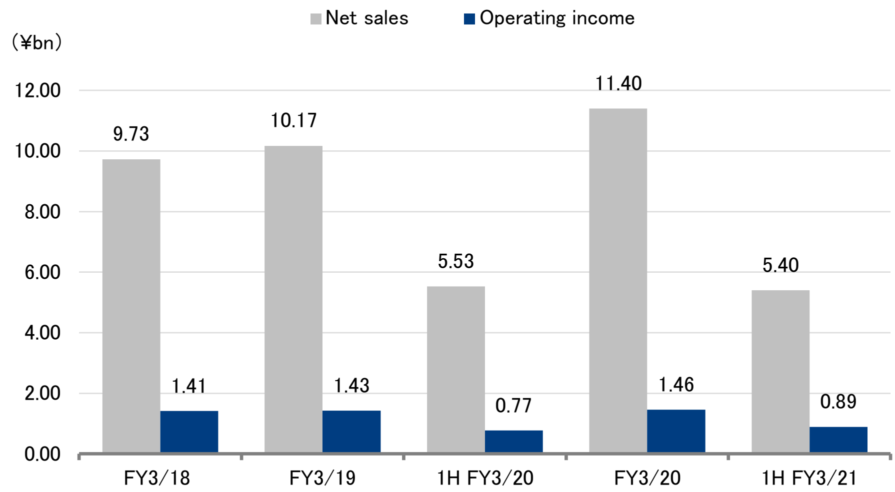
The number of CMR was a new record high, and the dispatch unit price is increasing through improved specialism

3. Trends in the Medical Related Business

Looking at the results of APO PLUS STATION (included in the Medical Professional Referral Dispatch Business up to 1H), which provides 80% of net sales and 90% of operating income in the Medical Related Business, net sales decreased slightly YoY to ¥5.4bn, but operating income increased 15% to ¥890mn. In the mainstay CSO business, the number of CMR further increased from 572 people in March 2020 to 587 people for a new record high, and the Group is capturing demand from pharmaceutical manufacturers. Moreover, due to focusing on increasing specialism, the dispatch unit price also rose, which contributed to the improved profit margin. In the Medical Professional Referral Dispatch Business, dispatch demand for the mainstay pharmacists remained unchanged YoY, but demand increased for registered salespeople for drug stores.

In the Pharmaceutical Manufacturing Business, it seems that net sales for the full fiscal year are on a scale of around ¥2bn. Synergies have started to appear, including sales within Group pharmacies to replace the forerunner drug with the generic Fujinaga lithium carbonate drug. The rate of replacements with generic drugs in the Group as whole is currently around 30%, although the policy is to raise it to a level of 60% to 80% in the future.

Trends in APO PLUS STATION's results



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

For the FY3/21 results, has left the initial forecasts unchanged because the impact of the COVID-19 is uncertain

4. FY3/21 outlook

For the FY3/21 results, the Company has left the initial forecasts unchanged, which are for net sales to increase 0.1% to ¥165,500mn, operating income to decrease 15.9% to ¥6,500mn, ordinary income to decline 19.0% ¥6,500mn, and profit attributable to owners of parent to fall 18.9% to ¥3,300mn. This is because although progress was made above the forecasts up to 1H, the sense of uncertainly about the future is growing stronger as the COVID-19 continues to spread. In fact, in October the number of prescriptions declined 3.4% compared to the same month in the previous fiscal year, while dispensing fees decreased 4.9%. In 2020, the number of people infected with influenza has decreased significantly, so the risk remains that sales will be below forecast in the Pharmacy Business. However, orders are strong for AIR BUSTER, which has been launched in the market as a countermeasure against the COVID-19 pandemic, so even if dispensing pharmacy net sales are below forecast, the increase in sales of this product may cover for this.

