COMPANY RESEARCH AND ANALYSIS REPORT

Qol Holdings Co., Ltd. (Qol)

3034

Tokyo Stock Exchange Prime Market

8-Feb.-2024

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Summary

Aiming for net sales of ¥300.0bn and operating income of ¥25.0bn in FY3/26

Qol Holdings Co., Ltd. (Qol) <3034> ("the Company") is a major dispensing pharmacy chain positioned at No. 2 in the number of dispensing pharmacies and No. 3 in net sales (using data from listed companies). In fields other than dispensing pharmacies, the Company also operates the CSO*1 Business, a Medical Professional Referral Dispatch Business for pharmacists and other medical practitioners, and the Pharmaceutical Manufacturing Business. In October 2023, the Company acquired 30% of the shares of DAIICHI SANKYO ESPHA CO., LTD., which is mainly engaged in authorized generic products (hereafter, "AG products"*2), making it an equity-method affiliate. The Company plans to acquire an additional 21% of shares in April 2024 and make it a wholly owned consolidated subsidiary in the future. The stock acquisition cost is ¥25.0bn, and it will be covered by borrowings from financial institutions and cash in hand.

*1 CSO stands for Contract Sales Organization and involves CMR (Contract Medical Representative) dispatch services.
*2 AG products: generic drugs that, with permission from the new drug manufacturer, have the same drug substances, additives, manufacturing process, and so on as the new drug.

1. The Company achieved its forecast for 1H FY3/24 financial results

Looking at consolidated financial results for 1H FY3/24 (April-September 2023), the Company's results were broadly in line with its forecast, as net sales increased 7.4% year on year (YoY) to ¥88,540mn while operating income increased 11.5% to ¥3,559mn. Net sales in the mainstay Pharmacy Business increased by 7.2% YoY as an increase in the number of prescriptions absorbed the impact of a drop in the unit price of prescriptions, while the Medical Related Business also saw net sales increase by 9.7% due to favorable performance in the CSO Business and the Medical Professional Referral Dispatch Business. On the profit front, the Medical Related Business saw a 1.9% increase in operating profit, while the Pharmacy Business saw operating profit decrease by 6.8%. The main factors behind the decrease in profit were a slight deterioration in profit margins after tough price negotiations with drug wholesalers and increases in pharmacist recruitment expenses and system related payment fees. However, the results are progressing in line with the Company's forecast. The number of stores at the end of September 2023 was up by 13 stores from the previous fiscal year end to 905 stores.

2. For FY3/24, the Company forecasts increased sales and profits with growth in the Pharmacy Business and Medical Related Business

For consolidated financial results for FY3/24, the Company has retained its initial forecast, with net sales to increase 5.9% YoY to ¥180,000mn and operating income to increase 5.3% to ¥10,000mn. In the Pharmacy Business, the Company is forecasting increases in sales and profits due to an increase in the number of prescriptions, which is expected to absorb the impact of a decrease in the unit price of prescriptions. In 2H, the Company will work to increase technical fee unit prices overall by increasing the number of pharmacies acquiring community support system premium, and to reduce recruitment expenses through optimal placement of pharmacists. Meanwhile, in the Medical Related Business, sales and profits are expected to increase due to continued favorable performance in the CSO Business and the Medical Professional Referral Dispatch Business in 2H. Furthermore, as DAIICHI SANKYO ESPHA will become an equity-method affiliate from 2H, the Company expects to record ¥700mn in share of profit in entities accounted for using equity method in its full-year forecast for FY3/24.

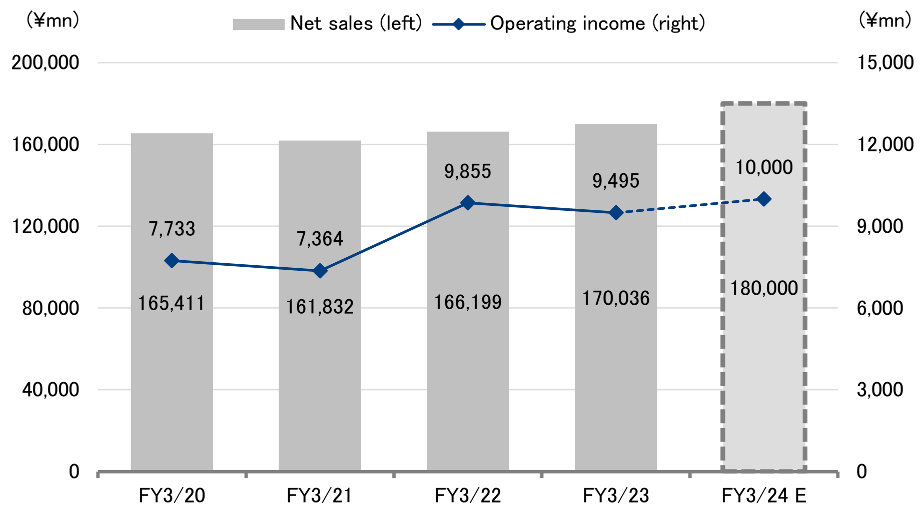
3. Business scale to expand further from FY3/25 with DAIICHI SANKYO ESPHA joining the Group

As its medium-term performance targets for FY3/26, the Company aims to achieve net sales of ¥300.0bn and operating income of ¥25.0bn. Within this, the Company aims to achieve growth in net sales of at least 5% per annum and steady growth in profits in the Pharmaceutical Business by improving profitability through increased productivity by continued aggressive store openings, including through M&A, and strengthening of the Home and Facility Delivery Dispensing Business. In the Medical Related Business, the Company aims to increase sales by 1.2 times compared to FY3/24 and to boost profitability by at least 12% by expanding the business scale, including through M&A. Moreover, for DAIICHI SANKYO ESPHA, which is to become a consolidated subsidiary from FY3/25, the Company is aiming to lift earnings from forecast net sales of ¥75.0bn and operating income of ¥11.0bn in FY3/24 to net sales of ¥100.0bn and operating income of ¥14.0bn in FY3/26. The Company aims to increase sales and profits by at least 15% per annum by efficiently promoting expansion of sales functions and development of new products, etc., through Group synergies. The inclusion of DAIICHI SANKYO ESPHA in the Group will significantly strengthen the Company's business foundation and is expected to represent a leap forward as a Comprehensive Healthcare Company covering aspects from R&D of pharmaceuticals to manufacture and sales, medical professional services, and dispensing pharmacies.

Key Points

- 1H FY3/24 financial results are broadly in line with the Company's forecast, despite an increase in sales and decrease in profits
- Initial forecast for FY3/24 financial results is left unchanged, and the Company is projected to renew record highs
- For FY3/26 the Company is aiming for net sales of ¥300.0bn and operating profit of ¥25.0bn due to the inclusion of DAIICHI SANKYO ESPHA in the Group

Results trends



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

Company profile

Under a holding company structure as a major dispensing pharmacy chain, the Company is conducting businesses on the twin axis of the Pharmacy Business and the Medical Related Business

1. History

Chairman and Director Masaru Nakamura founded Qol Co., Ltd. in 1992. Qol Co., Ltd. steadily expanded its dispensing pharmacy network after opening the first pharmacy 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 also moved into related and peripheral areas, the Company moved into the clinical trial-related business when it established PhaseOn Co., Ltd. in 2003, and established Qol Medis, Co., Ltd. in 2008 to start worker placements and dispatching services business.

Subsequently, the Company organized its businesses into two business segments, the Pharmacy Business and the BPO Business (currently, the Medical Related Business). It then changed to a holding company structure in October 2018 in order to improve management efficiency and to expand the business scope. Following this, the Company changed its corporate name to Qol Holdings Co., Ltd. as a pure holding company, and is leading the Group as a whole toward enhancing corporate governance and formulating the Group's medium- to long-term growth strategy. The Pharmacy Business is conducted by Qol Co., Ltd., and other companies that joined the Group through M&A. In the Medical Related Business, APO PLUS STATION Co., Ltd., conducts the CSO Business, mainly CMR dispatches, while Fujinaga Pharm Co., Ltd., which became a subsidiary in August 2019, conducts the Pharmaceutical Manufacturing Business. Furthermore, as part of efforts to accelerate the growth of the Medical Professional Referral Dispatch Business for pharmacists and other medical professionals, which had been conducted by APO PLUS STATION, the Company established APO PLUS CAREER Co., Ltd. in February 2020, and transferred the business to it. Recently, APO PLUS CAREER acquired all of the shares of Oncall Inc., which develops and operates a spot work-type medical professional matching platform, in April 2023, making it a subsidiary.

