COMPANY RESEARCH AND ANALYSIS REPORT

Qol Holdings Co., Ltd. (Qol)

3034

Tokyo Stock Exchange First Section

27-Aug.-2021

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Summary

By strengthen Home and Facility Dispensing Business and promoting DX (Digital transformation), profits are forecast to increase significantly by more than 20% FY3/22

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 alliances with companies in other industries. In fields other than dispensing pharmacies, in addition to the CSO* Business, which mainly involves dispatches of CMR (contract MRs), it also conducts the Medical Professional Referral Dispatch Business for pharmacists and other medical practitioners, and the Pharmaceutical Manufacturing Business.

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

1. In FY3/21, sales and profits declined due to the impact of the COVID-19, but profits increased from the 2H

In the FY3/21 consolidated results, net sales decreased 2.2% year-on-year (YoY) to ¥161,832mn and operating income declined 4.8% to ¥7,364mn. The main factor behind this was a decline in both sales and profits in the Pharmacy Business affected by a decrease in the number of prescriptions as people refrained from visiting medical facilities and prescription periods were lengthened due to the COVID-19 pandemic. Compared to the Company forecasts (net sales of ¥165,500mn and operating income of ¥6,500mn), net sales were less than the forecast, but operating income was significantly higher than the forecast. Net sales decreased and fell short of the forecast. The factors behind this were a decline in income from technical fees in the Pharmacy Business due to the decrease in the number of prescriptions and a decrease in sales brought on by declining demand for CSO Business and Medical Professional Referral Dispatch Business among Medical Related Business in 2H. Conversely, profits exceeded the forecast in 2H primarily due to cost reductions through cost optimization projects and significant improvements to the profitability of the Pharmacy Business. The Company progressed the optimal placements of pharmacists through introduction of automation equipment into pharmacies, and productivity per pharmacy improved. At the end of FY3/21, the number of stores had increased slightly, by 6 stores compared with the end of the previous fiscal year to 811 stores, because although 34 stores were opened through new store openings and M&A, 28 stores were closed or sold, which is slightly higher than recent years.

2. Outlook for the FY3/22 results is for sales to increase and profits to grow by double digits

The outlook for the FY3/22 results is for sales and profits to increase, with net sales rising 8.1% YoY to ¥175,000mn and operating income growing 22.2% to ¥9,000mn. In the Pharmacy Business, the Company projects an increase in sales due to increases in technical fees per unit and the effect of new store openings, including those from M&A, and also forecasts high single-digit to low double-digit growth YoY in the number of prescriptions at existing stores, despite the impact of price revisions to pharmaceuticals. The Company maintains its original policy of aiming for between 50 and 70 new store openings, including those from M&A, per year. Additionally, demand has recently been recovering in CSO Business and Medical Professional Referral Dispatch Business, which experienced downturns in 2H of the previous fiscal year. In particular, the Company is actively participating in dispatches of pharmacists to places such as COVID-19 mass-vaccination sites, and projects that this will help increase sales.

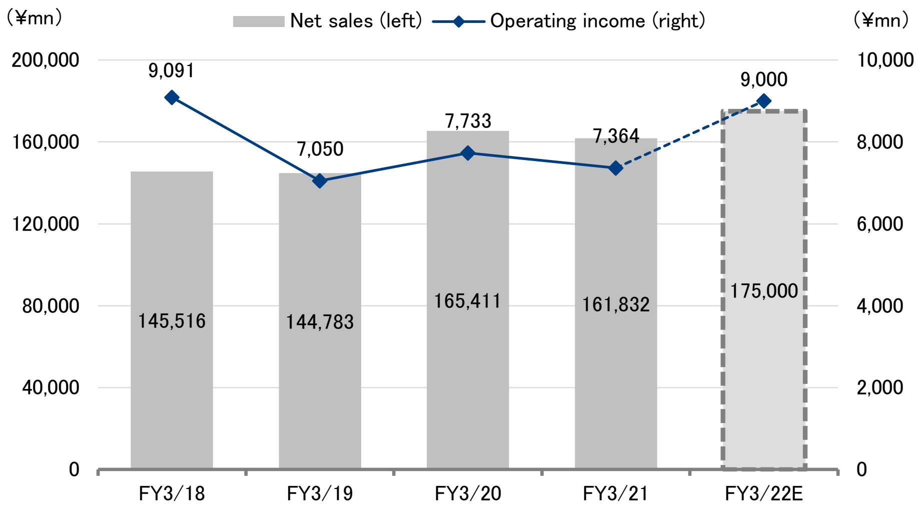
3. Policy is to steadily implement the growth strategy toward achieving the medium-term sales target of ¥300bn

The Company's medium- to long-term growth strategies have remained consistent without changes. In the Pharmacy Business, it is aiming for stable growth by working on expanding scale through strategic store openings and creating value of pharmacies. It is moving ahead with store openings, including those from M&A, at a pace of 50 to 70 stores a year, mainly in the Tokyo, Nagoya, and Osaka areas. It also intends to increase value and expand its market share by working to strengthen the functions as primary pharmacies for local communities, which will experience growing demand going forward. In the Medical Related Business, it is aiming to expand its share and improve profitability by deepening specialization in the CSO Business. Also, in the Pharmaceutical Manufacturing Business, which is conducted by Fujinaga Pharm Co, Ltd., its policy going forward is to aim to maximize Group synergies while further expanding business scale through increases in the number of production items as well as M&A, collaborations with major pharmaceutical companies and others. The medium-term targets through these measures are to achieve net sales of ¥300bn and operating income of ¥25bn. The two priority measures for FY3/22 are strengthening Home and Facility-Delivery Dispensing Business and promoting DX. Going forward, as demand for Home and Facility-Delivery Dispensing Business is forecast to increase due to the development of Japan's super-aging society, the Company aims to acquire customers, mainly facilities such as homes for the elderly, in order to increase sales. For promoting DX, its policy is not only to further improve work efficiency by utilizing IT, but also to progress developments of new services that will improve the Quality of life (QOL) of patients, and we shall be paying attention to developments in the future.

Key Points

- In FY3/21, sales and profits decreased due to the impact of COVID-19, but profits were higher than the forecasts due to cost reduction and productivity improvement
- Outlook for the FY3/22 results projects sales and profits to increase in all businesses and for profits to recover and increase by more than 20% in total
- Working on the priority measures of strengthening Home and Facility-Delivery Dispensing Business and promoting DX

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 currently conducting businesses on the twin axis of 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 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 established PhaseOn Co., Ltd. in 2003, and Qol Medis, CO., Ltd. in 2008 and started 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, which became as a subsidiary in August 2019, conducts the Pharmaceutical Manufacturing Business. The Company also conducted a spin-off in February 2020. The business was then transferred to APO PLUS CAREER Co., Ltd. which started business in August 2020 and assumed control of the business from APO PLUS STATION to promote development of the Medical Professional Referral Dispatch Business for pharmacists and other medical professionals.

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 medical fees once every two year). In a revision year, there are many negative factors for earnings, but overall earnings can still grow stably by making up for this negative amount through the Medical Related Business.

Looking at the earnings breakdown by segments (FY3/21 results), the Pharmacy Business is the primary area at 91.5% of net sales and 82.7% of operating income.

