COMPANY RESEARCH AND ANALYSIS REPORT

Qol Holdings Co., Ltd. (Qol)

3034

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Summary

With a recovery in earnings in the Pharmacy Business, operating income in FY3/22 is forecast to achieve a new record of ¥10bn

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). 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, 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 1H FY3/22, sales and profits both increased

In its 1H FY3/22 (April to September 2021) consolidated financial results, the Company posted higher sales and profits, turning around a two-year trend with net sales increasing 3.4% year on year (YoY) to ¥81,814mn and operating income increasing 100.8% to ¥4,177mn. The main factor was a recovery in the mainstay Pharmacy Business, where net sales increased 4.2% YoY and operating income 63.1% with an increase in the number of prescriptions as well as an increase in technical fees due to strengthening of Home and Facility Delivery Dispensing Business and promoting the increase in generic drug dispensing premiums. This was offset by decreases in sales and profits in the Medical Related Business, partly due to the impact of the spread of COVID-19. Compared to the Company's plan (net sales ¥83,100mn, operating income ¥3,300mn), net sales fell short, mainly reflecting lackluster growth in the number of prescriptions for August and September, as well as the impact of shifting the expected closing of a planned M&A to 2H. On the other hand, operating income came in higher than planned, reflecting the effects of productivity improvements and a period-shift in the timing of M&A expenses. The number of stores as of the end of 1H FY3/22 had increased by 18 from the previous fiscal year-end to 829 stores.

2. Outlook for profits in FY3/22 financial results forecast revised upward

The outlook for FY3/22 results is for net sales to increase 8.1% YoY to ¥175,000mn, operating income to increase 35.8% to ¥10,000mn, an upward revision for operating income of ¥1,000mn from the initial forecast. This is mainly attributable to a greater-than-expected improvement in the profitability of the Pharmacy Business. The Company forecasts high single-digit YoY growth in the number of prescriptions in the Pharmacy Business in 2H, and will also continue to promote initiatives for increasing technical fees. The Company maintains its original plan of aiming for around 50 to 70 new store openings, including those from M&A, per year. Moreover, in the Medical Related Business the Company is expecting profits to recover in 2H as demand for dispatches of CMRs in the CSO Business is now recovering, and the Pharmaceutical Manufacturing Business is also forecast to have increased sales and profits.

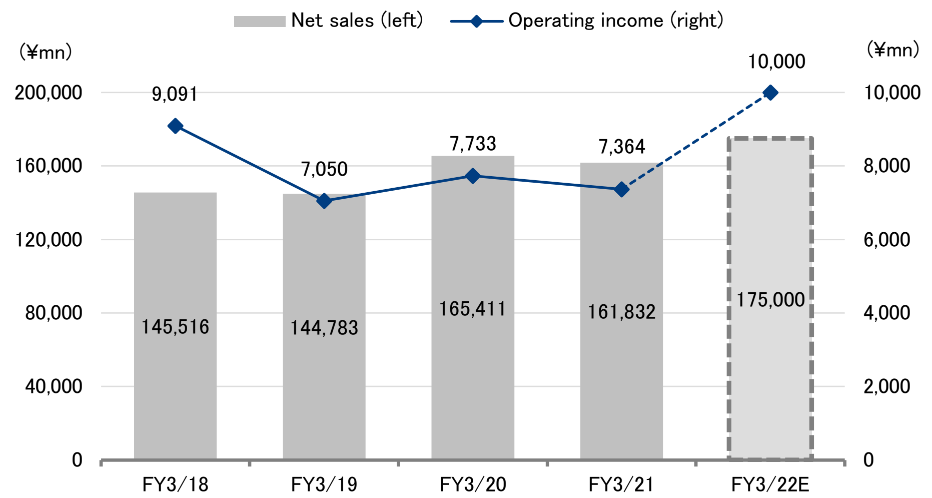
3. Policy of aiming for net sales of ¥300bn driven by the twin axis of the Pharmacy Business and the Medical Related Business