The Company is aiming to achieve business growth, while increasing the stability of earnings, by developing its businesses on the twin axis of the Pharmacy Business and the Medical Related Business. The Pharmacy Business is a business that can stably acquire earnings, but it is exposed to the risk of fluctuating earnings due to the government's medical policies (including revisions to dispensing fees once every two years). In a revision year, there may be negative factors in terms of earnings, and the strategy is to stably increase overall earnings by covering these negatives through the Medical Related Business. Looking at the breakdown by segments (1H FY3/24 results), the Pharmacy Business accounts for the majority at 91.4% of net sales and 87.8% of operating income. The abovementioned DAIICHI SANKYO ESPHA will become a consolidated subsidiary from FY3/25, which is expected to create a significant change in the breakdown.

Pursuing an approach of "One-on-one pharmacies" and "Healthcare pharmacies" through alliances with companies in other industries to increase the number of stores while utilizing M&A

2. Pharmacy Business

(1) Business scale and positioning in the industry

The Pharmacy Business segment mainly involves the management of dispensing pharmacies. Looking at the number of stores at the end of September 2023, 883 (approx. 98%) of the 905 stores were dispensing pharmacies, while the remaining 22 were shops located within hospitals. Prescription net sales (dispensing pharmacy net sales) amounted to about 93% of the segment sales. Remaining sales came from product sales at pharmacies, convenience stores, and shops located within hospitals and sales income for health foods, hygiene items, and other products on Qol's official e-commerce website.

Regarding positioning in the dispensing pharmacy industry, Qol ranks second in number of stores among listed dispensing pharmacy chains after Ain Holdings Inc. <9627> (1,215 stores as of the end of July 2023) and third in net sales after Ain Holdings and Nihon Chouzai Co., Ltd. <3341>. Nihon Chouzai, which is third in the number of stores at 726 (as of the end of September 2023), has net sales that exceed those of the Company because it has developed many pharmacies located adjacent to hospitals, which generate strong 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 "Healthcare pharmacies" through business alliances with different industries such as major convenience store operator Lawson, Inc. <2651> and 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. Specifically, it is aiming to create these pharmacies by adjusting store designs and functions in accordance with factors such as the departments of target prescribing medical institutions and the characteristics of each area. 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 the creation of pharmacies that are selected by patients for having high utility value 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 for Patient-centered Pharmacies, which is also an important point for the growth strategy. Under the pharmacy authorization system that was introduced in August 2021, two categories were established: community cooperative pharmacies and pharmacies in cooperation with specialized medical institutions. Among these, the community cooperative pharmacies are expected to play an important role in the national project of building a comprehensive community care system. The Company has therefore adopted a policy of working proactively to receive authorization.*

* As of the end of September 2023, the Company had received authorization for 152 community cooperative pharmacies (pharmacies that can respond to hospital admissions and discharges and home medical care in coordination with other medical provider facilities) and 11 pharmacies in cooperation with specialized medical institutions (pharmacies that can respond to specialized pharmaceutical management for cancer and other diseases in coordination with other medical provider facilities).

The catalyst for Qol’s deployment of “Healthcare pharmacies” through alliances with companies in other industries, which is its other format, was a revision to the Pharmaceuticals Affair Law in June 2009 that allows convenience stores, drugstores, supermarkets, and other industry stores to sell OTC drugs as registered businesses. Spurred on by this, it became possible for companies to launch a dispensing pharmacy business, such as in drugstores. As an offensive measure in response to this, the Company entered into business alliances with the two aforementioned companies, and is now proceeding with this initiative.

“One-on-one pharmacies” have somewhat restricted customer scope that enables Qol to improve efficiencies in drug inventory management. “Healthcare pharmacies,” meanwhile, target unspecified large number of customers in locations with heavy people flow, foot-traffic 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 “Healthcare pharmacies.” As a new initiative, the Company has allied with Ryohin Keikaku Co., Ltd. <7453> and started opening stores inside MUJI stores in FY3/22. Ryohin Keikaku opened a “Community Health Center” inside MUJI stores as a health promotion space that holds health-themed events, offers casual health consultation, and provides a full-line of services covering disease prevention and health maintenance through to pharmaceuticals in order to contribute to the healthy living of local residents. The Company opens dispensing pharmacies as a collaborating partner in this initiative. As of the end of September 2023, there were 36 healthcare stores in alliance with Lawson, 5 inside BIC CAMERA stores, 2 inside MUJI stores, and a further 2 inside train stations.

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/pharmacy function, health support function	Organic, M&A	◎
	Foot-traffic pharmacies		Primary pharmacist/pharmacy function, health support function	Organic, M&A	
	Hospital-adjacent pharmacies	Hospitals of a certain size	Primary pharmacist/pharmacy function, advanced pharmaceutical management function, health support function	Organic, M&A	○
Healthcare pharmacies	Foot-traffic pharmacies	Within shopping districts, within and near to train stations	Primary pharmacist/pharmacy function, health support function	Organic	◎

Source: Prepared by FISCO from Company materials and interviews

Looking at the number of store openings by area at the end of September 2023, Kanto leads with 389 stores (43.0% of total number), followed by Kansai with 145 store (16.0%) and Koshinetsu with 112 store (12.4%), with the three areas accounting for over 70% in total. As store openings have taken place with Tokyo as the area in which the Company was founded, there have been many openings in the Kanto area (Tochigi Prefecture has the highest number of Group stores as a prefecture). However, Kansai is also seeing a steady increase in store numbers over the past few years through M&A and so forth. Looking at a comparison of the number of stores and population composition ratio by area, the store composition ratio exceeds the population composition ratio in Kanto, Koshinetsu., Tohoku, etc., with stores having lower density in areas including Tokai, Hokuriku, Kyushu, and Okinawa. This is due to the presence of strong companies in each area, but the Company is targeting these for M&A in the Tokai area, centered on Aichi Prefecture, where it can be said to have strong prospects for growth.

Number of stores by area and population composition comparisons

	End of FY3/20 Number of stores	End of FY3/23 Number of stores	End of 1H FY3/24		Increase on end of FY3/20	Population composition (2020)
			Number of stores	Composition ratios		
Hokkaido	10	11	11	1.2%	1	4.1%
Tohoku	85	90	90	9.9%	5	6.8%
Kanto	326	382	389	43.0%	63	34.6%
Koshinetsu	109	111	112	12.4%	3	4.0%
Tokai, Hokuriku	68	72	74	8.2%	6	14.2%
Kansai	131	141	145	16.0%	14	16.3%
Chugoku, Shikoku	49	50	49	5.4%	0	8.7%
Kyushu, Okinawa	27	35	35	3.9%	8	11.3%
Total	805	892	905	100.0%	100	100.0%

Note: Japan's population composition based on national census data from 2020
Source: Prepared by FISCO from the Company's supplemental results materials and 2020 Population Census (Ministry of Internal Affairs and Communications)

Developing the Medical Professional Referral Dispatch Business centered on CMR dispatches, and entered the Pharmaceutical Manufacturing Business through acquisition of a pharmaceutical company in 2019

3. Medical Related Business

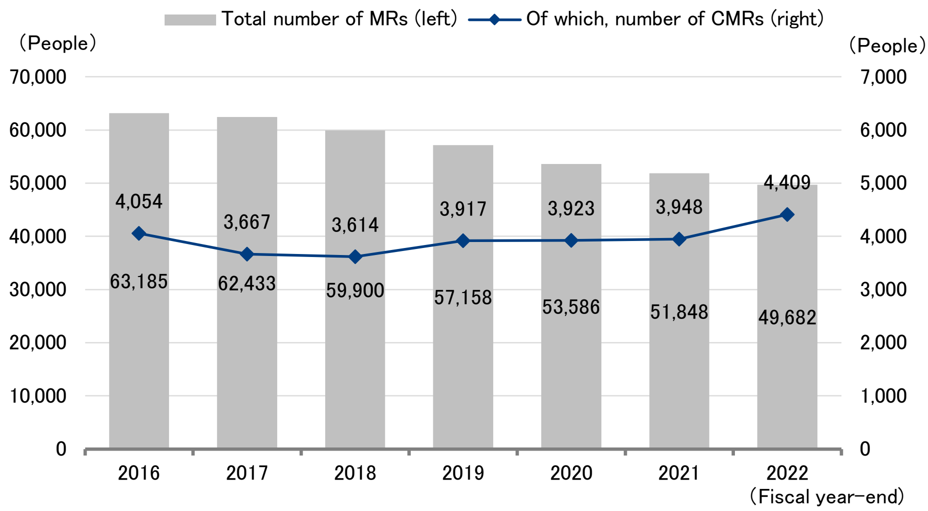
The Medical Related Business includes the CSO Business (CMR dispatches), and the CRO* Business (clinical trials support services), which are mainly conducted by APO PLUS STATION; the Medical Professional Referral Dispatch Business (pharmacists, registered sales personnel, public health nurses, nurses, etc.) conducted by APO PLUS CAREER; the Medical-related Publishing Business conducted by Medical Qol Co., Ltd.; and the Pharmaceutical Manufacturing Business conducted by Fujinaga Pharm, which joined the Group in August 2019. Looking at the sales composition ratio, the CSO Business and CRO Business accounts for approximately 60%, while the Medical Professional Referral Dispatch Business accounts for approximately 20%, Pharmaceutical Manufacturing Business for approximately 15%, and the Medical-related Publishing Business accounts for approximately 5%.