Pursuing an approach of “one-on-one pharmacies” and “new-format pharmacies” through alliances with companies in other industries to increase the number of stores while utilizing M&A activities

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 FY3/21, 790 (97%) of the 811 stores were dispensing pharmacies, while the remaining 21 were shops located within 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 shops located within hospitals 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> (1,134 stores as of the end of April 2021) and third in net sales after Ain Holdings and Nihon Chouzai Co., Ltd. <3341>.* Nihon Chouzai’s net sales exceed those of the Company because it has developed many pharmacies located in front of hospitals, which generate strong sales.

* When including unlisted companies, KRAFT Inc., which manages Sakura Pharmacy, had 1,002 stores and net sales of ¥193.7bn as of March 2020, so the Company ranks third for the number of stores and fourth for net 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 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 medical institutions and the characteristics of each region. 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. Moreover, we at FISCO think that the Company's pharmacies will demonstrate their strength in the authorization system for pharmacies with specific functions (details mentioned later), which will be introduced from August 2021 following the revision to the Pharmaceutical and Medical Device Act in 2019.

The catalyst for Qol's pursuit of new-format 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 drug stores. As an offensive measure in response to this, the Company entered into business alliances with the two aforementioned companies, and after that as well, it has entered into a series of business alliances with companies in other industries.

Qol views stores opened through the alliances as a "new format" because its target customer is different from that of "one-on-one pharmacies." "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 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	○
	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

Looking at the number of store openings by region at the end of FY3/21, Kanto leads with 333 stores (41.1% of the total volume), followed by Kansai with 136 stores (16.8%), and Koshinetsu with 107 stores (13.2%). 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. Looking at the increases since the end of March 2016, Koshinetsu was an increase of 94 stores and Kansai of 52 stores, which are both higher than the Kanto number. 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. As its store-expansion strategy, the Company is actively opening its own stores (organic openings) and also acquiring stores through M&A, and going forward, its strategy is to increase store numbers centered on the Tokyo, Nagoya, and Osaka areas. Looking at the comparison of the population composition ratios, Kanto is the highest, while the ratios of the Tokai and Hokuriku areas are significantly lower. So it can be said that going forward, an issue will be acquiring customers in the Tokai area, particularly in Aichi Prefecture.

Number of stores by region and population composition comparisons

	End of FY3/16	End of FY3/20		End of 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	10.4%	17	7.0%
Kanto	290	326	40.5%	333	41.1%	43	34.2%
Koshinetsu	13	109	13.5%	107	13.2%	94	4.1%
Tokai, Hokuriku	38	67	8.3%	66	8.1%	28	14.1%
Kansai	84	132	16.4%	136	16.8%	52	16.3%
Chugoku, Shikoku	47	49	6.1%	48	5.9%	1	8.8%
Kyushu, Okinawa	15	27	3.4%	27	3.3%	12	11.4%
Total	563	805	100.0%	811	100.0%	248	100.0%

Note: Japan's population composition based on national census data from 2019
Source: Prepared by FISCO from Company materials

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 Co., Ltd.; the Medical Professional Referral Dispatch Business (pharmacists, registered sales personnel, public health nurses, nurses, etc.) conducted by APO PLUS CAREER, which was spun off from APO PLUS STATION 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.

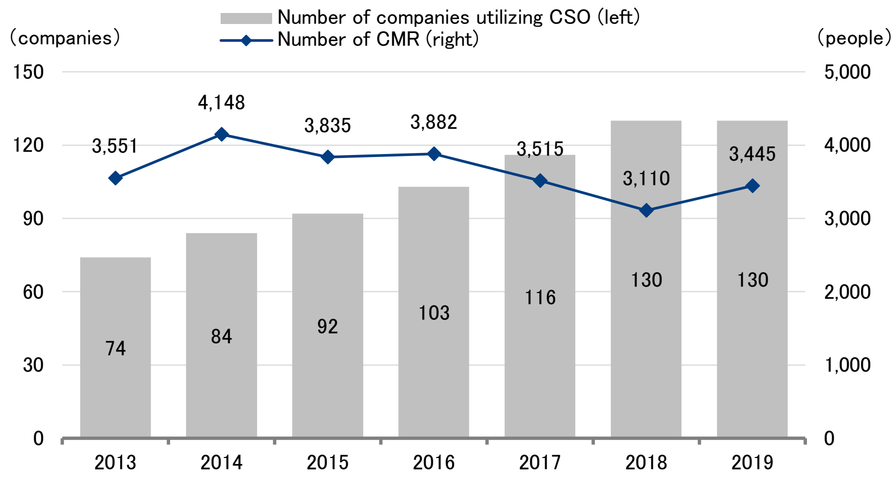
(1) CSO business and CRO business

The CSO business involves recruiting and training MR and dispatching them to the contracted pharmaceutical 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 pharmaceutical industry in the last few years, the development trend for new drugs has shifted from primary medicine (for 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. To respond to this change to the market environment, a movement has been strengthening among pharmaceutical companies toward reducing the scale of 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. At the end of FY3/21, it had around 570 CMR personnel, which is an industry share of 15.8%, 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.

CSO market trends



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

(2) Medical Professional Referral Dispatch Business

This business involves referral dispatches of pharmacists, health nurses, registered sales personnel, and others. Of these, it mainly conducts referral dispatches of pharmacists. With the aim of accelerating the growth pace, Qol has been developing business through APO PLUS CAREER, which was spun off from APO PLUS STATION, since October 2020. It has a track record of many referral dispatches of public health nurses. It ranks in the top 10 for the number of dispatched pharmacists by industry, while it also ranks in the top three for public health nurses.

(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 policy is to establish its unique position and grow its business by increasing sales for the Group's dispensing pharmacies and strengthening manufacturing facilities.

Business trends

In FY3/21, sales and profits decreased due to the impact of COVID-19, but profits were still higher than the Company forecasts due to cost reduction and productivity improvement

1. Summary of the FY3/21 results

In the FY3/21 consolidated results, sales and profits declined, with net sales decreasing 2.2% YoY to ¥161,832mn, operating income decreasing 4.8% to ¥7,364mn, ordinary income decreasing 7.7% to ¥7,403mn, and profit attributable to owners of parent decreasing 17.3% to ¥3,365mn. Increases in sales and profits were secured in the Medical Related Business, but sales and profits declined in the mainstay Pharmacy Business due to the impact of COVID-19. The main factor was that the number of prescriptions declined greatly, down 9.8% YoY, due to the continuation of the movements of people refraining from visiting medical facilities to avoid the risk of infection and of making prescription periods longer.

Net sales were below the Company forecast, but every profit item was higher than the forecast. For net sales, the factors were that although a recovery in the number of prescriptions was expected in 2H, sales continued to trend negatively compared to the same month in the previous fiscal year up to February 2021 due to the resurgence of COVID-19 infections, and also because of the fall in demand for CMR dispatches and pharmacist dispatches on entering 2H. Conversely for profits, in the Pharmacy Business, it seems that the efforts to reduce costs by a project to optimize costs and to review the placements of personnel in pharmacies had significant effects, and in the 2H, even while sales declined, operating income recovered and increased.