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. In store openings, the Company is continuing at the pace of 50 to 70 stores per year including those from M&A, aiming to reach 1,000 stores at an early stage. It also intends to expand its market share by leveraging IT as part of efforts to strengthen its functions as a primary pharmacy for local communities, which will experience growing demand going forward. Under the authorization system for pharmacies that started in August 2021, the Company currently has 106 community cooperative pharmacies as of December 2021. Over the next three years, the Company plans to increase this to 400 stores and to obtain authorization as a community cooperative pharmacy or pharmacy in cooperation with specialized medical institution for all of its pharmacies in the future. In addition, the Home and Facility Delivery Dispensing Business is also expected to see demand increase going forward, and the Company's policy is to aggressively promote the development of customers centered on facilities for seniors. In the Medical Related Business, the Company will work to deepen specialization in the CSO Business and aims to increase its CMR headcount in the medium term from 600 people expected for FY3/22 to 1,000 people by developing high-value-added human resources. Also, in the Pharmaceutical Manufacturing Business, which is conducted by Fujinaga Pharm Co, Ltd., the Company's plan is to maximize Group synergies while further expanding business scale through increases in the number of production items, as well as M&A, strengthening the contract development business, and others. The medium-term targets through these measures are to achieve net sales of ¥300bn and operating income of ¥25bn.

Key Points

- In 1H FY3/22 financial results, the Company achieved increases in sales and profits due to the recovery of the Pharmacy Business
- FY3/22 financial results forecast revised upward from the initial forecast on a profit basis, with record high operating income of ¥10bn forecast
- Incorporate currently expanding Home and Facility Delivery dispensing market, and works on value creation at pharmacies toward achieving the medium-term targets of net sales of ¥300bn and operating income of ¥25bn

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 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, which became as a subsidiary in August 2019, conducts the Pharmaceutical Manufacturing Business. Furthermore, in order to promote 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.

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 were many negative factors from an earnings aspect, but the strategy is to stably increase overall earnings by covering these negatives through the Medical Related Business. Looking at the earnings breakdown by segments, the Pharmacy Business is the primary area at 92.1% of net sales and 88.7% of operating income (1H FY3/22 results).

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 1H FY3/22, 808 (97%) of the 829 stores were dispensing pharmacies, while the remaining 21 were shops located within hospitals. Prescription net sales (dispensing 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> (1,074 stores as of the end of July 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 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 "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 was introduced in August 2021.

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 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.

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 1H FY3/22, Kanto leads with 336 stores (40.5% of the total volume), followed by Kansai with 136 stores (16.4%), and Koshinetsu with 110 stores (13.3%). 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 has an increase of 97 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 a comparison of the population composition ratio by region, the Company has a higher ratio per population in Kanto and Koshinetsu, and a lower ratio in the Tokai and Hokuriku regions. The Company's priority going forward would seem to be developing the Tokai area, centered on Aichi Prefecture in particular.

Number of stores by region and population composition comparisons

	End of FY3/16	End of FY3/20		End of FY3/21		End of 1H FY3/22		Increase on end of FY3/16	Population composition
	Number of stores	Number of stores	Composition ratios	Number of stores	Composition ratios	Number of stores	Composition ratios		
Hokkaido	9	10	1.2%	10	1.2%	10	1.2%	1	4.2%
Tohoku	67	85	10.6%	84	10.4%	85	10.3%	18	7.0%
Kanto	290	326	40.5%	333	41.1%	336	40.5%	46	34.2%
Koshinetsu	13	109	13.5%	107	13.2%	110	13.3%	97	4.1%
Tokai, Hokuriku	38	67	8.3%	66	8.1%	69	8.3%	31	14.1%
Kansai	84	132	16.4%	136	16.8%	136	16.4%	52	16.3%
Chugoku, Shikoku	47	49	6.1%	48	5.9%	48	5.8%	1	8.8%
Kyushu, Okinawa	15	27	3.4%	27	3.3%	35	4.2%	20	11.4%
Total	563	805	100.0%	811	100.0%	829	100.0%	266	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; the Medical Professional Referral Dispatch Business (pharmacists, registered sales personnel, public health nurses, nurses, etc.) conducted by APO PLUS CAREER; 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 and Pharmaceutical Manufacturing Business each account for approximately 20%.