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

(1) CSO Business and CRO Business

The CSO Business involves recruiting and training MR and dispatching them to the contracted pharmaceutical companies. MR refers to sales representatives who provide doctors, pharmacists, and others with knowledge and information on the pharmaceuticals that are sold. In recent years, the development trend for new drugs among pharmaceutical companies has shifted from primary medicine (for treatment of lifestyle related diseases, etc.) that targets many customers (medical facilities and doctors) to specialty drugs (anti-cancer drugs, etc.) for which the target customers are limited. Accordingly, there has been an expanding movement toward reducing their in-house MR personnel and switching to CMR personnel. In fact, according to the 2023 MR White Paper published by the MR Education & Accreditation Center of Japan, at the end of FY22, there were 49,682 MRs (down 2,166 YoY), representing a ninth consecutive year of decreases. However, the number of CMRs was 4,409 (up 461 YoY), increasing for a fourth consecutive year to reach a new record high. In this situation, the Company has been leveraging its recruiting and training capabilities to increase CMR personnel, reaching 615 CMR personnel as of the end of September 2023, which is an industry share of around 14%, while holding the leading position in the industry for the number of customers as well, with around 50 to 60 companies.

Number of MRs and CMRs in Japan



Source: Prepared by FISCO from the MR Education & Accreditation Center of Japan, "2023 MR White Paper"

On the other hand, the CRO Business provides total solutions from planning through to publication for clinical trials and clinical research in the respective fields of ethical drugs, OTC drugs, food, and healthcare. The Company has strengths in clinical trials in the food field, and also in the pharmaceuticals field it has experience in dermatology and ophthalmology.

(2) Medical Professional Referral Dispatch Business

This business involves referral dispatches of pharmacists, public health nurses, registered sales personnel, and others. Of these, it mainly conducts referral dispatches of pharmacists. It ranks in the top 10 for the number of dispatched pharmacists in the industry, while it also ranks in the top 3 for public health nurses. In addition, at APO PLUS CAREER, the Company provides pharmacy business succession and management support services and consulting services on health management for corporations.

(3) Pharmaceutical Manufacturing Business

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, it aims to establish its unique position and grow its business by increasing sales for the Group's dispensing pharmacies and strengthening manufacturing facilities.

Business trends

1H FY3/24 financial results are broadly in line with the Company's forecast, despite an increase in sales and decrease in profits

1. Summary of 1H FY3/24 results

In its 1H FY3/24 consolidated results, the Company recorded higher sales with lower profits, with net sales increasing 7.4% YoY to ¥88,540mn, operating income decreasing 11.5% YoY ¥3,559mn, ordinary income decreasing 11.9% to ¥3,675mn, and profit attributable to owners of parent decreasing 20.2% to ¥1,888mn. However, sales and all levels of profit were broadly in line with the Company's forecast. The gross margin decreased by 0.7pt, mainly due to a slight deterioration in the purchasing margin in the pharmacy business, and the increase in gross profit was subdued at 1.6%. Moreover, the main factor in decreasing operating income was a 9.3% increase in selling, general and administration expenses following an increase in personnel expenses and recruitment expenses as the Company bolstered the number of pharmacists in a bid to respond to an increase in the number of prescriptions, along with such factors as increases in the amount of amortization of goodwill and system-related payment fees. EBITDA, which shows the Company's true earning capability, also decreased by 4.3% to ¥6,110mn.

1H FY3/24 results (consolidated)

(¥mn)

	1H FY3/23		1H FY3/24				
	Results	% of net sales	Initial forecast	Results	% of net sales	YoY	Compared to forecast
Net sales	82,459	-	85,600	88,540	-	7.4%	3.4%
Gross profit	10,856	13.2%	-	11,031	12.5%	1.6%	-
SG&A expenses	6,834	8.3%	-	7,472	8.4%	9.3%	-
Operating income	4,022	4.9%	3,500	3,559	4.0%	-11.5%	1.7%
Ordinary income	4,174	5.1%	3,500	3,675	4.2%	-11.9%	5.0%
Extraordinary income/losses	-18	-	-	-63	-	-	-
Profit attributable to owners of parent	2,366	2.9%	1,800	1,888	2.1%	-20.2%	4.9%
EBITDA*	6,382	7.7%	-	6,110	6.9%	-4.3%	-
Net income before amortization of goodwill	3,949	4.8%	-	3,563	4.0%	-9.8%	-

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

Performance by segment

(¥mn)

	1H FY3/23		1H FY3/24	
	Results	YoY	Results	YoY
Pharmacy Business				
Net sales	75,557	0.3%	80,966	7.2%
Segment income	5,056	-2.4%	4,714	-6.8%
% of net sales	6.7%		5.8%	
Medical Related Business				
Net sales	6,901	6.6%	7,573	9.7%
Segment income	645	-2.6%	658	1.9%
% of net sales	9.3%		8.7%	

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

Looking at the results by business segment, in the Pharmacy Business, net sales increased 7.2% YoY to ¥80,966mn while operating income decreased by 6.8% to ¥4,714mn. Net sales were slightly higher than forecast as the impacts of a fall in the unit price of prescriptions due to drug price revisions and dispensing fee revisions were absorbed by an increase in the number of stores and increases in the number of prescriptions at existing stores due to promotion of home and facility dispensing. On the profit front, the decrease in profits mainly reflected a slight deterioration in the purchasing margin for pharmaceuticals, a fall in the unit price of prescriptions, and increases in personnel expenses and recruitment expenses for pharmacists.

Looking at operating income on a quarterly basis, whereas operating income was up 13.2% YoY to ¥2,422mn for 1Q with an operating margin of 6.1%, for 2Q profitability decreased as operating income decreased 21.4% YoY to ¥2,292mn with an operating margin of 5.5%. In previous years, 2Q profit margins often increased from 1Q due to initiatives to increase technical fee unit prices. The reason for this year's decrease in profitability seems to be that purchasing prices concluded in 2Q were at a high level, which can be seen as a temporary factor. Moreover, as the number of prescriptions increased more than expected, the Company strengthened its recruitment of pharmacists, and ineffective efforts to control personnel expenses through optimal personnel placement was also a factor increasing costs. From 3Q onward, the Company aims to restore profitability by controlling personnel expenses and recruitment expenses through optimal placement of pharmacists and increasing the number of pharmacies acquiring community support system premium.

Meanwhile, net sales in the Medical Related Business increased 9.7% YoY to ¥7,573mn, while operating income rose 1.9% to ¥658mn. The CSO Business saw increased sales and profits atop strong CMR demand, while the Medical Professional Referral Dispatch Business also recorded higher sales and profits, mainly due to a recovery in dispatch demand for pharmacists and others. The Pharmaceutical Manufacturing Business maintained a level of earnings on par with the same period of the previous fiscal year, as a contribution from the sale of COVID-19 antigen test kits launched in December 2022 helped to offset the impacts of drug price revisions and higher raw material costs. The increase in profit was only modest, which appears to be due to the impact of increases in M&A expenses for Oncall, and expenses of other subsidiaries.

Net sales were higher than forecast as an increase in the number of prescriptions absorbed a decline in the unit price of prescriptions

2. Trends in the Pharmacy Business

(1) Status of net sales at dispensing pharmacies

In the Pharmacy Business, net sales are comprised of dispensing pharmacies' sales and product sales through channels such as shops and e-commerce. Looking at the breakdown of net sales for 1H FY3/24, both dispensing pharmacy net sales and other net sales were higher YoY, with dispensing pharmacy net sales increasing 7.6% to ¥75,147mn and other net sales increasing 1.8% to ¥5,819mn. Breaking down dispensing pharmacy net sales by store-opening period and format, among the Company's organic openings, sales at existing pharmacies increased 8.5%, or ¥1,872mn on a monetary basis, and sales at new pharmacies increased 242.6%, or ¥490mn on a monetary basis, due partly to an increase in new store openings to 13 from 9 in the same period of the previous fiscal year. For pharmacies acquired through M&As, etc., net sales for existing stores and new stores combined increased by 6.2% or ¥2,946mn on a monetary basis.