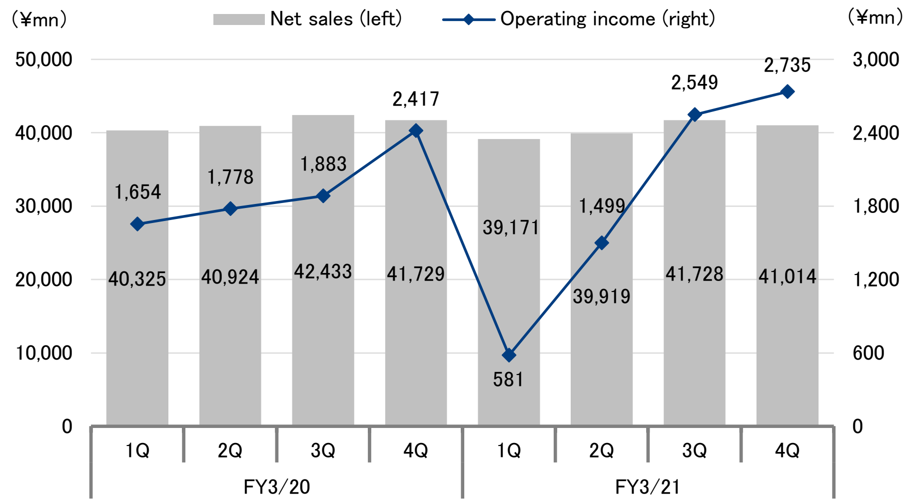
FY3/21 results (consolidated)

(¥mn)

	FY3/20		FY3/21				
	Results	% of sales	Company forecasts	Results	% of sales	YoY	Compared to forecast
Net sales	165,411	-	165,500	161,832	-	-2.2%	-2.2%
Gross profit	21,094	12.8%	-	21,102	13.0%	0.0%	-
SG&A expenses	13,361	8.1%	-	13,737	8.5%	2.8%	-
Operating income	7,733	4.7%	6,500	7,364	4.6%	-4.8%	13.3%
Ordinary income	8,024	4.9%	6,500	7,403	4.6%	-7.7%	13.9%
Extraordinary income	-341	-0.2%	-	-508	-0.3%	-	-
Profit attributable to owners of parent	4,067	2.5%	3,300	3,365	2.1%	-17.3%	2.0%
EBITDA*	12,353	7.5%	11,382	12,035	7.4%	-2.6%	5.7%

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

Trends in quarterly results



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

Looking at the results by business segment, in the Pharmacy Business, net sales (prior to deducting inter-segment transactions, same below) decreased 2.9% YoY to ¥148,778mn and segment income prior to deducting the holding company's fees declined 2.3% to ¥8,074mn. This was because although prescription unit prices increased 7.5% YoY, the number of prescriptions decreased 9.8%. Also in costs, in the 1Q the Company paid an appreciation bonus (several tens of thousands of yen per person) to pharmacists and other medical-related practitioners for working under COVID-19 conditions, and this was also a factor behind the decline in profits.

Conversely, sales and profits increased in the Medical Related Business, with net sales growing 2.7% YoY to ¥13,811mn and segment income prior to deducting the holding company's fees rising 2.0% to ¥1,476mn. This was mainly due to the full fiscal year contribution of the Pharmaceutical Manufacturing Business, whose business company joined the Group in August 2019. It appears that sales and profits decreased in the Medical Professional Referral Dispatch Business, which includes dispatches of pharmacists.

FY3/21 performance by segment

(¥mn)

	FY3/20 results	FY3/21		
		Results	Change	Change (%)
Pharmacy Business				
Net sales	153,221	148,778	-4,443	-2.9%
Segment income	8,263	8,074	-189	-2.3%
% of net sales	5.4%	5.4%		
Medical Related Business				
Net sales	13,452	13,811	359	2.7%
Segment income	1,447	1,476	29	2.0%
% of net sales	10.8%	10.7%		

* Net sales are prior to deducting inter-segment transactions, while segment income is after deducting the holding company's fees for inter-Group transactions.
Source: Prepared by FISCO from the Company's results briefing materials

Worked to optimize placements of pharmacists in dispensing pharmacies, and profits recovered and increased in the 2H

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 such as e-commerce. Among net sales in FY3/21, dispensing pharmacy net sales decreased 3.0% YoY to ¥136,832mn. Looking at the breakdown by pharmacy opening period and format, among the Company's organic openings, sales at existing pharmacies declined 1.9% YoY, while on a monetary basis, they fell ¥809mn. 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 3.8% YoY, and declined ¥3,739mn on monetary basis.

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

(¥mn)

	FY3/20			FY3/21		
	Results	Change	Growth rate	Results	Change	Growth rate
Existing pharmacies	41,744	2,201	5.6%	40,935	-809	-1.9%
Newly opened pharmacies	901	197	28.1%	1,174	273	30.4%
M&A, etc.	98,462	16,026	19.4%	94,722	-3,739	-3.8%
All pharmacies	141,107	18,426	15.0%	136,832	-4,275	-3.0%

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 FY3/21, the number of prescriptions declined 9.8% YoY to 13,369,000 prescriptions, while the unit price of prescriptions increased 7.5% to ¥10,234. 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 change rate at existing pharmacies, which is considered to be close to the actual conditions for the number of prescriptions, was a YoY decrease of 9.6%. As previously stated, this was mainly due to the movements of people refraining from visiting medical facilities to avoid the risk of the COVID-19 infections and of making prescription periods longer. The number of prescriptions continued to trend negatively from November 2020, when the number of infected people once again started to increase, up to February 2021.

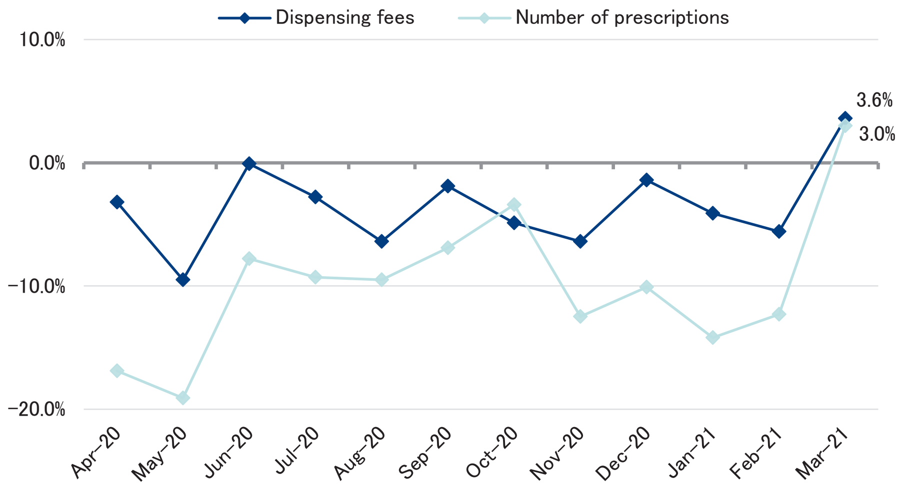
Number of prescriptions by store-opening period and format (details)

(thousands)

	FY3/20			FY3/21		
	Results	Change	Growth rate	Results	Change	Growth rate
Existing pharmacies	4,068	109	2.8%	3,677	-391	-9.6%
Newly opened pharmacies	125	9	8.5%	104	-21	-16.9%
M&A, etc.	10,628	1,065	11.1%	9,588	-1,040	-9.8%
All pharmacies	14,823	1,184	8.7%	13,369	-1,454	-9.8%

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

Conversely, the unit price of prescriptions overall increased 7.5% YoY, while if limited to existing pharmacies that are close to the actual situation, it rose 8.5%, which is significantly higher than the 2.7% increase in the same period in the previous fiscal year. As previously stated, alongside the lengthening of prescription periods, the dispensing fee per prescription also rose. In addition, it seems that the unit price of the dispensing pharmacy's technical fees rose by around 5% due to the increases in the handling ratio of generic drugs and pharmacies acquiring community support system incentives. In particular, the generic drug handling ratio (on a volume basis) for the Group as a whole increased from 79.1% in April 2019 to as high as 85.9% in March 2021, exceeding the generic drug ratio of 80% targeted by the Ministry of Health, Labour and Welfare. The percentage of pharmacies acquiring the maximum number of 28 points (pharmacies with a handling ratio of at least 85%) increased from 30.8% at the end of April 2019 to 64.7% at the end of March 2021, which contributed to the rise in unit prices. Dispensing pharmacy technical fees reflect the assessment of initiatives to enhance functions as local community primary pharmacies and to lower pharmacy costs, which corresponds to the pharmacy's added value. Therefore, we can safely say that the profitability of a pharmacy changes depending on how much it can raise the unit price of its technical fees.