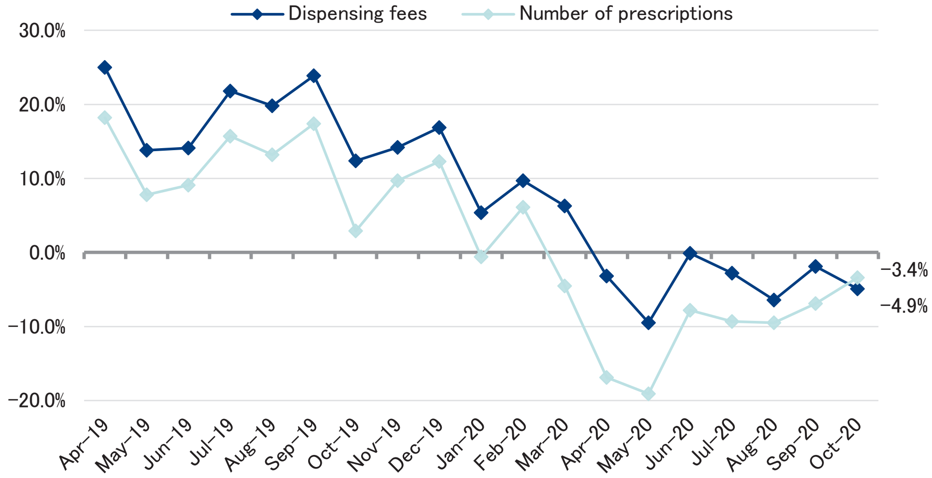
FY3/21 outlook

(¥mn)

	FY3/20		FY3/21				
	Full year results	YoY	1H results	2H forecasts	YoY	Full year forecasts	YoY
Net sales	165,411	14.2%	79,090	86,410	2.7%	165,500	0.1%
Operating income	7,733	9.7%	2,080	4,420	2.8%	6,500	-15.9%
Ordinary income	8,024	11.3%	2,109	4,391	-0.4%	6,500	-19.0%
Profit attributable to owners of parent	4,067	4.1%	630	2,670	19.4%	3,300	-18.9%
EBITDA	12,353	10.6%	4,377	7,005	4.8%	11,382	-7.9%
Depreciation expenses	1,649	-4.0%	768	953	12.0%	1,721	4.4%
Amortization of goodwill	2,970	23.8%	1,528	1,633	6.8%	3,161	6.4%
Profit per share (yen)	107.23		16.75	70.89		87.64	

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

Dispensing fees and the number of prescriptions (compared to the same month in the previous fiscal year)



Source: Prepared by FISCO from the Company's monthly report

Financial Results by Business Segment

(¥mn)

	FY3/20 Results	FY3/21		
		Company forecast	Change	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 in FY3/21, the initial forecasts projected net sales (prior to deducting inter-segment transactions) to decrease 0.5% to ¥152,356mn and operating income to decline 18.8% to ¥5,887mn. It is estimated that there will be around 50 new store openings, including those from M&A. However, the rate of progress for this up to 1H was slightly low, mainly due to the impact of the COVID-19 pandemic, and it is possible that the number of new store openings will be kept down.

In May 2020 it was announced that AIR BUSTER, which is a product developed jointly with Nara Medical University in response to the COVID-19 pandemic, had been confirmed to have the effect of neutralizing the COVID-19, and since then, inquiries from medical facilities and others have been increasing. One device costs around ¥200,000, but demand is increasing as government subsidies can be used to purchase it, and it seems that orders have been received for more than 10,000 units. With a profit margin above 10%, it is expected to contribute to results in FY3/21

(2) Medical Related Business

For the Medical Related Business' results in FY3/21, the initial forecasts projected net sales (prior to deducting inter-segment transactions) to increase 17.7% YoY to ¥15,832mn and operating income to rise 32.7% to ¥1,784mn. The future is uncertain due to the impact of the coronavirus, but results are still projected to grow, as the CSO business is expected to perform solidly, and also as Fujinaga Pharm's results will grow from the increase in the handling of its products within Group pharmacies. In the Medical Professional Referral Dispatch Business, dispatch demand is expected to increase for registered salespeople and also for occupational health nurses for companies.