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

(¥mn)

	1H FY3/23			1H FY3/24		
	Results	Change	Growth rate	Results	Change	Growth rate
Existing pharmacies	22,122	984	4.7%	23,994	1,872	8.5%
Newly opened pharmacies	202	-103	-33.8%	692	490	242.6%
M&A, etc.	47,514	-966	-2.0%	50,460	2,946	6.2%
All pharmacies	69,839	-85	-0.1%	75,147	5,308	7.6%

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, the number of prescriptions increased 11.9% YoY to 8,196,000 prescriptions, while the unit price of prescriptions decreased 3.9% to ¥9,168. They are affected by other factors such as the opening period and M&A. We will look at these values in detail below.

The change rate in the number of existing pharmacies, which is considered to be close to actual conditions regarding the number of prescriptions, was a YoY increase of 9.3%. Although there was still a lingering trend of people refraining from seeking treatment due to the novel coronavirus pandemic (hereinafter, the COVID-19 pandemic) in the same period of the previous fiscal year, the number of visits to doctors increased following easing of restrictions on patients at medical institutions after the May 2023 reclassification of COVID-19 from a Class II to a Class V—equivalent to seasonal influenza—under the Act on the Prevention of Infectious Diseases and Medical Care for Patients with Infectious Diseases, leading to an increase in the number of prescriptions. Moreover, the number of prescriptions at pharmacies through M&A, etc., increased by 11.0%. The number of store acquisitions through M&A in 1H was only two, but the addition of growth in existing stores and 47 stores acquired in 2H FY3/23 were also a factor in the increase.

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

(thousands)

	1H FY3/23			1H FY3/24		
	Results	Change	Growth rate	Results	Change	Growth rate
Existing pharmacies	2,104	144	7.3%	2,300	196	9.3%
Newly opened pharmacies	42	-11	-20.8%	153	111	264.3%
M&A, etc.	5,175	163	3.3%	5,742	567	11.0%
All pharmacies	7,323	297	4.2%	8,196	873	11.9%

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

The unit price of prescriptions fell by 3.9% YoY overall, marking a third straight year of decline. This decline includes a 0.8% fall at existing pharmacies and a 4.3% fall at M&A and other pharmacies. These declines reflect the impacts of a decrease in the unit price of dispensing fees, which is now revised every year, as well as a slight decrease in the dispensing pharmacy's technical fee unit prices due to the end of a transitional measure for community support system premium.

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

(¥)

	1H FY3/23			1H FY3/24		
	Results	Change	Growth rate	Results	Change	Growth rate
Existing pharmacies	10,510	-273	-2.5%	10,428	-83	-0.8%
Newly opened pharmacies	4,785	-886	-15.6%	4,507	-278	-5.8%
M&A, etc.	9,180	-493	-5.1%	8,788	-392	-4.3%
All pharmacies	9,537	-415	-4.2%	9,168	-369	-3.9%

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

The dispensing pharmacy's technical fees, which are the equivalent of the pharmacy's added value, work on a system in which points are aggregated depending on the level of achievement of predetermined standards. The fees mainly comprise a basic dispensing fee, (categorized by number of prescriptions and concentration ratio on designated medical institutions, etc.), generic drug dispensing premium (categorized by ratio of generic drugs handled), and community support system premium (categorized by system for contribution to community healthcare, such as home and facility delivery dispensing). Of these, the generic drug dispensing premium and community support system premium offer points that vary depending on the state of each pharmacy's initiatives, providing a point of differentiation. Dispensing fees are revised every second year. In the revision of April 2022, the basic dispensing fee was changed based on the efficiency of pharmacy management; the generic drug dispensing premium's standard for the proportion of dispensing volume was increased and its evaluation method was revised; and the systems relating to contribution to community healthcare and the results-based evaluation system for the community support system premium were revised. All dispensing pharmacies are promoting measures to clear the standards indicated in the revision and receive points.

Looking at the status of the number of stores that received points by points received in 1H FY3/24, with regard to basic dispensing fees there were no significant changes to be seen in the composition ratio of pharmacies that acquired points. On the other hand, with regard to the generic drug handling ratio (volume basis), the ratio of stores that acquired the maximum 30 point allocation increased significantly from 27.9% as of September 2022 to 39.0% as of September 2023, making a positive contribution in terms of technical fee unit prices. The generic drug handling ratio for the Group overall continued to increase, rising from 84.7% in September 2022 to 86.1% in September 2023, and continued to exceed the 80% target set by the Ministry of Health, Labour and Welfare. Even amid an ongoing supply shortage of generic drugs, it appears that the Groupwide effort to take measures in line with national policy has been effective.

With regard to community support system premium, pharmacies that received 47 points or 39 points in FY3/23 were downgraded to 39 points or 17 points following the end of a transitional measure in March 2023,* which was a negative factor for the dispensing pharmacy's technical fee unit prices. The composition ratio of pharmacies that received 47 points fell sharply from 28.6% in March 2023 to 0.7% in September 2023, and the ratio for pharmacies that received 39 points increased from 6.2% to 15.3%, while that of pharmacies that received 17 points increased from 15.0% to 34.5%. The Company's policy for responding to the end of transitional measures was to offset the negative impact by reducing the compositional ratio of pharmacies that received 0 points from 50.1% in March 2023 by half to 25% in March 2024. However, ineffective efforts to control the placement of pharmacists and so forth resulted in delayed progress compared to the forecast, with the ratio standing at 49.6% as of September 2023. Assuming a constant number of prescriptions per pharmacy, the number of community support system incentive points per pharmacy was calculated to decrease from 18.8 points in September 2022 to 12.2 points in September 2023. Since each point is worth ¥10, this represents a factor causing a ¥66 yen decrease in the unit price of prescriptions. This, multiplied by the number of prescriptions can be seen as the profit decrease factor due to the end of the transitional measure. Therefore, the Company's ability to increase the number of pharmacies receiving points toward the fiscal year end has become important. If the ratio of pharmacies receiving 0 points can be reduced to around 25%, then the average number of points per pharmacy is expected to return to the level at the same period of the previous fiscal year.

* With the revision of dispensing fees in April 2022, some pharmacies were shifted from "Basic dispensing fee 1" (42 points) to the newly established "Basic dispensing fee 3-c" (pharmacies in the same group receiving more than 0.4 million prescriptions a month, or having 300 or more pharmacies in the same group, basic dispensing fee 32 points). As a transitional measure, these pharmacies were deemed to be "Basic dispensing fee 1" pharmacies as before until March 2023, and were able to receive 39 points or 47 points depending on the number of home dispensing services performed and the status of afterhours, late-night, and holiday service. However, from April 2023, their incentives are calculated at 17 points or 39 points, the standard for "Basic dispensing fee 3-c" pharmacies. In addition, as a special measure from April to December 2023, pharmacies eligible for the generic drug dispensing premium that satisfy certain conditions may compute their scores with either 1 point or 3 points added on to their community support system premium.

Basic dispensing fee
(percentage of store type)

Points	End of September 2022	End of March 2023	End of April 2023	End of September 2023
42 points	1.2%	2.5%	1.3%	1.3%
32 points	47.1%	44.6%	47.4%	47.2%
26 points	0.0%	4.0%	0.0%	0.0%
21 points	0.5%	0.5%	0.6%	0.6%
16 points	48.7%	46.0%	48.2%	48.2%
9 points	2.5%	-	-	-
7 points	-	2.4%	2.6%	2.7%
Number of pharmacies	810	866	870	890

Generic drug dispensing premium
(percentage of store type)

Points	End of September 2022	End of March 2023	End of April 2023	End of September 2023
30 points	27.9%	33.6%	34.9%	39.0%
28 points	46.5%	43.1%	42.1%	39.8%
21 points	15.0%	13.6%	13.2%	12.6%
0 points	10.6%	9.7%	9.8%	8.7%
Number of pharmacies	810	866	870	890

Community support system premium
(percentage of store type)

Points	End of September 2022	End of March 2023	End of April 2023	End of September 2023
47 points	28.2%	28.6%	0.5%	0.7%
39 points	8.6%	6.2%	9.0%	15.3%
17 points	13.1%	15.0%	34.9%	34.5%
0 points	50.1%	50.1%	55.6%	49.6%
Number of pharmacies	810	866	870	890

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

3. Store openings and closures and M&A status

The number of stores at the end of September 2023 stood at 905, an increase of 13 stores from the end of the previous fiscal year. The Company opened a total of 17 stores, including 13 stores opened organically, 2 acquired through M&A, and 2 shops, and it closed 4 stores. In the same period of the previous fiscal year, the Company opened a total of 11 stores, including 9 stores opened organically, 1 store acquired through M&A, and 1 shop, and it closed 8 stores. While the Company has made steady progress on opening stores organically, it is apparently expecting to conduct multiple M&As in 2H, and plans to increase the number of stores during 2H as it did last year.