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

(¥)

	FY3/20			FY3/21		
	Results	Change	Growth rate	Results	Change	Growth rate
Existing pharmacies	10,259	272	2.7%	11,132	873	8.5%
Newly opened pharmacies	7,197	1,099	18.0%	11,294	4,097	56.9%
M&A, etc.	9,264	644	7.5%	9,879	615	6.6%
All pharmacies	9,519	524	5.8%	10,234	715	7.5%

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

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

At the end of FY3/21, the number of stores had increased by 6 on the end of the previous fiscal period to 811 stores. In recent years, the pace of net increase has been by at least 20 stores, but COVID-19 had an impact, including delaying M&A negotiations, while the Company worked to recover profitability at existing stores and to review unprofitable stores as a priority, leading to the lower growth rate. Looking at the breakdown of new store openings, 10 stores were from the Company's orthodox organic openings (one-on-one type), while 5 are openings of new-format stores (collaborative stores with Lawson), 1 is a shop, and 18 are the stores acquired through M&A. Conversely, the number of store closures, including those involving business transfers, increased by 7 from the previous fiscal year to 28. This included 8 stores within JR-West stations which were sold in the 4Q following a review of the store strategy.

Store openings and closures and M&A conditions

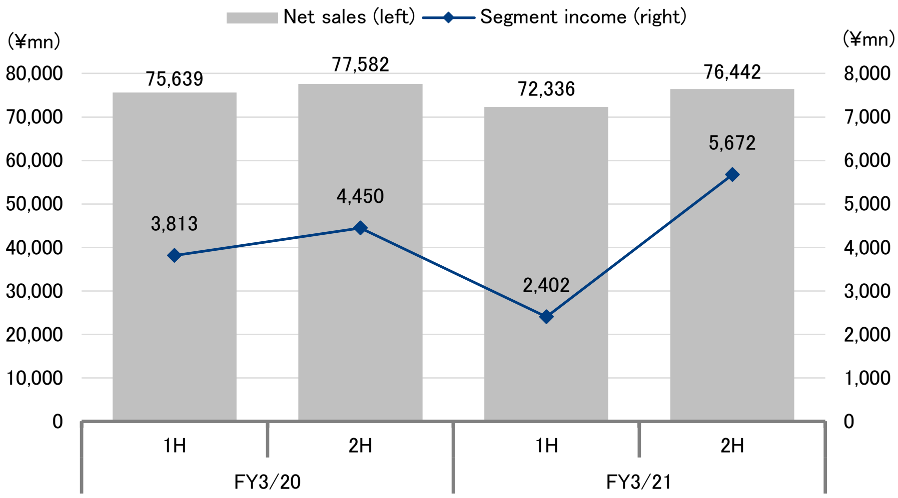
		End of FY3/20	FY3/21			
			Opened		Closed / sold	End of period
QOL Pharmacies		736	Organic openings	10	17	747
			M&A, etc.	18		
New-format	Lawson	35	5		2	38
	BIC CAMERA	5	0		0	5
	JR-West	8	0		8	0
Shops		21	1		1	21
Total		805	34		28	811

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

(3) Factors behind improvement to profit

In the Pharmacy Business, profitability improved in 2H, and even though sales declined YoY, operating income recovered and increased by double digits. In the last few years, the Company has made progress in introducing various types of automation equipment into stores to improve productivity, with the aim of optimizing the number of pharmacists per store. It has also progressed costs reductions for dispatches of pharmacists. For example, it has realized labor saving by introducing automation equipment for the tasks of packing and preparing drugs, which were previously conducted manually. The number of pharmacists is affected by the number of prescriptions, so it is considered that the Company has succeeded at controlling costs in response to changes in the business environment. It also worked on reducing other costs, which led to the improved profitability in 2H.

Trends in fiscal-half results in the Pharmacy Business



Note: segment income is after the deduction of the holding company's fees
Source: Prepared by FISCO from the Company's results briefing materials

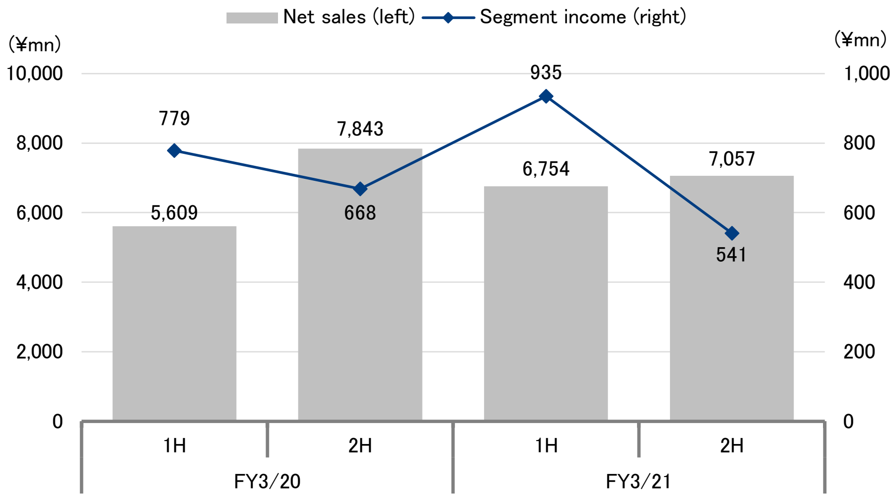
Although CMR dispatches and medical-related personnel referral dispatches slowed in the 2H, increases in sales and profits were secured from the full fiscal year contribution of the Pharmaceutical Manufacturing Business

3. Trends in the Medical Related Business

In the Medical Related Business, the mainstay APO PLUS STATION's results were strong for CMR dispatches in the 1H, and an increase in sales was secured for the full fiscal year. But if looking only at the 2H, sales declined. This was because of the decline in the contract renewal rate of foreign pharmaceutical companies. The number of CMR personnel had increased to 587 personnel at the end of 2Q, but as of the end of FY3/21, it seems it had declined to around 570 personnel, which is the same level as at the end of the previous year. However, the number of highly specialized CMR is increasing, so dispatch unit prices are also trending upward. In the Medical Professional Referral Dispatch Business, demand for the mainstay pharmacist dispatches declined in 2H. As previous stated, the Company is making progress to optimize the placements of pharmacists at Group stores, and the decline in inter-Group transactions was also a factor.