Medium- to long-term growth strategy and progress

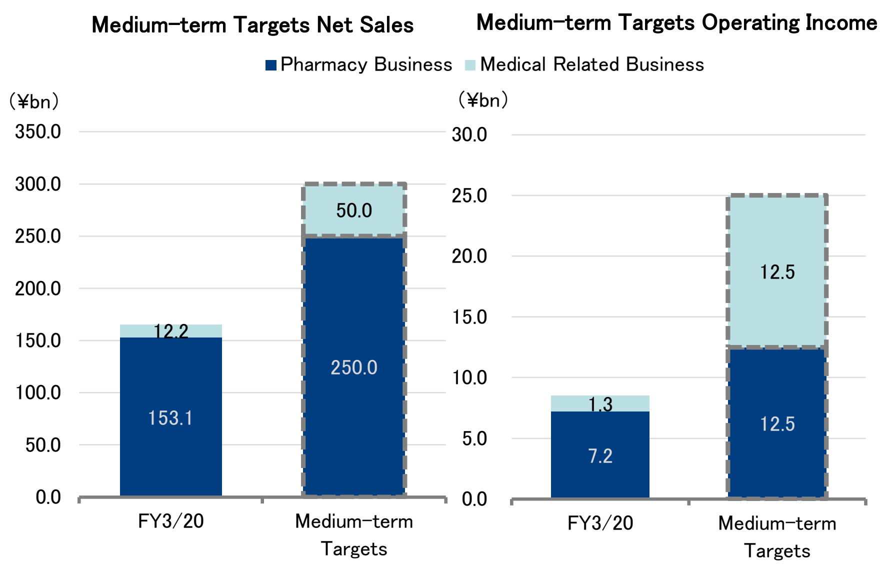
Expanding the Pharmaceutical Manufacturing Business as a stable income foundation and aiming for ¥300bn in net sales and ¥25bn in operating income via increased scale and improved profitability in the Medical Related Business

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. Looking at the breakdown in the Medical Related Business, the targets are net sales of ¥20bn and operating income of ¥4bn in the CSO, CRO, and Referral Dispatch businesses, while the targets are net sales of ¥30bn and operating income of ¥8.5bn for new businesses, including the Pharmaceutical Manufacturing Business. The Company's strategy is to aim to build an earnings portfolio that will provide balanced returns in the future by further growing the scale and increasing the profitability of the Medical Related Business, while also working to steadily grow the Pharmacy Business.

Medium-term targets and ideal business portfolio



Source: Prepared by FISCO from 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.

In the Medical Related Business, the Company's ambitious strategy is to raise the operating margin, which is currently in the 10% range, to more than 20%. In addition to the mainstay CSO business, it is focusing on the Medical Professional Referral Dispatch Business, the Pharmaceutical Manufacturing Business, and other businesses, and intends to increase scale and improve profitability while utilizing M&A as well.

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

Is progressing various measures that utilize ICT toward "creating value of pharmacies"

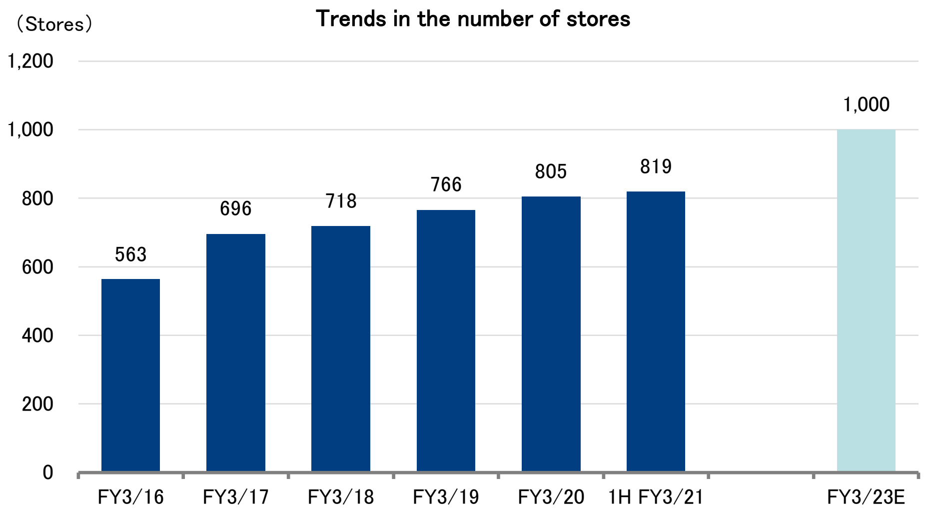
2. Pharmacy Business growth strategy and progress

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. It is targeting companies that can enhance local collaboration in major city areas for M&A as well. This includes areas located close to pharmaceutical schools where it is relatively easy to hire pharmacists. The Company plans to open stores at a pace of 50 to 70 a year from both organic openings and M&A.