Store openings and closures status

<table>
<tr><th rowspan="2" colspan="2"></th><th rowspan="2">End of FY3/22</th><th rowspan="2">End of 1H FY3/23</th><th rowspan="2">End of FY3/23</th><th colspan="4">1H FY3/24</th></tr>
<tr><th colspan="2">Opened</th><th>Closed</th><th>End of 1H FY3/24</th></tr>
<tr><td colspan="2" rowspan="2">QOL Pharmacies</td><td rowspan="2">769</td><td rowspan="2">774</td><td rowspan="2">829</td><td>Organic openings</td><td>13</td><td rowspan="2">4</td><td rowspan="2">840</td></tr>
<tr><td>Through M&A</td><td>2</td></tr>
<tr><td rowspan="3">New format</td><td>Lawson</td><td>36</td><td>36</td><td>36</td><td colspan="2">0</td><td>0</td><td>36</td></tr>
<tr><td>BIC CAMERA</td><td>5</td><td>4</td><td>5</td><td colspan="2">0</td><td>0</td><td>5</td></tr>
<tr><td>Within train stations</td><td>2</td><td>2</td><td>2</td><td colspan="2">0</td><td>0</td><td>2</td></tr>
<tr><td colspan="2">Shops</td><td>22</td><td>21</td><td>20</td><td colspan="2">2</td><td>0</td><td>22</td></tr>
<tr><td colspan="2">Total</td><td>834</td><td>837</td><td>892</td><td colspan="2">17</td><td>4</td><td>905</td></tr>
</table>

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

The CSO Business and the Medical Professional Referral Dispatch Business are performing favorably

4. Trends in the Medical Related Business

Within the Medical Related Business, the mainstay CSO business reported higher sales and profits atop strong inquiries for CMRs from pharmaceutical manufacturing companies. There is a continuing trend among pharmaceutical manufacturers to utilize CMRs and reduce their own MR personnel as a cost-cutting measure. As the Company has the largest number of transactions with companies in the industry, it has seen brisk inquiry activity, and despite some incidents of opportunity loss in 1Q as supply failed to meet demand, in 2Q, the Company has made progress in recruiting and training CMRs from experienced senior MRs and personnel from other industries, leading to steady profit growth. Moreover, in CRO the Company has also seen favorable orders for functional food projects from food manufacturers.

In the Medical Professional Referral Dispatch Business also, sales and profits increased, reflecting continued recovery in demand for dispatches of pharmacists and registered sales personnel for drugstores since 2H FY3/22, as well as expanding dispatch demand for industrial physicians and health professionals against the backdrop of an increase in the number of companies implementing health and productivity management. Moreover, despite being small in scale, short-term spot-type medical professional introduction services by Oncall also performed well.

In the Pharmaceutical Manufacturing Business, earnings were on par with the same period of the previous fiscal year. Existing businesses continued to experience a downturn due to the impacts of drug price revisions and high raw material costs, but even though demand for Tegaruna® stick SARS-CoV-2 Ag, a COVID-19 antigen test kit launched in December 2022, passed its peak, progress on sales to corporations covered the downturn in existing business to a certain degree.

Initial forecast for FY3/24 financial results is left unchanged, and the Company aims to renew record highs

5. FY3/24 outlook

The financial results outlook for FY3/24 has been left unchanged from the initial forecast, which calls for the Company to deliver record-high business performance, with new sales to increase 5.9% YoY to ¥180,000mn, operating income to increase 5.3% to ¥10,000mn, ordinary income to increase 6.0% to ¥10,700mn, and profit attributable to owners of parent to increase 9.6% to ¥6,200mn. Both the Pharmacy Business and the Medical Related Business are expected to record increases in sales and profits. The Pharmacy Business is expected to restore profits in 2H through optimum placement of employees and increase in stores receiving community support system premium. Depreciation and amortization of goodwill will increase by a combined ¥620mn. However, the effect of increased sales, and the absence of the cost of additional pharmacists (approximately ¥0.4bn) needed to sustain store operations during the COVID-19 pandemic, which pushed up costs in the previous fiscal year, will contribute positively to profits. The progress rate on operating income through 1H has been on the low side at 35.6%; however, if initiatives to improve earnings in the Pharmacy Business proceed as planned, the operating income target should be achievable in our opinion. Moreover, non-operating income includes ¥700mn in gain on equity-method investments for DAIICHI SANKYO ESPHA, which became an equity-method affiliate in October 2023.

FY3/24 outlook

(¥mn)

	FY3/23		FY3/24			1H progress rate
	Full year results	% of net sales	Full year results	% of net sales	YoY	
Net sales	170,036	-	180,000	-	5.9%	49.2%
Operating income	9,495	5.6%	10,000	5.6%	5.3%	35.6%
Ordinary income	10,098	5.9%	10,700	5.9%	6.0%	34.4%
Profit attributable to owners of parent	5,656	3.3%	6,200	3.4%	9.6%	30.5%
EBITDA	14,379	8.5%	15,504	8.6%	7.8%	39.4%
Capital investment	4,510	-	986	-	-78.1%	-
Depreciation	1,680	-	1,991	-	18.5%	43.9%
Amortization of goodwill	3,204	-	3,513	-	9.7%	47.7%
Earnings per share (yen)	152.96		166.78			

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

(1) Pharmacy Business

The Pharmacy Business is expected to record increases in both sales and profits. In FY3/24, the forecast for new store openings, an indicator of performance, is for 10 to 20 organic openings and 30 to 70 openings through M&A. Looking at actual store openings and closures through October 2023, the Company opened 15 stores organically and acquired 3 stores through M&A. Amid a continuing adverse management environment in the dispensing pharmacy industry, large corporations are expected to continue forming groups, and the Company aims to carefully examine and complete several M&As in 2H.

The number of prescriptions was expected to increase by around 5% YoY under the initial forecast; however, it has exceeded the plan up to 2H and with influenza infections continuing in 2H, we consider it highly likely that prescriptions will increase faster than expected. On the other hand, the unit price of prescriptions was lower than forecast, falling 3.9% YoY. This was due to a delay in the Company's initiatives on community support system premium in 1H, described above, despite the Company expecting to offset a fall in the unit price of dispensing fees by maintaining and increasing the dispensing pharmacy's technical fee unit prices. For 2H, the Company will refine its target for placement of pharmacists to pharmacies that are able to receive community support system premium and strengthen home dispensing services. For the full year, the Company is expected to achieve an increase in sales and profits, even though unit prices for prescriptions could be somewhat lower than forecast, as the impact is expected to be absorbed by factors such as an increase in the number of prescriptions and the cost reduction effect of operational efficiency gains.

(2) Medical Related Business

In the Medical Related Business, although lower sales and profits are forecast in the Pharmaceutical Manufacturing Business due to a snap-back decline in COVID-19 antigen test kits, the CSO Business and the Medical Professional Referral Dispatch Business are expected to perform strongly in 2H also, leading to projected increases in sales and profits overall. Antigen test kit sales will continue as a certain level of demand is expected for companies and schools.