Conversely, in the Pharmaceutical Manufacturing Business, net sales for the full fiscal year were slightly less than ¥2bn and are steadily increasing. In the previous fiscal year, Fujinaga Pharm only contributed sales in the 2H, but on looking at the full fiscal year result, sales increased 11.9%. Synergies have started to appear, including sales within Group pharmacies to replace the brand-name drug with the generic Fujinaga lithium carbonate drug. The changeover from the brand-name drug to the generic Fujinaga drug in the Group's pharmacies was around 30% at the end of the 2Q, but had risen to approximately 60% at the end of 4Q, so the Company can be highly evaluated for steadily progressing its strategy.

Trends in fiscal half-year results in the Medical Related Business



Note: segment income is after the deduction of the holding company's fees
Source: Prepared by FISCO from the Company's results briefing materials

Outlook for the FY3/22 results projects sales and profits to increase in all businesses and for profits to recover and increase by more than 20% in total.

4. FY3/22 outlook

Outlook for the FY3/22 results projects sales and profits to increase for the first time in 2 fiscal years, with net sales increasing 8.1% YoY to ¥175,000mn, operating income rising 22.2% to ¥9,000mn, ordinary income growing 21.6% to ¥9,000mn, and profit attributable to owners of parent increasing 24.8% to ¥4,200mn. Operating income will recover to close to its record high level in FY3/18 (¥9,091mn). In the Pharmacy Business, sales and profits will increase due to the recovery of the number of prescriptions and the effects of new store openings, while in the Medical Related Business also, demand is forecast to recover for CMR dispatches and in the Medical Professional Referral Dispatch Business.

In FY3/22, the Company is continuing to thoroughly implement measures to prevent the spread of COVID-19 infections and to progress business management. At the same time, for pharmacist dispatches, in order to respond to requests for collaborations for COVID-19 vaccinations, it has launched the COVID-19 vaccination project and its pharmacists are actively participating at group vaccination sites and other sites. The pharmacies also are continuing to provide support for pre-examination record entries before the vaccination and for health management after the vaccination, and they are carrying out their functions as local community primary pharmacies.

FY3/21 outlook

(¥mn)

	FY3/21		FY3/21			
	Full year results	YoY	1H forecasts	YoY	Full year forecasts	YoY
Net sales	161,832	-2.2%	83,100	5.1%	175,000	8.1%
Operating income	7,364	-4.8%	3,300	58.6%	9,000	22.2%
Ordinary income	7,403	-7.7%	3,300	56.5%	9,000	21.6%
Profit attributable to owners of parent	3,365	-17.3%	1,800	185.4%	4,200	24.8%
EBITDA	12,035	-2.6%			14,073	16.9%
Capital investment	2,104	30.6%			1,240	-41.1%
Depreciation	1,580	-4.2%			1,656	4.8%
Amortization of goodwill	3,089	4.0%			3,417	10.6%
Profit per share (yen)	89.55		47.89		111.75	

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

Financial Results by Business Segment

(¥mn)

	FY3/21			FY3/22		
	Results	Change	Change (%)	Company forecast	Change	Change (%)
Pharmacy Business						
Net sales	148,778	-4,443	-2.9%	164,100	15,321	10.3%
Segment income	8,074	-189	-2.3%	8,400	325	4.0%
% of net sales	5.4%			5.1%		
Medical Related Business						
Net sales	13,811	359	2.7%	15,200	1,389	10.1%
Segment income	1,476	29	2.0%	2,100	623	42.2%
% of net sales	10.7%			13.9%		

* Net sales are prior to deducting inter-segment transactions, while segment income is after deducting the holding company's fees for inter-Group transactions.
Source: Prepared by FISCO from the Company's results briefing materials

(1) Pharmacy Business

In FY3/22 in the Pharmacy Business, the forecasts are for net sales to increase 10.3% YoY to ¥164,100mn and segment income to grow 4.0% to ¥8,400mn. It is anticipated that there will be around 50 to 70 new store openings, including those through M&A, which is expected to result in a sales increase of more than ¥3bn. Also, the revisions to pharmaceutical prices will have a negative effect of around a few percentage points, but the outlook is that this will be offset by the recovery of the number of prescriptions and the rise in the unit price of the dispensing pharmacy's technical fees. The Company has made a steady start to the year, including that as of May 17, there had been 7 new store openings and that in April, the number of prescriptions (the total at all pharmacies) had increased by 12.5% on the same month in the previous fiscal year. The assumptions for the number of prescriptions based on existing pharmacies is an increase of 5% YoY in 1Q and 2Q, an increase of 10% in 3Q, and an increase of 12% in 4Q. Going forward, if the vaccination program is able to curb the spread of the COVID-19 infections, we at FISCO think that that the forecasts are at fully achievable levels.

The reasons why the profit margin is forecast to decline from 5.4% in the previous fiscal year to 5.1% is that costs will rise from the increase in the number of pharmacists in relation to the increase in the number of prescriptions, and that profits are forecast to decline due to the revisions to pharmaceutical prices. For pharmacist recruitment, the Company recruited around 200 new graduates (2,264 full-time pharmacists at the end of March 2021). Its policy is to work on various measures, including preparing for the authorization system for pharmacies with specific functions that will start from August 2021, strengthening Home and Facility-Delivery Dispensing Business, and developing new services that will lead to value creation for pharmacies.

The authorization system with specific functions will divide pharmacies into two types according to their functions, community cooperative pharmacies and pharmacy in cooperation with specialized medical institution, and will certify pharmacies that meet certain requirements for both respective types. Depending on the pharmacy, it is possible to acquire authorization as both a community cooperative pharmacy and as a pharmacy in cooperation with specialized medical institution. Conversely, in cases where a pharmacy does not meet either requirement, it becomes a non-authorized pharmacy. The system is intended to respond to home medical care, which is becoming an issue in anticipation of the coming super-aging society, and as a measure to establish the regional comprehensive care system concept, which includes medical care and nursing care, and to enable patients themselves to choose the pharmacy that is best suited to them. Although profits have not yet been directly impacted by the introduction of this system, it is highly likely to affect the calculations of dispensing pharmacy's technical fees amid the revisions to medical fees from 2022 onwards. In particular, it seems it will be important for medium- and small-sized companies managing local community pharmacies to be authorized as community cooperative pharmacies, and from the aspect of management strength, it is possible that the consolidation of pharmacies into major companies will progress one step further. We at FISCO think that it will be an excellent opportunity to increase store openings by having companies join the Group.

Creating value of pharmacies

Source: The Company's results briefing materials

(2) Medical Related Business

In FY3/22 in the Medical Related Business, the forecasts are for net sales to increase 10.1% YoY to ¥15,200mn and segment income to grow 42.2% to ¥2,100mn. For CMR dispatches, the tendency among pharmaceutical companies to rely on outsourcing for MR is strengthening, while during COVID-19, demand is increasing for MR with high IT literacy and that can conduct activities to provide sales information. Therefore, the Company's policy in FY3/22 is to actively recruit and train CMR in order to capture this demand. It plans to increase the number of CMR personnel from around 570 people at the end of the previous fiscal year to approximately 700 people.