As for the store format, it continues to open one-on-one pharmacies that are its strength and target the same model in M&A. The number of new format pharmacies from alliances with companies in different industries was 51 at the end of September 2020. Breaking this down, 38 were collaborative stores with Lawson, 5 were pharmacies within BIC CAMERA stores, and 8 were Station QOL pharmacies. Among these, the profitability of the mainstay Lawson-collaboration stores is increasing due to their improved name recognition. In the new-format pharmacies, as services that leverage their strength of being within shopping districts, services have been launched in some pharmacies to respond to new lifestyles in the coronavirus era, including installing lockers (for the contactless passing of pharmaceuticals) and a prescription communication app (for contactless reception work). The Company is advancing the development of pharmacies that are both safe and convenient, and intends to play a role as basic infrastructure for daily life in regional communities.



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

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 ¥7.4trn. Total sales of the top 10 firms in dispensing net sales amounts to about ¥1.4trn, which is only an 19% 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. Since September 2020, the Company has in place a system in which all pharmacies can deal with this. Some issues remain, including establishing a logistics system. Yet in the coronavirus era, there appears to be a great need for contactless drug administration guidance, so it intends to actively advance measures in response. In addition, the legal obligation to provide drug administration guidance during the drug-administration period will lead to an increase in work that involves interacting with people, which may increase the burden on small pharmacies.

The introduction of the authorization system for pharmacies will authorize pharmacies according to two types of function; Community Medical Coordination Pharmacies, and Pharmacies with Professional Medical Organization, while clarifying their functions at the same time. It is predicted that the concrete differences between acquiring authorization and not acquiring authorization will become clear around the spring of 2021. However, there is the risk that patient numbers will decline for pharmacies that are unable to acquire authorization.

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. The Company judges whether or not to conduct an M&A based on strict in-house standards, including the candidate’s scale of sales and whether or not synergetic effects will be generated.

(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).

In terms of its response to the differentiation of pharmacy functions, for Community Medical Coordination Pharmacies, the Company can utilize its strength as a pharmacy that provides one-on-one service. Going forward, it will work on measures such as promoting home medical care, enhancing aftercare follow-up services, and giving consideration to privacy, and is aiming to build pharmacies that can coordinate with medical facilities for when a patient enters or leaves a facility and for home medical services. Conversely, pharmacies with professional medical organization require advanced pharmacy management, so it is working to train personnel with advanced skills by enhancing its in-house training and aiming to build pharmacies that can coordinate with medical facilities. It is advancing preparations to acquire authorization for both types sometime after August 2021.

Additionally, the Company is introducing various services on a trial basis with the aim of building next-generation pharmacies that utilize cutting-edge technologies, using the Ebisu QOL Pharmacy as the model pharmacy. These include Drug Station, which is an automated drug picking device that aims to reduce both the work burden on pharmacists and the waiting time of patients; PUDO Station, an open-type, home delivery locker that enables the contactless delivery of drugs to patients; and newme, a remotely controlled robot. The current stage is of verifying the effects of these services. Lockers have also been introduced into one store in a station and into the Natural Lawson store in Toyosu. The installation of small lockers at the Toyosu store has been favorably received by users. Going forward, the Company will verify their effects and formulate a plan for further introduction. The Company is also utilizing a remotely controlled robot for recruitment activities. It has made it possible for potential recruits to view operations in a pharmacy remotely via robot, depicting a future in which drug administration guidance and other tasks are performed by robots.

All of the Company’s pharmacies have been able to provide online drug administration guidance since September 2020. Going forward, it will meet patients’ needs while coordinating with the medical facilities that issue prescriptions. For deliveries, it is advancing collaborations with home delivery businesses, including a service for same-day deliveries through bike deliveries. In September of this year, it introduced a cashless payment service using QR codes into 709 pharmacies nationwide. Making payments cashless is expected to improve convenience for patients and to shorten waiting times by increasing operating efficiency when calculating the bill.