Medium-term performance targets and growth strategy

For FY3/26 the Company is aiming for net sales of ¥300.0bn and operating profit of ¥25.0bn due to the inclusion of DAIICHI SANKYO ESPHA in the Group

1. Medium-term performance targets

The Company plans to acquire an additional 21% of the shares of DAIICHI SANKYO ESPHA in April 2024, making it a consolidated subsidiary. In line with this, it has announced its performance targets and growth strategies separately for each business segment. In the Pharmacy Business, the Company's strategy is to engage in aggressive store openings and M&A, and to work on improvements in both earnings and costs. By returning sales growth to the pre-COVID-19 levels or higher with CAGR of at least 5% and increasing productivity to 7% or higher, the Company aims to achieve net sales of ¥180.5bn and segment income of ¥10.5bn in this segment in FY3/26. In the Medical Related Business, the Company aims will promote scale expansion through M&A, aiming to increase sales by 1.2 times from FY3/24 to ¥21.0bn and segment income by 1.7 times to ¥2.5bn. The Company has retained its target of maintaining a profit margin of 12% or higher by expanding sales. For DAIICHI SANKYO ESPHA, the Company has set targets for FY3/26 with CAGR of 15% or higher, aiming for net sales of ¥100.0bn and segment income of ¥14.0bn. Overall, the Company is targeting net sales of ¥300.0bn and operating income of ¥25.0bn for FY3/26. The Company's strategy is to achieve further growth by evolving into a Comprehensive Healthcare Company involved in general medical operations, from R&D to manufacture and sale of pharmaceuticals, human resource services for healthcare medical institutions and pharmacies, and the patient-oriented dispensing pharmacy business, creating Group synergies.

Medium-term performance targets by business

(¥bn)

	FY3/23	FY3/24	FY3/25	FY3/26	Growth target	Theme
Pharmacy Business						
Net sales	155.4	163.0	72.5	180.5	CAGR of 5% or higher	Increase in quality
Operating income		9.0	9.5	10.5	Productivity of 7% or higher	
% of net sales		5.5%	5.5%	5.8%		
Medical Related Business						
Net sales	14.9	17.5	19.0	21.0	Increase of 1.2 times vs FY3/24 (including M&A)	Scale increase
Operating income		1.5	2.0	2.5	Aim for profit margin of 12% or higher	
% of net sales		8.6%	10.5%	11.9%		
DAIICHI SANKYO ESPHA						
Net sales		75.0	86.0	100.0	CAGR of 15% or higher	Further growth
Operating income		11.0	12.5	14.0	Aim for profit margin of 15% or higher	
% of net sales		14.7%	14.5%	14.0%		
Total						
Net sales		180.0	276.0	300.0		
Operating income		10.0	22.0	25.0		
% of net sales		5.6%	8.0%	8.3%		

*FY3/24 total values are the Company's announced figures excluding DAIICHI SANKYO ESPHA
Each company's simple totals also take into amortization of goodwill and management and administration fees for each segment, and therefore differ from the segment income presented in the Company's quarterly financial report.
Source: Prepared by FISCO from the Company's results briefing materials

Further growth of DAIICHI SANKYO ESPHA expected through Group synergies

2. Growth strategy by business

(1) Pharmacy Business

In the Pharmacy Business, the Company's growth strategy is unchanged, aiming for steady growth through the basic strategy of expanding scale through strategic store openings and creating value of pharmacies.

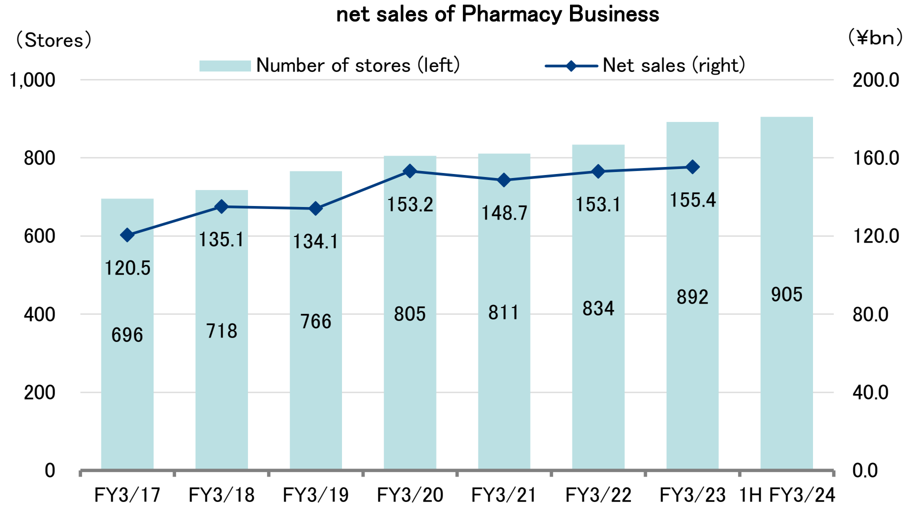
a) Expanding scale through aggressive M&A and store openings

Regarding the number of stores, the Company's target for the time being is to have 1,000 stores though 10 to 20 organic openings yearly and by acquiring 30 to 70 stores annually through M&A. The Company will target openings for areas with large populations, such as the three major metropolitan areas, efficiently expanding the number of stores through dominant openings and developing stores that can be expected to deliver high earnings. Similarly for M&A, its policy is to move ahead in main urban areas where it is easy to collaborate with communities.

In other strategic store openings, the Company intends to bolster openings of pharmacies specialized for Home and Facility Delivery Dispensing Business, aiming to provide the enhancement of community healthcare called for by the arrival of the super-aging society. Currently, the Company operates a total of 15 such stores, comprising 5 stores with a focus on Home and Facility Delivery Dispensing Business and 10 that specialize in it. The Company will expand the number to 50 stores over the coming years. Within a 16 km radius, which is the condition for medical service fees for pharmaceutical management in home medical care, the Company is expected to have stable sales through agreements with multiple institutions, such as nursing care facilities. Costs are higher in the initial stage of opening such stores because they require slightly larger initial investments than regular stores, such as providing dedicated shelves for at-home and in-facility patients. However, the unit price for prescriptions is around 1.5 times higher (approximately ¥9,500) on average since the medical service fee for pharmaceutical management in home medical care* is added. This means that stores become highly profitable if they can secure a number of contracting facilities. As a strategy for acquiring contracting facilities, since 2022 the Company has held medical and nursing care collaboration meeting with companies operating nursing care facilities and companies providing at-home medical care. These meetings have led to contracts in an increasing number of cases, and the Company's strategy is therefore to promote this initiative even further to expand the number of contracts.

* Medical service fees for pharmaceutical management in home medical care are ¥6,500 for one patient in a single building, ¥3,200 for two to nine patients, and ¥2,900 for ten or more patients (up to four times a month per patient; eight times a month (twice a week) for patients with terminal malignant tumors, etc.). There is also an additional ¥150 home visit drug dispensing premium.

Trends in the number of stores at the fiscal year-end and net sales of Pharmacy Business

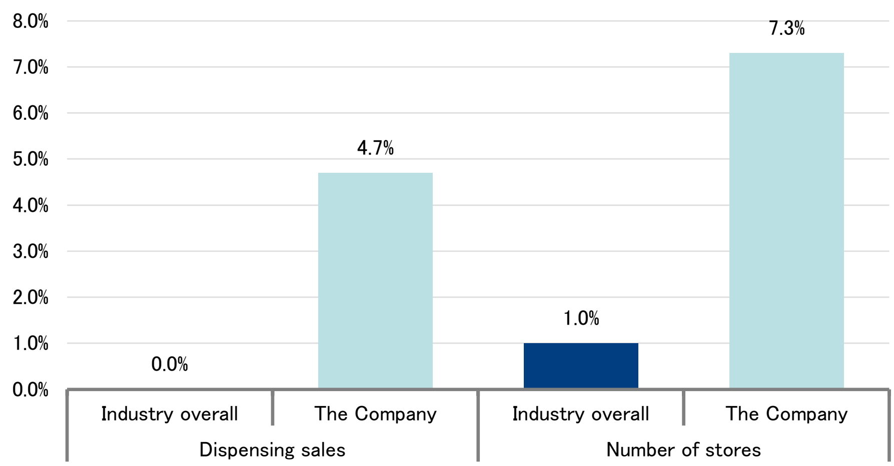


Source: Prepared by FISCO from the Company's results briefing materials

The number of dispensing pharmacies has been gradually increasing to around 62,000 at the end of FY2022 due to expansion of drugstore openings over the past few years. Meanwhile, although dispensing pharmacy fees, which correspond to sales, for FY2022 increased by 1.7% YoY to ¥7.8tn, increasing for a second consecutive year, they remain level with FY2015 due to the impact of decreased drug prices. We recognize that this constitutes an adverse competitive environment for dispensing pharmacies. In this situation, in addition to the lifting of the ban on online drug administration guidance in 2020 and the introduction of the authorization system for specific functions in August 2021, electronic prescriptions began operation in 2023. The provision of services using IT is expected to play an increasingly crucial role in pharmacy management. For example, major companies are working to retain customers through the usage of LINE mini-apps. In addition, building such systems will require capital capabilities, and this is one factor supporting the view that the industry will tend to become an oligopoly dominated by major corporations.