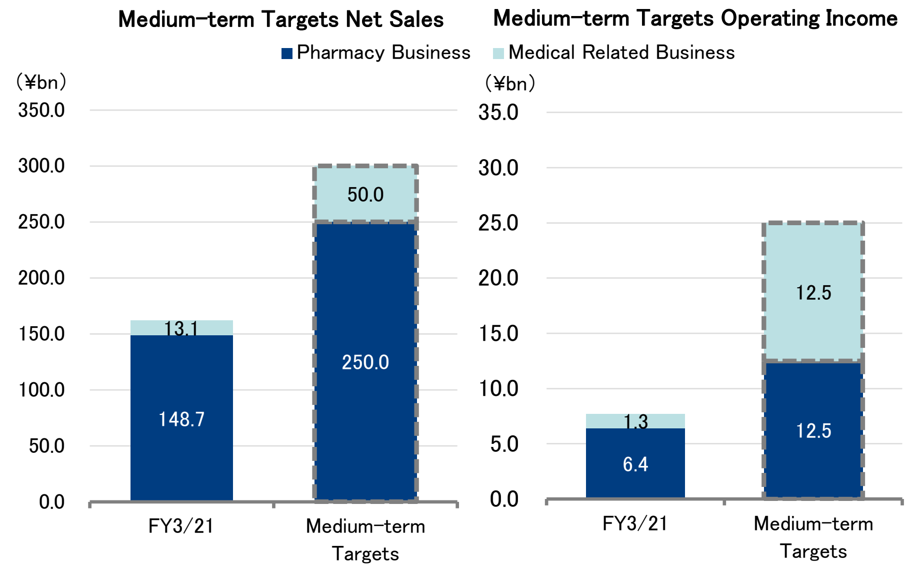
In the Medical Professional Referral Dispatch Business as well, demand is forecast to rapidly recover in FY3/22. Alongside the recovery in the number of prescriptions, demand for pharmacist dispatches, which was kept down in the previous fiscal year, will also recover. In addition, the outlook is that demand from COVID-19 group vaccination sites will contribute. For public health nurses, corporate demand for industrial public health nurses is increasing in relation to measures to prevent the spread of the COVID-19 infections, which will also be a factor increasing earnings. In the Pharmaceutical Manufacturing Business, the forecast is that sales and profits will continue to increase from the expansion of products handled at Group pharmacies and their stable supply through thoroughly conducting quality control.

Medium- to long-term growth strategy and progress

Working on home medical care and the promotion of DX as the priority measures, toward achieving the medium-term targets of net sales of ¥300bn and operating income of ¥25bn

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 1.7 times increase YoY, in the Pharmacy Business and ¥50bn in net sales, a 3.6 times increase, in the Medical Related Business. The operating income targets are ¥12.5bn respectively. The breakdown for the Medical Related Business is net sales of ¥20bn and operating income of ¥4bn in the CSO Business, CRO Business, and Medical Professional Referral Dispatch Business, and net sales of ¥30bn and operating income of ¥8.5bn in the 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.



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

As the growth strategy, the Company intends to work on the Pharmacy Business through the twin axis of 1) expanding scale through strategic store openings and 2) creating value of pharmacies. Although there has been no change to this point from before, it is focusing on strengthening Home and Facility-Delivery Dispensing Business and promoting DX as priority measures. On the other hand, in the Medical Related Business, its ambitious strategy is to raise the operating margin to at least 20%. It is working to actively develop the mainstay CSO Business and the Medical Professional Referral Dispatch Business. In addition, for the Pharmaceutical Manufacturing Business, its strategy is to increase its scale and improve profitability by expanding capital investment toward increasing the number of products manufactured, and also by utilizing M&A and by strengthening collaborations with major pharmaceutical companies.

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

Working on strengthening Home and Facility-Delivery Dispensing Business and promoting DX as the priority measures

2. Pharmacy Business growth strategy and progress

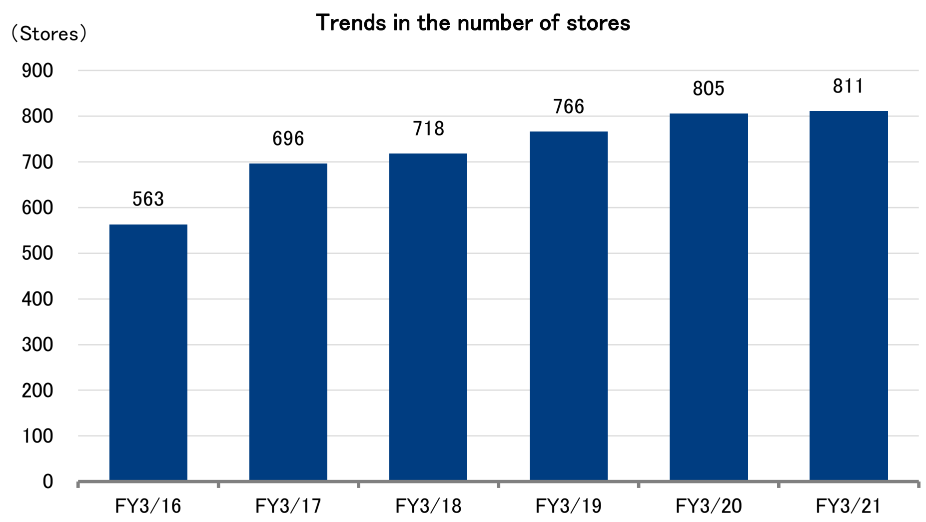
In the Pharmacy Business, the Company is aiming for growth through the basic strategy of expanding scale through strategic store openings and creating value of pharmacies.

(1) Expanding scale through strategic store openings

For the number of pharmacies, the Company opens them at a pace of 50 to 70 pharmacies a year through both organic openings and M&A, and it is targeting an increase to 1,000 pharmacies by FY3/23. However, growth was somewhat sluggish in FY3/21, so it may achieve the target of 1,000 pharmacies a year behind schedule. The areas it targets for pharmacy openings are mainly those with a large population, such as Japan's three metropolitan areas, and it is aiming to efficiently increase pharmacy openings through a dominant strategy. For M&A as well, it will target areas in major urban centers where it can easily establish local collaborations. This includes areas located close to pharmaceutical schools where it is relatively easy to hire pharmacists.

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 43 at the end of March 2021. Breaking this down, 38 were collaborative stores with Lawson, 5 were pharmacies within BIC CAMERA stores. Among these, due to the improved name recognition of the mainstay collaborative stores with Lawson, profitability is also improving. Going forward, the Company will focus on pharmacy formats that can provide services that are highly convenient for customers.

Specifically, in combination with visiting drug administration guidance, it will start to provide on a trial basis a mobile-sales service for deliveries of customer orders of OTC drugs and other products. This will lead to the Company capturing demand for Home and Facility-Delivery Dispensing Business, which is one of its priority measures and which may become an advantage over other companies. Going forward, it will progress the development of pharmacies that offer both safety and convenience, and carry out their functions as the infrastructure supporting everyday life in local communities.



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

In the dispensing pharmacy industry, it will be necessary to respond to the authorization system for pharmacies with specific functions, which will be introduced in August 2021, as well as to the lifting of the ban on online drug administration guidance in 2020, and to IT services, including the electronic prescriptions system that is scheduled to begin operations from the summer of 2022. Therefore, it seems that the trend of companies being consolidated into the major companies will accelerate as long as the major companies have the investment capacity to respond to these changes in the market environment. Currently, there are approximately 59,000 dispensing pharmacies nationwide with a market scale of approximately ¥7.4 trillion. Out of this amount, the total net sales of the 10 leading dispensing pharmacy chains are around ¥1.4 trillion, which is only a market share of approximately 19%. The top 10 companies in the drug store industry currently have a share of more than 70% following the industry reorganization. In consideration of this, it is highly likely that in the future, an oligopoly of the industry's major companies will be expected in the dispensing pharmacy industry as well. This is an excellent opportunity for the Company to expand pharmacy openings through actively conducting M&A, in conjunction with its organic pharmacy openings. It judges whether or not to conduct an M&A based on strict in-house standards, including the scales of sales and whether or not synergetic effects will be generated.