The Company has been actively introducing digital technologies and promoting work reforms even within the industry. In October 2020, it announced that it had newly established the Digital AI Promotion Office and that it would further accelerate the digitalization of work. For the goals of "providing highly convenient medical services," "improving services for patients," and "improving employee satisfaction" it is aiming for even higher levels than before. Going forward, it will advance its response to the electronic prescription system that the government is aiming to start operating around the summer of 2022, while observing the situation. If an electronic prescription system is constructed, it will eliminate the handling of paper, and in addition, will lead to the prevention of duplicate administrations of drugs. It can be expected to improve work efficiency and to help keep down medical expenses. The Company has over 3 million Qol card members, and its policy is to work to further improve services by utilizing the big data it holds for this member base.

In addition to the growth of CMR dispatches, will expand the areas of the Medical Professional Referral Dispatch Business and is aiming for high growth in the Pharmaceutical Manufacturing Business by utilizing Group synergies

3. Medical Related Business growth strategy and progress

Qol calls for "deepening of specialty" and "maximizing of Group synergies" as a growth strategy in the Medical Related Business with the hope of expanding sales scale and raising profitability.

(1) 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. Among MRs in Japan, the CMR ratio was only 5.8% in 2019, but in the European and US markets, which were established in advance as CMR markets, the ratio is between 12% to 17%. In particular, as pharmaceutical manufacturers are continuing to optimize marketing systems during the coronavirus pandemic, it is predicted that fluctuating costs in personnel costs will further accelerate. Considering this environment, we can expect the CMR ratio to rise to around 15% in Japan as well, sooner or later.

Number and rate of MR and CMR in main countries

Country	Start of CSO	Number of MRs (people)	CMR ratio
UK	1983	10,000	13.0%
Germany	1993	13,000	16.9%
USA	1995	59,000	12.0%
Japan	1998	59,900	5.8%

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

Backed by this outlook, the Company is aiming to increase the number of CMR personnel from 587 people at the end of September 2020 to 1,000 people in the medium-term, and to acquire an industry share of 20%. It intends to ramp up hiring in support of this effort. One 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 everything from basic areas to advanced specialties. In particular, CMR demand is rising in oncology and other specialized areas recently, which we think will enable Qol to further leverage its strength.

(2) Medical Professional Referral Dispatch Business

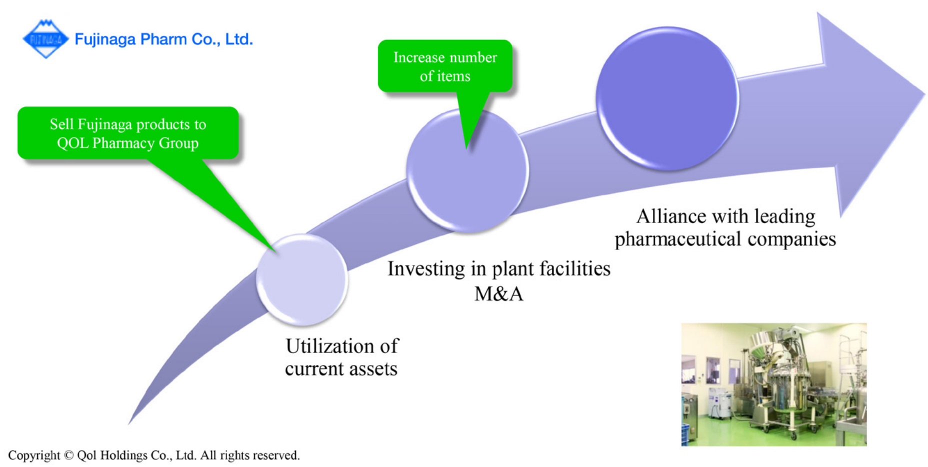
In order to accelerate the speed of growth in the Medical Professional Referral Dispatch Business, APO PLUS CAREER was newly established in October 2020 from a spin-off. As the chronic shortage of medical professionals and diversification of workstyles continue, the outlook is that demand will increase in the future for medical-related staff, including pharmacists and registered sales personnel. Therefore, the Company's policy is to increase synergies, such as by dispatching pharmacists to Group pharmacies, and at the same time to expand the professions this business covers while utilizing M&A and related methods. 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.