In this environment, major dispensing pharmacies continue sales growth through expanding the number of stores by organic openings and M&A. The Company is one such company, and the CAGR from FY3/16 to FY3/23 shows dispensing pharmacy sales grew 4.7% and the number of stores by 7.3%, which significantly exceeds the growth rate of the industry as a whole (dispensing pharmacy sales 0.0%, number of pharmacies 1.0%). Currently, the total sales of the 10 leading companies in the dispensing pharmacy market are around ¥1.3tn, which converts to a market share of only approximately 16%. Considering that the top 10 companies in the drugstore industry currently have a share of around 70%, it is highly likely that the major players in the dispensing pharmacy industry will proceed to form an oligopoly going forward. The Company's strategy of expanding store openings, both organically and through M&A, makes sense and FISCO believes it is possible for the Company to achieve sustainable growth through the expansion of store numbers, even if the market scale continues to be effectively topped out going forward. The Company judges whether or not to conduct an M&A based on strict in-house standards, including the scales of sales, whether or not synergetic effects will be generated, and the investment recovery period.

FY3/16–FY3/23 CAGR



* Number of Qol stores excludes the number of shops
Source: Prepared by FISCO from the Ministry of Health, Labour and Welfare's "Trends of Medical Prescription Fees (Computerized Data) in FY2020"

b) Improvements in both earnings and costs

As a strategy for increasing profitability, the Company will increase the number of prescriptions and its technical fees at existing pharmacies, undertake a rigorous review of productivity, and work to review costs from scratch. In its efforts to increase the number of prescriptions, the Company is strengthening its initiatives for health-support pharmacies that can not only function as primary pharmacies for local communities, but also provide various health related consultations on matters such as OTC drugs, nursing care, and diet and nutrition. It is also working to retain customers by expanding the development and provision of various services which lead to greater convenience for customers by utilizing its LINE official account. Specifically, in April 2022, the Company launched an advanced reservation prescription service and is also steadily expanding services such as same-day delivery functions, online medicine administration guidance and an automatic data link function with prescription records, etc. Recently, the Company developed a mobile order system capable of handling all steps from receiving prescriptions to payment via smartphone, and has begun test implementation at seven stores in Tokyo from June 2023. The number of registered users for the Company's LINE official account is also expanding steadily, surpassing 220,000 as of the end of October 2023, which is 1.5 greater than the level half a year earlier.

As measures to increase technical fees, the Company is working to strengthen the Home and Facility Delivery Dispensing Business. Home dispensing still accounts for only a small share of around several percent of the overall dispensing market, but from 2025 onward, as the baby boomer generation reaches the age of 75, demand is expected to grow further for at-home medical and nursing care services, and the home and facility delivery dispensing pharmacy market is also expected to continue a period of high growth. The Company is promoting the initiatives mentioned above for facilities, while for individual homes it will develop the sector by forming connections with hospitals and community care managers. The Company's strategy is to increase the number of points received for community support system premium by strengthening its initiatives for home dispensing, leading to an increase in technical fee unit prices.

Moreover, in measures to increase productivity, the Company will continue optimal placement of pharmacists as well as streamlining operations inside pharmacies through the utilization of IT (including the introduction of automated checkout machines). Through these initiatives, the Company expects to achieve profitability improvement effects in the order of ¥3.0bn by FY3/26.

(2) Medical Related Business

In the Medical Related Business, the Company aims to increase net sales by 1.2 times compared to FY3/24 and maintain an operating margin of 12% or higher by expanding business scale through an aggressive M&A strategy while also working to achieve organic growth at its subsidiaries. At existing subsidiaries, the Company is targeting a CAGR of 10% for sales. APO PLUS STATION aims to focus on developing specialist human resources in the CSO Business to achieve a structure with 1,000 CMRs. Moreover, in the CRO Business, the Company will work to increase orders for contracted testing services through collaboration with major food manufacturers.

APO PLUS CAREER aims to expand its coverage of medical roles beyond pharmacists to include medical clerical roles, industrial physicians, physicians, and nurses, and has aims to grow sales by responding to diverse needs among customer corporations, including through collaboration with its subsidiary, Oncall. Fujinaga Pharm is aiming to expand sales through development of new products by joint development with other companies and repositioning,* as well as collaboration with DAIICHI SANKYO ESPHA.

* A method of transferring the application of existing approved drugs or development drugs to develop them as treatments for new medical conditions.

(3) DAIICHI SANKYO ESPHA

DAIICHI SANKYO ESPHA is a fabless manufacturer focused on planning and sales established by Daiichi Sankyo Company, Limited <4568> in 2010 to enter the generic drugs market. It held the top share of Japan's sales of AG products with around 26% in FY2022, with AG products making up around 75% of its net sales. In terms of sales items, DAIICHI SANKYO ESPHA has entered into licensing agreements for the development and sales of AG products with not only Daiichi Sankyo, but also multiple other pharmaceutical companies, and it has developed products based on these agreements. It currently sells 18 items. For FY3/23, the company achieved double-digit growth in sales and profits, with net sales of ¥78,769mn and operating income of ¥12,865mn.

Results and management indicators of DAIICHI SANKYO ESPHA

(¥mn)

	FY3/21	FY3/22	FY3/23
Net sales	60,159	64,382	78,769
Operating income	10,698	10,879	12,865
Ordinary income	10,706	10,880	12,897
Net profit	7,398	7,520	8,934
Net assets	17,431	17,554	18,982
Total assets	36,024	37,431	46,466

	FY3/21	FY3/22	FY3/23
Equity ratio	48.4%	46.9%	40.9%
Operating income margin	17.8%	16.9%	16.3%
ROE	-	28.7%	33.0%
ROA	-	29.6%	30.7%

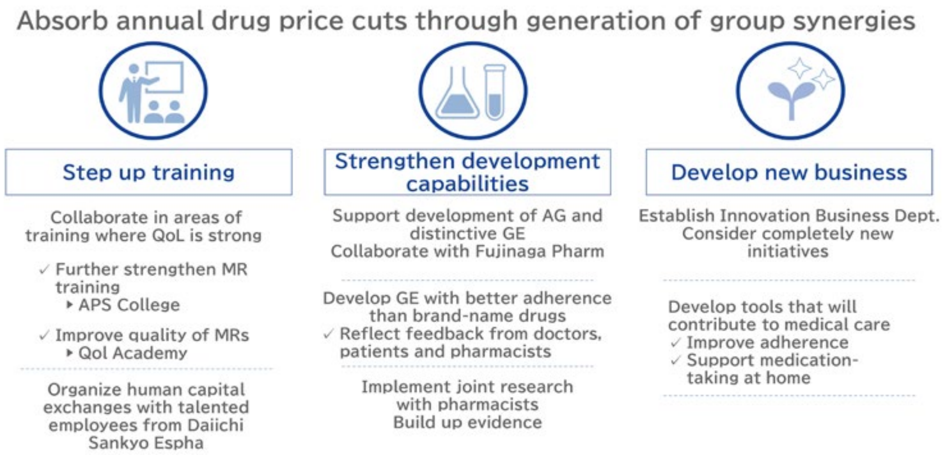
Source: Prepared by FISCO from the materials announced by the Company

As a growth strategy, DAIICHI SANKYO ESPHA will expand sales by acquiring licenses for AG products, expanding sales functions for conducting combined sales of other company's new drugs and existing drugs, and promoting the develop of new products by making use of Group synergies, including repositioning with new technologies and so forth and in-licensing and jointly developing drugs that have yet to gain approval. Through these measures, the company aims for sales growth with CAGR of 15% or higher, and to maintain a profit margin of 15% or higher.

The Company's efforts to create Group synergies are expected to be effective for expanding sales functions. With 160 MR personnel for sales at DAIICHI SANKYO ESPHA, and an additional 60 at Fujinaga Pharm, as well as the potential to utilize CMR personnel at APO PLUS STATION, the Group is expected to be sufficiently able to supply MR resources needed for expanding sales. Moreover, as synergies in the development field, the Company will strengthen its development capabilities through coordination with Fujinaga Pharm, and it is also notable that it will be able to develop products that reflect the feedback of patients, pharmacists, and doctors through Qol dispensing pharmacies. This latter point in particular is seen by FISCO as a significant benefit for development as it increases the potential for developing generic products with better adherence* than brand-name drugs. In other initiatives, the Company has established a new Innovation Business Dept. to establish new businesses and has also started examining completely new initiatives.