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

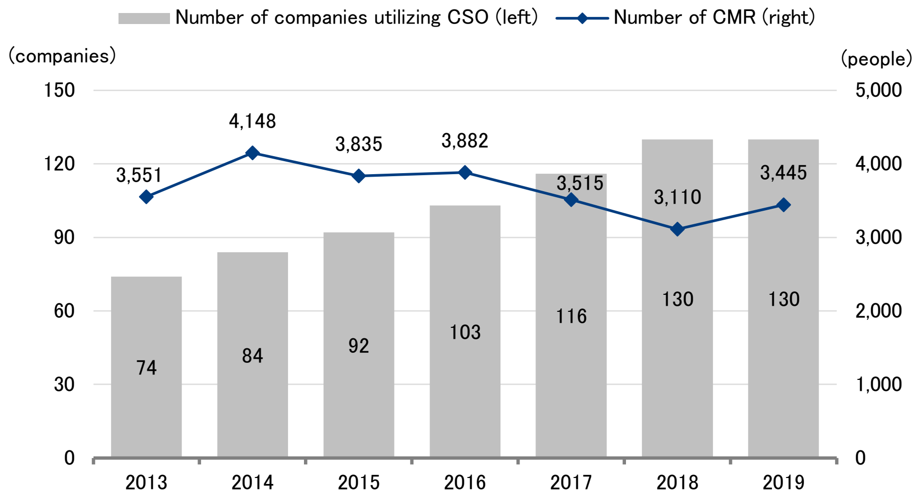
(1) CSO Business and CRO Business

The CSO Business involves recruiting and training MR and dispatching them to the contracted pharmaceutical companies. MR refers to sales representatives for pharmaceutical companies who provide doctors, pharmacists, and others with knowledge and information on the pharmaceuticals that are sold. In recent years in the pharmaceutical industry, 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. Accordingly, a movement has been strengthening among pharmaceutical companies toward reducing the scale of their in-house MR personnel and outsourcing to cover for them.

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 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 in the pharmaceuticals field it has experience in dermatology and ophthalmology.

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, 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 three 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 and productivity 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, 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 1H FY3/22, the Company achieved increases in sales and profits due to the recovery of the Pharmacy Business

1. Summary of the 1H FY3/22 results

In the 1H FY3/22 consolidated results, sales and profits increased, with net sales increasing 3.4% YoY to ¥81,814mn, operating income increasing 100.8% to ¥4,177mn, ordinary income increasing 102.7% to ¥4,274mn, and profit attributable to owners of parent increasing 289.4% to ¥2,455mn. Although the Medical Related Business saw sales and profits decrease due to the impact of COVID-19, the mainstay Pharmacy Business drove overall earnings with higher sales and profits, mainly reflecting a recovery in the number of prescriptions, an increase in technical fees, and improved productivity.

Net sales were slightly below the Company forecast, but every profit item was higher than the forecast. The main factors in the net sales result were lackluster growth in the number of prescriptions since August in the Pharmacy Business and the shifting of the closing of an M&A to 2H. Conversely, the main factors increasing profits were greater-than-expected productivity gains from the effective utilization of automation equipment that has been introduced in the Pharmacy Business and reduced M&A-related expenses associated with this shift in closing to 2H. Both net sales and profits for the Medical Related Business have been tracking largely in line with initial plans.

1H FY3/22 results (consolidated)

(¥mn)

	1H FY3/21		1H FY3/22				
	Results	% of sales	Initial forecasts	Results	% of sales	YoY	Compared to forecast
Net sales	79,090	-	83,100	81,814	-	3.4%	-1.5%
Gross profit	9,082	11.5%	-	10,857	13.3%	19.5%	-
SG&A expenses	7,001	8.9%	-	6,679	8.2%	-4.6%	-
Operating income	2,080	2.6%	3,300	4,177	5.1%	100.8%	26.6%
Ordinary income	2,109	2.7%	3,300	4,274	5.2%	102.7%	29.5%
Extraordinary income/losses	-223	-	-	6	-	-	-
Profit attributable to owners of parent	630	0.8%	1,800	2,455	3.0%	289.4%	36.4%
EBITDA*	4,377	5.5%	-	6,493	7.9%	48.3%	-
Profit before amortization of goodwill	2,159	2.7%	-	4,024	4.9%	86.4%	-

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

Looking at the results by business segment, in the Pharmacy Business, net sales increased 4.2% YoY to ¥75,341mn, and operating income increased 63.2% to ¥5,181mn. Although prescription unit prices decreased 2.9% YoY, mainly due to a shortening of prescription periods YoY and the impact of drug price revisions, overall sales increased due to a 7.9% YoY increase in the number of prescriptions, driven by an increase in the number of stores, mainly attributable to new openings and M&As, and stronger efforts on the Home and Facility Delivery Dispensing Business. On the profit front, the main factors increasing profits were an increase in technical fees, mainly due to the Company's promotion of efforts for increasing generic drug dispensing premium and pharmacies acquiring community support system incentives, as well as cost reductions for dispatches of pharmacists due to the introduction of automation equipment, and the absence of appreciation bonuses paid to pharmacists and other medical related practitioners for working under COVID-19 conditions during 1Q of the previous fiscal year.