(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 prescriptions.

For Group synergies, as previously stated, the number of pharmacies among the Group's dispensing pharmacies that handle Fujinaga products is increasing. The Company also plans to develop new generic drugs and its policies include conducting capital investment in plants and expanding business scale while advancing M&A and related measures, and as the next step, conducting conduct manufacturing outsourced from major pharmaceutical companies. In FY3/21, its sales scale is approximately ¥2bn and operating margin around 10%. But the medium-term targets are net sales of ¥30bn and operating income of ¥8.5bn, including from new businesses. We will be paying attention to developments in the future.

Maximizing Group synergies



Source: The Company's results briefing materials

Income statement and main indicators

(¥mn)

	FY3/17	FY3/18	FY3/19	FY3/20	1H FY3/21
Net sales	131,502	145,516	144,783	165,411	79,090
YoY	5.2%	10.7%	-0.5%	14.2%	-2.7%
Gross profit	16,876	19,648	17,863	21,094	9,082
Gross margin	12.8%	13.5%	12.3%	12.8%	11.5%
SG&A expenses	10,010	10,557	10,812	13,361	7,001
SG&A expense ratio	7.6%	7.3%	7.5%	8.1%	8.9%
Operating income	6,865	9,091	7,050	7,733	2,080
YoY	1.8%	32.4%	-22.4%	9.7%	-39.4%
Operating margin	5.2%	6.2%	4.9%	4.7%	2.6%
Ordinary income	7,065	9,333	7,208	8,024	2,109
YoY	5.6%	32.1%	-22.8%	11.3%	-41.7%
Profit attributable to owners of parent	4,353	4,986	3,908	4,067	630
YoY	17.4%	14.5%	-21.6%	4.1%	-65.6%
Split-adjusted EPS	128.35	141.19	101.73	107.23	16.75
Split-adjusted dividend	24.00	28.00	28.00	28.00	14.00
Split-adjusted BPS	652.42	936.74	1,006.55	1,074.57	1,075.51

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

Simplified balance sheet

(¥mn)

	End of FY3/18	End of FY3/19	End of FY3/21	End of 1H FY3/21	Change
Current assets	42,288	46,127	45,881	41,903	-3,978
Cash and deposits	19,820	20,220	15,802	13,764	-2,037
Notes and accounts receivable-trade	16,640	17,330	22,862	20,969	-1,892
Inventory assets	4,719	5,156	5,224	5,143	-81
Noncurrent assets	44,952	48,087	56,976	55,993	-982
Property, plant and equipment	10,544	11,079	13,055	12,981	-73
Intangible assets	27,938	30,075	36,642	35,529	-1,112
Investments and other assets	6,469	6,933	7,278	7,482	203
Deferred assets	29	21	14	11	-2
Total assets	87,270	94,236	102,872	97,909	-4,963
Current liabilities	33,991	34,424	38,730	38,043	-687
Accounts payable-trade	18,265	17,741	18,623	17,728	-894
Short-term loans payable, etc.	7,629	9,430	11,626	13,554	1,928
Noncurrent liabilities	17,343	20,795	23,139	18,812	-4,327
Long-term loans payable, etc.	16,361	19,443	21,024	16,828	-4,196
Total net assets	35,935	39,017	41,001	41,053	51
Total liabilities and net assets	87,270	94,236	102,872	97,909	-4,963

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

Cash flow statement

(¥mn)

	FY3/18	FY3/19	FY3/20	1H FY3/21
Cash flow from operating activities	11,116	5,773	4,468	2,862
Cash flow from investing activities	-3,775	-8,287	-8,670	-2,027
Cash flow from financing activities	-1,685	2,906	-225	-2,875
Cash and cash equivalents at the end of the period	19,800	20,193	15,766	13,726