* Adherence: This refers to the sufficient understanding of patients regarding the treatment method for a disorder, adequate acceptance of the administration method and types of drug before implementing and continuing treatment.

Growth strategies and targets of DAIICHI SANKYO ESPHA



Source: The Company's results briefing materials

Returns to shareholders and SDGs Initiatives

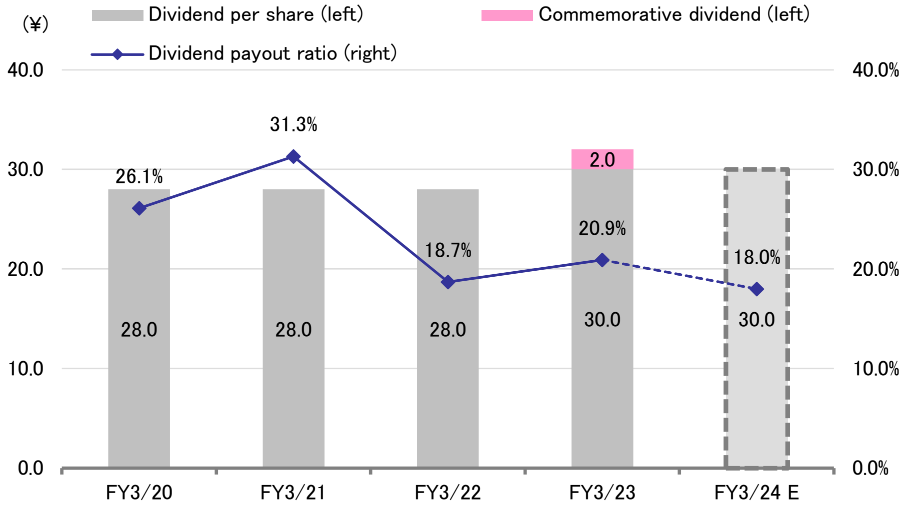
Basic policy is to stable returns to shareholders, as well as introducing shareholder benefits program

1. Shareholder return policy

Its basic policy is to pay stable return of profits to shareholders while also giving consideration to internal reserves for future business development and reinforcement of its management foundation. 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 when necessary. Based on this basic policy, in FY3/24, the Company plans to maintain the dividend level from the previous fiscal year, with an ordinary dividend of ¥30.0 per share (dividend payout ratio of 18.0%). While the commemorative dividend will be absent, the Company's policy is to allocate funds to growth investments such as the acquisition of shares of DAIICHI SANKYO ESPHA.

The Company has also introduced a shareholder benefits program. Shareholders registered at the end of March in each year are eligible for the program. Looking at the example of shareholders holding 1 unit of 100 shares, they receive a catalog gift worth ¥3,000 if they have held the shares for less than 1 year, and worth ¥5,000 if held for 1 year or longer. On calculating the investment yield which combines the dividend and shareholder benefits based on the closing share price on November 14 (¥1,641), it is 3.7% if the shares were held for less than 1 year and 4.9% if held for 1 year or longer.

Dividend per share and dividend payout ratio



* FY3/23 includes a 30th founding anniversary commemorative dividend of ¥2.0.
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

2. Initiatives for SDGs

Regarding initiatives for SDGs, the Company established a Sustainability Committee in May 2022 as an advisory body to the Board of Directors to strengthen activities related to the Group's sustainability. The Company plans to move ahead on such activities as sustainability trend surveys, proposals for sustainability-related management strategies, identification and review of important issues (materiality), monitoring of progress status and evaluation of achievement status.

Moreover, in December 2022, the Company announced its endorsement of the Task Force on Climate-related Financial Disclosures (TCFD). Additionally, in February 2023, the Company prepared a publication called Value Report 2022 for the first time. This report summarizes the Company's position on sustainability and the current state of sustainability activities, among other matters. Value Report 2022 can be viewed from the Company's website. Furthermore, a cross-divisional team made up of executives, middle-tier employees, and young employees was created to develop goals to be achieved in 2030 and 2050. The team is advancing discussions on its awareness of current conditions and the Company's ideal profile for the future based on the team members' diverse array of values and ideas.

2030/2050 targets

Indicator	Target year	Target value
Group's overall CO_2 emissions	2050	100% reduction
Shopping bag usage rate	2030	8% or less
	2050	5% or less
Disposal rate	2030	1.7%
Ratio of female managers	2030	Department manager or above 30% or higher
		Department manager or above + pharmacy manager + head supervisor 50%
Paid leave usage rate	2025	70%
	2030	90%

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

As one of its new sustainability initiatives, the Company has accepted a Para Sports Promotion Project (project for preparing an environment for conducting para sports in response to community issues), promoted by the Japan Sports Agency in October 2023. In coordination with the Japan Inclusive Football Federation, various local governments, and cooperating companies, the Company will hold para sports experience events in open spaces in each city, as well as health events run by the Company's pharmacists and managing nutritionists with the aim of encouraging health for local residents, particularly people with disabilities, and promoting understanding and support for para sports.

Income statement and main indicators

(¥mn)

	FY3/20	FY3/21	FY3/22	FY3/23	1H FY3/24
Net sales	165,411	161,832	166,199	170,036	88,540
YoY	14.2%	-2.2%	2.7%	2.3%	7.4%
Gross profit	21,094	21,102	23,163	23,504	11,031
Gross margin	12.8%	13.0%	13.9%	13.8%	12.5%
SG&A expenses	13,361	13,737	13,308	14,009	7,472
SG&A expense ratio	8.1%	8.5%	8.0%	8.2%	8.4%
Operating income	7,733	7,364	9,855	9,495	3,559
YoY	9.7%	-4.8%	33.8%	-3.7%	-11.5%
Operating margin	4.7%	4.6%	5.9%	5.6%	4.0%
Ordinary income	8,024	7,403	10,094	10,098	3,675
YoY	11.3%	-7.7%	36.4%	0.0%	-11.9%
Profit attributable to owners of parent	4,067	3,365	5,489	5,656	1,888
YoY	4.1%	-17.3%	63.1%	3.0%	-20.2%
Earnings per share (¥)	107.23	89.55	149.51	152.96	50.80
Dividend per share (¥)	28.00	28.00	28.00	32.00	15.00
Book value per share (¥)	1074.57	1124.31	1189.7	1314.69	1349.03

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

Simplified balance sheet

(¥mn)

	End of FY3/20	End of FY3/21	End of FY3/22	End of FY3/23	End of 1H FY3/24	Change
Current assets	45,881	45,499	42,296	44,214	50,106	5,892
Cash and deposits	15,802	19,648	16,685	18,770	17,428	-1,341
Notes and accounts receivable- trade, and contract assets	22,862	18,231	17,382	16,951	16,505	-445
Inventories	5,224	4,854	5,582	5,286	5,761	475
Noncurrent assets	56,976	55,062	53,682	57,689	57,259	-430
Property, plant and equipment	13,055	12,730	12,846	16,108	16,360	252
Intangible assets	36,642	34,938	33,238	33,790	33,040	-750
Investments and other assets	7,278	7,393	7,598	7,791	7,858	67
Total assets	102,872	100,571	95,984	101,905	107,365	5,460
Current liabilities	38,730	38,709	35,460	36,330	43,490	7,160
Noncurrent liabilities	23,139	20,026	16,642	16,719	13,614	-3,104
Total liabilities	61,870	58,736	52,103	53,049	57,105	4,056
Interest-bearing debt	32,650	29,721	23,282	22,750	25,418	2,668
Total net assets	41,001	41,834	43,881	48,856	50,260	1,404

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

Cash flow and management indicators

(¥mn)

	FY3/20	FY3/21	FY3/22	FY3/23	1H FY3/24
Cash flow from operating activities	4,468	12,912	10,112	11,662	6,391
Cash flow from investing activities	-8,670	-3,065	-3,087	-7,013	-9,905
Free cash flow	-4,201	9,846	7,025	4,648	-3,513
Cash flow from financing activities	-225	-6,114	-10,006	-2,569	2,170
Cash and cash equivalents at the end of the period	15,766	19,498	16,516	18,596	17,253
Equity ratio	39.4%	40.9%	45.7%	47.9%	46.8%
Interest-bearing debt ratio	80.6%	72.2%	53.1%	46.6%	50.6%
ROIC	7.3%	7.1%	10.2%	9.2%	-
ROE	10.3%	8.2%	12.9%	12.2%	-
ROA	8.1%	7.3%	10.3%	10.2%	-

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

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