In the Medical Related Business, net sales decreased 4.2% YoY to ¥6,473mn, and operating income decreased 29.1% to ¥663mn. The CSO Business and the Medical Professional Referral Dispatch Business both saw lower sales and profits due to the impact of COVID-19, while the Pharmaceutical Manufacturing Business also had lower sales and profits due to a temporary halt in shipments caused by customers changing specifications in certain contracted manufacturing projects. Shipments for these projects have resumed in 2H.

Performance by segment

(¥mn)

	1H FY3/21 Results	1H FY3/22	
		Results	YoY
Pharmacy Business			
Net sales	72,336	75,341	4.2%
Segment income	3,175	5,181	63.2%
% of net sales	4.4%	6.9%	
Medical Related Business			
Net sales	6,754	6,473	-4.2%
Segment income	935	663	-29.1%
% of net sales	13.8%	10.2%	

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

Dispensing pharmacies are steadily advancing the Home and Facility Delivery Dispensing Business and proceeding to obtain authorization as a community cooperative pharmacy

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 shops and e-commerce. Among net sales in 1H FY3/22, dispensing pharmacy net sales increased 4.8% YoY to ¥69,924mn. Looking at the breakdown by pharmacy opening period and format, among the Company's organic openings, sales at existing pharmacies increased 6.0% YoY, while on a monetary basis, they rose ¥1,190mn. Conversely, for pharmacies acquired through M&A and other 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 increased 4.8% YoY, and increased ¥2,230mn on monetary basis.

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

(¥mn)

	1H FY3/21			1H FY3/22		
	Results	Change	Growth rate	Results	Change	Growth rate
Existing pharmacies	19,948	-563	-2.7%	21,138	1,190	6.0%
Newly opened pharmacies	553	7	1.3%	305	-248	-44.8%
M&A, etc.	46,250	-2,279	-4.7%	48,480	2,230	4.8%
All pharmacies	66,752	-2,835	-4.1%	69,924	3,172	4.8%

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 7.9% YoY to 7,026,000 prescriptions, while the unit price of prescriptions decreased 2.9% to ¥9,952. 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 increase of 10.1%. In the same period of the previous fiscal year, the change rate fell dramatically to a YoY decrease of 11.8%, reflecting movements of people refraining from visiting medical facilities to avoid the risk of COVID-19 infection and of making prescription periods longer. However, due to progress on infection prevention countermeasures at hospitals and pharmacies, the gradual decline in these movements has led to a recovery. Nevertheless, the level remains low compared to the level prior to COVID-19. Furthermore, the growth rate has slackened since August 2021, but this is apparently due to the impact of a resurgence in case numbers, primarily in the Tokyo metropolitan area.

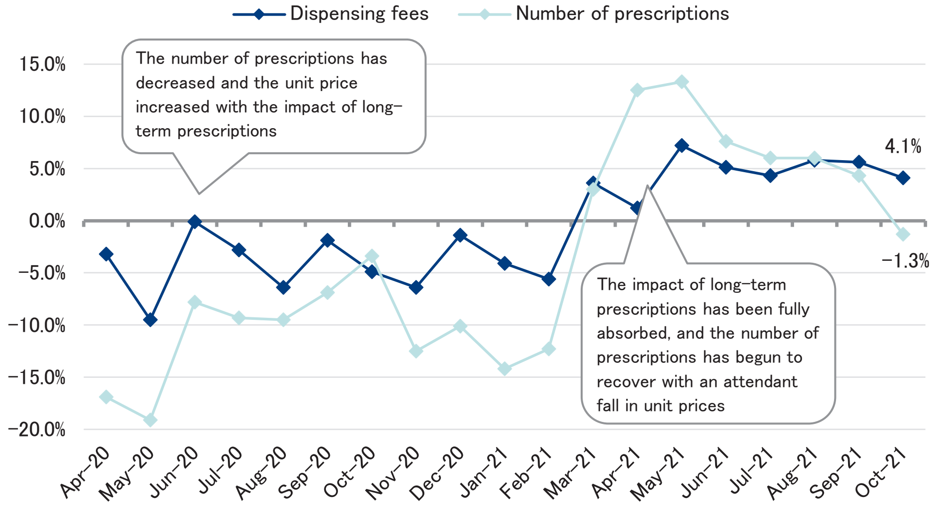
Number of prescriptions by store-opening period and format (details)