(2) Creating value of pharmacies

As its measures for creating value of pharmacies, the Company's strategy is to acquire loyal customers and to increase profitability by the following measures: for "one-on-one pharmacies" that will be community cooperative pharmacies, create pharmacies in which pharmacists improve communication skills and which offer high quality; promote Home and Facility-Delivery Dispensing Business; improve work efficiency by utilizing IT; and improve service quality (a structural shift from product-centric activities to people-centric activities).

In particular, for Home and Facility-Delivery Dispensing Business, the home medical care market is expected to further expand with the arrival of the super-aging society, and the Company's policy is to strengthen these pharmacies as a priority measure. According to materials from the Ministry of Health, Labour and Welfare, currently the scale of the Home and Facility-Delivery Dispensing Business market is around ¥310bn and the number of users is estimated to be 290,000 people. This constitutes only slightly more than 4% of the dispensing pharmacy market as a whole, but this market is forecast to further grow from 2025 onwards, when the baby boomer generation will become 75 years old. Nearly 90% of the Home and Facility-Delivery Dispensing Business are facilities in special nursing homes for the elderly or paid-for nursing homes, and the Company is targeting acquiring customers centered on these facilities and trebling sales from Home and Facility-Delivery Dispensing Business in three years.

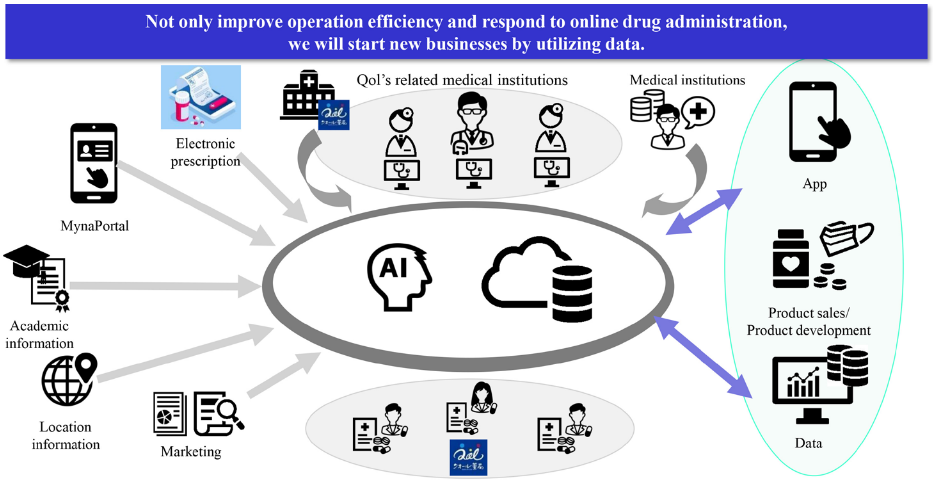
The Company is progressing a variety of measures as its differentiation strategy for Home and Facility-Delivery Dispensing Business. These include introducing and utilizing the latest dispensing equipment, introducing barcode management as a measure to prevent administering the wrong drug, supporting infection-prevention measures, opening pharmacies that specialize in Home and Facility-Delivery Dispensing, providing nutrition support by nutritionists, and proving support that is highly safe and convenient through utilizing the Qol prescription delivery and medication notebook app. The trial operations of the previously mentioned mobile-sales service is also one of these measures.

Conversely, for pharmacies in collaboration with professional medical organizations, it is necessary to respond to advanced pharmaceutical management. Therefore, the Company is enhancing its in-house education to train human resources who have advanced skills, with the aim of creating pharmacies that are able to coordinate with medical organizations.

The Company has set promoting DX as a priority measure, as well as strengthening Home and Facility-Delivery Dispensing Business. Its strategy is not only to improve work efficiency and productivity by utilizing IT (optimize drug inventory, optimize personnel placements, etc.), but also to further increase its competitive advantages by creating new services that contribute to its customers' quality of life. The Company has introduced digital technology to an extent that is particularly active even within the industry and made advances in operational reforms. For instance, it made all of its pharmacies capable of providing online administration guidance in September 2020. In October 2020, it announced it had newly established the Digital & AI Promotion Office and that it intends to accelerate the promotion of DX for operations. It aims to provide highly convenient medical services, improve services for patients, and improve employee satisfaction at even higher levels than before.

The Company also plans to progress its response to the electronic prescription system, which the government plans to start operating around the summer of 2022, in accordance with the guidelines that will be formulated in the future. If the use of this electronic prescription system spreads, it will become unnecessary to handle paper and will also help to prevent duplicate administrations of drugs, so it is expected to improve operational efficiency and can be expected to reduce the amount of disposal of unused drugs. The Company has more than 3 million Qol card members, and it is working to create new services by utilizing the big data of this member base.

Developments utilizing data



Source: The Company's results briefing materials

In addition to the growth of CMR dispatches, expanding the areas of the Medical Professional Referral Dispatch Business, aiming to make high growth in the Pharmaceutical Manufacturing Business by utilizing Group synergies

3. Medical Related Business growth strategy and progress

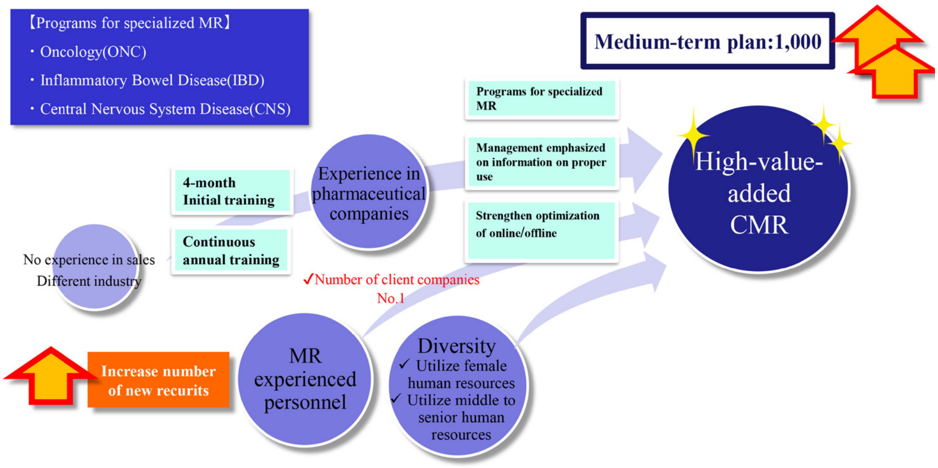
Qol calls for deepening specialization and maximizing Group synergies as a growth strategy in the Medical Related Business with a policy of expanding sales scale and raising profitability.

(1) CSO business

On the topic of market trends in CMR service under the CSO business, it is predicted that pharmaceutical firms will further reduce their MR employment levels going forward and replace MRs with CMR backed by 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, during COVID-19, pharmaceutical companies are progressing the optimization of their marketing structures, and the trend toward relying on outsourcing for MR is forecast to further accelerate. When considering this environment, it is possible that sooner or later the CMR ratio will rise to around 15% in Japan as well.