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

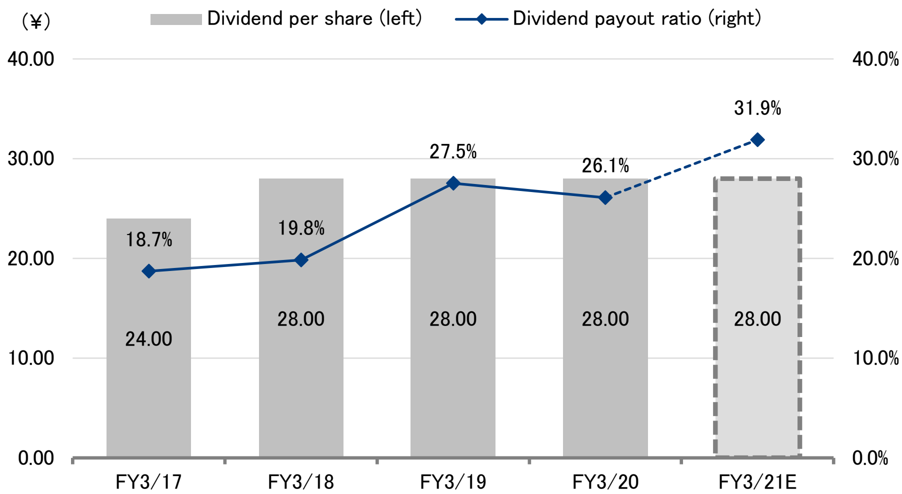
Returns to shareholders and SDG activities

Basic policy is for stable returns to shareholders, as well as enhancing the shareholder benefits 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. Also, in order to execute a flexible capital policy, the Company considers acquisitions of treasury shares as appropriate and when necessary. Based on this basic policy, Qol is planning a flat dividend (YoY) in FY3/21 at ¥28 (dividend payout ratio of 31.9%).

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 for less than a year receive a gift worth ¥3,000 when held, while those who hold shares for a year or longer receive ¥5,000. Investment yield combining the dividend and shareholder benefit works out to 5.1% for ownership of less than a year and 6.8% for a year or longer using the closing price on November 17 (¥1,148).

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

Source: Prepared by FISCO from the Company’s website

As its measures for SDGs, the Company is advancing various activities toward realizing "a sustainable, healthy, affluent society," through the Group-wide SDGs Promotion Committee. One example of this is that in October 2019, it started awareness-raising activities (recommending customers use their own bag) to reduce bags at the checkouts of all pharmacies. All of the costs reduced from cutting down on bags at checkouts are used for activities to contribute to local communities.

Initiatives for SDGs

Target theme	Activity details	Target theme	Activity details
3 GOOD HEALTH AND WELL-BEING	Health fair	11 SUSTAINABLE CITIES AND COMMUNITIES	Infectious disease room
	Dementia Cafe		Stores with disaster countermeasures
4 QUALITY EDUCATION	Parenting University		Stable supply of pharmaceuticals
	Prevention of accidental ingestion by children		Support for home care/nursing care
	Drug abuse prevention classroom	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Energy saving store
5 GENDER EQUALITY	Workplace reform for women to play an active role (L.A.D.Y.S Meeting)		Thorough management of medical waste management
	Enrichment of childcare leave and childcare leave		Recycling resources
	Provide a place for mom pharmacists to play an active role	13 CLIMATE ACTION	CO2 reduction equipment store
7 AFFORDABLE AND CLEAN ENERGY	Strengthening environmental management		Environmentally friendly model store
	Strengthening environmental management		Solar power generation panel
	Environmentally friendly volunteer activities (community cleaning and beautification activities)	15 LIFE ON LAND	Environmental beautification volunteer activities
8 DECENT WORK AND ECONOMIC GROWTH	Provide a comfortable and rewarding environment		Beautification cleaning around stores
	Promote employment of people with disabilities		Promote Cool Biz and Warm Biz
	Promote compliance management and risk management		Paperless activities
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	A new healthcare model from a professional perspective centered on pharmacists	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Employment of foreigners (connivences stores)
	Environmentally friendly model store		Sunflower Association
10 REDUCED INEQUALITIES	Store format that can be accessed through various channels close to daily life		Compliance management
	Promote employment of people with disabilities		Risk management
		17 PARTNERSHIPS FOR THE GOALS	MBT (Nara Medical University)
			Make-A-Wish Fundraising
			Japanese culture inheritance (Ogasawara style)

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

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