(thousands)

	1H FY3/21			1H FY3/22		
	Results	Change	Growth rate	Results	Change	Growth rate
Existing pharmacies	1,780	-238	-11.8%	1,960	180	10.1%
Newly opened pharmacies	48	-15	-23.6%	53	5	10.4%
M&A, etc.	4,680	-586	-11.1%	5,012	332	7.1%
All pharmacies	6,510	-840	-11.4%	7,026	516	7.9%

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

The unit price of prescriptions at existing stores decreased by 3.7% YoY. Considering that the unit price was up 10.3% YoY in the same period of the previous fiscal year, the rate of the decrease can be considered modest. As mentioned above, the impacts of the shortening of prescription periods and drug price revisions have caused a fall in the dispensing fee per prescription, while the dispensing pharmacy's technical fees increased. The main factors increasing the dispensing pharmacy's technical fees are increases in the handling ratio of generic drugs and pharmacies acquiring community support system incentives, along with promotion of the Home and Facility Delivery Dispensing Business. In particular, the handling ratio of generic drugs (volume basis) for the Group overall increased from 82.9% in September 2020 to 86.0% in September 2021, exceeding the generic drug ratio of 80% indicated by the Ministry of Health, Labour and Welfare by a large margin. The percentage of pharmacies acquiring the maximum number of 28 points (pharmacies with a handling ratio of at least 85%) increased from 47.8% in April 2020 to 64.7% in April 2021 and up to 67.5% in September 2021, which contributed to the rise in unit prices.

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

(¥)

	1H FY3/21			1H FY3/22		
	Results	Change	Growth rate	Results	Change	Growth rate
Existing pharmacies	11,202	1,046	10.3%	10,783	-419	-3.7%
Newly opened pharmacies	11,334	2,786	32.6%	5,671	-5,663	-50.0%
M&A, etc.	9,881	668	7.3%	9,673	-208	-2.1%
All pharmacies	10,253	787	8.3%	9,952	-301	-2.9%

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

Dispensing pharmacy's technical fees include fulfilling the functions as a primary pharmacy for local communities and checking the dosage and medication method prescribed by physicians is appropriate, adjusting with awareness of compatibility, etc. to correspond to the value added by the store.

In its response to the new authorization system for pharmacies with specific functions introduced in August 2021, the Company is also promoting its existing initiatives focused mainly on "one-on-one pharmacies." The authorization system for pharmacies with specific functions divides pharmacies into two types according to their functions, community cooperative pharmacies and pharmacy in cooperation with specialized medical institution, and the prefectural governor certifies pharmacies that meet certain requirements for each respective type. Depending on the pharmacy, it is possible to acquire authorization as both a community cooperative pharmacy and 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 currently 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 FY3/22 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. As of December 31, 2021, the Company has obtained authorization for 106 community cooperative pharmacies and 7 pharmacies in cooperation with specialized medical institutions. The Company plans to increase the number of community cooperative pharmacies to 120 by March 31, 2022, and in the future to have all pharmacies receive authorization as either community cooperative pharmacies or pharmacy in cooperation with specialized medical institution.

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

The number of stores as of the end of 1H FY3/22 stood at 829, an increase of 18 stores YoY. Considering that the Company aims to increase the number of stores by 50 to 70 stores per year, this represents a somewhat slow pace. The main reason for this is difficulty in the smooth execution of M&As under the ongoing COVID-19 pandemic, as it now takes longer than usual from the start of negotiations until the closing of the deal.

Looking at the breakdown of new store openings, 12 of the stores were from the Company's orthodox organic openings (one-on-one type), while 8 were acquired through M&As, and 1 was opened with participation as a collaborating partner in "Machi no Hokenshitsu (town infirmaries)" opened inside the Mujirushi Ryohin Naoetsu Store of Ryohin Keikaku Co., Ltd. <7453>. The "Machi no Hokenshitsu" holds periodic health-themed events and sells products for maintaining health and preventing diseases and so forth in order to contribute to the healthy living of local residents, while pharmaceuticals and OTC drugs are sold at the Company's stores. This initiative will bear watching going forward as a new store format with close ties to the community.

Conversely, there were three store closures, of which two were collaborative stores with Lawson.