With this situation in the background, the Company is aiming to increase the number of CMR personnel from around 570 people at the end of FY3/21 to 1,000 people in the medium-term, and raising-up its industry share from approximately 16% currently to 20%. For this reason, it intends to ramp up active hiring. One advantage of Qol's CSO business is that it boasts the best staff formation in the industry, with 20 people who conduct MR training. 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.

Deepening specialization



Source: The Company's results briefing materials

(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 2020 from a spin-off. In the situation of the continuing chronic shortage of medical professionals and the diversification of workstyles, the outlook is that demand will increase in the future for dispatches of medical service workers, including pharmacists, public health nurses, and registered sales personnel. Therefore, the Company's policy is to increase synergies, through such means as dispatching pharmacists to Group pharmacies, and at the same time expanding the professions this business covers as well as its share while utilizing M&A and related methods. Key points for achieving growth in pharmacist referral dispatch are recruitment of customers looking for staff and also the extent to which it is capable of increasing registrants. We will be closely monitoring the Company's measures.

(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 in CSO business and supports drug R&D activities in CRO business. By entering the Pharmaceutical Manufacturing Business, Qol aims to provide seamless service in the healthcare field that begins with R&D and extends to manufacturing, sales, and dispensing.

For Group synergies, as previously stated, the Company will increase the number of pharmacies among the Group's dispensing pharmacies that handle Fujinaga products. 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, conduct manufacturing outsourced from major pharmaceutical companies. Also, recently a quality control problem occurred at another generic pharmaceutical manufacturer, but the Company aims to progress business expansion after firmly conducting quality control measures. In FY3/21, its sales scale is slightly less than ¥2bn and operating margin is around 10%. But the medium-term targets are net sales of ¥30bn and operating income of ¥8.5bn, including from new businesses. Attention will be given to future developments.

Income statement and main indicators

(¥mn)

	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21
Net sales	131,502	145,516	144,783	165,411	161,832
YoY	5.2%	10.7%	-0.5%	14.2%	-2.2%
Gross profit	16,876	19,648	17,863	21,094	21,102
Gross margin	12.8%	13.5%	12.3%	12.8%	13.0%
SG&A expenses	10,010	10,557	10,812	13,361	13,737
SG&A expense ratio	7.6%	7.3%	7.5%	8.1%	8.5%
Operating income	6,865	9,091	7,050	7,733	7,364
YoY	1.8%	32.4%	-22.4%	9.7%	-4.8%
Operating margin	5.2%	6.2%	4.9%	4.7%	4.6%
Ordinary income	7,065	9,333	7,208	8,024	7,403
YoY	5.6%	32.1%	-22.8%	11.3%	-7.7%
Profit attributable to owners of parent	4,353	4,986	3,908	4,067	3,365
YoY	17.4%	14.5%	-21.6%	4.1%	-17.3%
Split-adjusted EPS (¥)	128.35	141.19	101.73	107.23	89.55
Split-adjusted dividend (¥)	24.00	28.00	28.00	28.00	28.00
Split-adjusted BPS (¥)	652.42	936.74	1,006.55	1,074.57	1,124.31

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

Simplified balance sheet

(¥mn)

	End of FY3/18	End of FY3/19	End of FY3/20	End of FY3/21	Change
Current assets	42,288	46,127	45,881	45,499	-382
Cash and deposits	19,820	20,220	15,802	19,648	3,846
Notes and accounts receivable-trade	16,640	17,330	22,862	18,231	-4,630
Inventories	4,719	5,156	5,224	4,854	-370
Noncurrent assets	44,952	48,087	56,976	55,062	-1,913
Property, plant and equipment	10,544	11,079	13,055	12,730	-325
Intangible assets	27,938	30,075	36,642	34,938	-1,703
Investments and other assets	6,469	6,933	7,278	7,393	115
Deferred assets	29	21	14	9	-4
Total assets	87,270	94,236	102,872	100,571	-2,301
Current liabilities	33,991	34,424	38,730	38,709	-21
Accounts payable-trade	18,265	17,741	18,623	19,822	1,199
Short-term loans payable, etc.	7,629	9,430	11,626	11,569	-57
Noncurrent liabilities	17,343	20,795	23,139	20,026	-3,113
Long-term loans payable, etc.	16,361	19,443	21,024	18,152	-2,872
Total net assets	35,935	39,017	41,001	41,834	832
Total liabilities and net assets	87,270	94,236	102,872	100,571	-2,301

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

Cash flow statement

(¥mn)

	FY3/18	FY3/19	FY3/20	FY3/21
Cash flow from operating activities	11,116	5,773	4,468	12,912
Cash flow from investing activities	-3,775	-8,287	-8,670	-3,065
Cash flow from financing activities	-1,685	2,906	-225	-6,114
Cash and cash equivalents at the end of the period	19,800	20,193	15,766	19,498

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

Returns to shareholders and SDGs activities

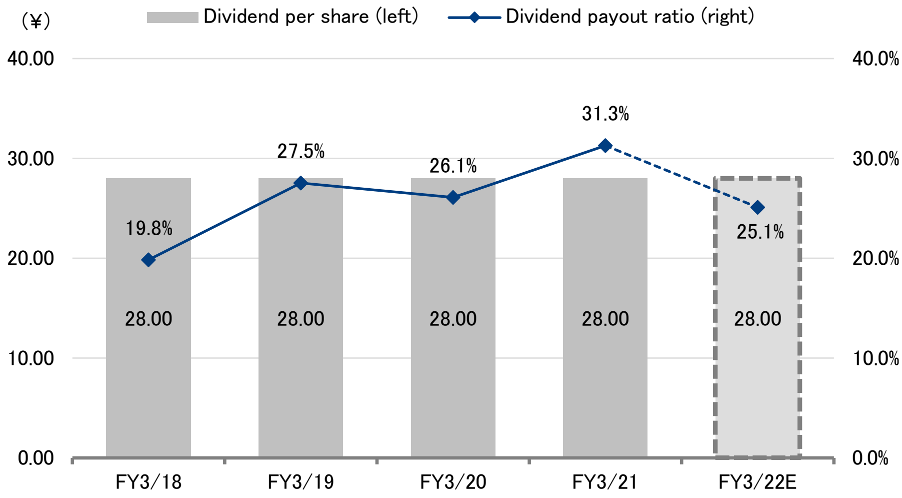
Basic policy is for stable returns to shareholders, as well as introducing the shareholder benefits program

1. Shareholder return policy

Qol primarily gives shareholder returns based on dividends. 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 FY3/22, Qol is planning a dividend per share on par with the previous fiscal year at ¥28 (dividend payout ratio of 25.1%).

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 June 11 (¥1,529), it is 3.8% if the shares were held for less than 1 year and 5.1% if held for 1 year or longer.

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

2. Initiatives for SDGs

With regard to initiatives for SDGs, the Company has set “Realizing a mutually supportive, healthy, affluent, and sustainable society” as its vision for the future. It is currently working to advance discussions and visualize the dual aspects of economic value (meaning to increase corporate value) and societal value (meaning to solve societal problems) as QSVs (Qol Sustainable Values).

On looking at the initiatives for ESG, for E (Environment), the Company have installed solar panels and developing environmentally friendly materials. For S (Social), to promote the activities of women, it has increased the ratio of women holding managerial positions (section chief and above) to 26%, while as an initiative for hiring people with disabilities, it is working to promote their recruitment through measures for working from home. For G (Governance), in June 2021 it transitioned to a company with an audit and supervisory committee following a resolution of the General Meeting of Shareholders, and in such ways, is aiming to further strengthen its corporate governance system.

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