Store openings and closures and M&A status

		End of FY3/21	1H FY3/22				
			Opened		Closed	End of 1H
QOL Pharmacies		747	Organic openings	12	1	766
			Through M&A	8		
New format	Lawson	38	0		2	36
	BIC CAMERA	5	0		0	5
	Ryohin Keikaku	-	1		0	1
	JR-West	0	0		0	0
Shops		21	0		0	21
Total		811	21		3	829

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

(3) Factors behind improvement to profit

In the Pharmacy Business, the operating margin rose from 4.4% in the same period of the previous fiscal year to 6.9%. The factors behind the improvement in the margin were the income increase effect of the recovery in the number of prescriptions and the increase in the unit price of dispensing pharmacy's technical fees, as well as an increase in productivity. In the past few years, the Company has made progress in introducing various types of automation equipment into stores to improve productivity. This has led to a decrease in the ratio of personnel expenses, such as further optimizing the number of pharmacists per store and eliminating the need for dispatch pharmacists at regional stores. For example, it has realized labor saving by introducing automation equipment for the tasks of packing and preparing drugs, which were previously conducted manually. There are limits to the increase in productivity as the maximum number of patients that a pharmacist can attend to in one day is set at 40; nevertheless, the effects of these changes appear to be continuing for the present.

Recovery in demand for CMR dispatches and medical professional referral dispatches expected to take place from 2H onward

3. Trends in the Medical Related Business

Within the Medical Related Business, the mainstay CSO Business experienced decreases in sales and profits as it continues to be impacted by a decrease in demand for CMR dispatches from 2H of the previous fiscal year. However, in the near term, demand has been on a recovery trend. The Company will continue to expand its MR development program and recruit human resources for specialist fields such as oncology and is taking steps to strengthen training with a view to recovering earnings from 2H onward. In the CRO Business, demand remained solid, primarily in the food field.

In the Medical Professional Referral Dispatch Business, sales and profits decreased YoY under an extended COVID-19 pandemic, as dispensing pharmacies continued a trend of tightening up on dispatches of pharmacists from 2H of the previous fiscal year. However, demand for dispatches to drug stores and dispatches of industrial physicians and health professionals shows a recovery trend. In addition, at APO PLUS CAREER, the Company is taking steps to expand the service line up, and is starting to focus on support services for health and productivity management operations, such as support services for acquiring excellent health and productivity management corporation accreditation and healthcare seminars.

In the Pharmaceutical Manufacturing Business, despite lower sales and profits due to a temporary halt in shipments for certain customers, the Company can be assessed to be making steady progress on its group synergy strategy, such as proceeding with introduction of in-house developed generic pharmaceuticals at Group pharmacies, with some products achieving increased penetration from around 60% in 4Q of the previous fiscal year to around 80%, looking at the rate of replacement of brand-name drugs.

FY3/22 financial results forecast have been revised upward from the initial forecast on a profit basis, with record high operating income of ¥10bn forecast

4. FY3/22 outlook

The outlook for FY3/22 results is for net sales increasing 8.1% YoY to ¥175,000mn, and all levels of profit now revised upward from the initial forecast, with operating income rising 35.8% to ¥10,000mn, ordinary income growing 35.1% to ¥10,000mn, and profit attributable to owners of parent increasing 48.6% to ¥5,000mn. Operating income is now expected to achieve a new record high exceeding the previous record high reached in FY3/18 (¥9,091mn). In 2H, the Pharmacy Business is expected to grow even further, partly reflecting the impact of M&As, etc., while the Medical Related Business is also expected to see a recovery in demand for mainstay businesses.

Looking at the progress rate up until 1H FY3/22 compared to the full-year plan, net sales is 46.8% and operating income 41.8%. However, we at FISCO consider this level to be within reach of the goal given that the Pharmacy Business sales are weighted toward 2H and sales for the Medical Related Business are expected to recover in 2H from a slump in 1H.

FY3/22 outlook

(¥mn)

	FY3/21		FY3/22			1H progress rate
	Full year results	YoY	Initial forecasts	Revised forecasts	YoY	
Net sales	161,832	-2.2%	175,000	175,000	8.1%	46.8%
Operating income	7,364	-4.8%	9,000	10,000	35.8%	41.8%
Ordinary income	7,403	-7.7%	9,000	10,000	35.1%	42.7%
Profit attributable to owners of parent	3,365	-17.3%	4,200	5,000	48.6%	49.1%
EBITDA	12,035	-2.6%	14,073	15,073	25.2%	43.1%
Capital investment	2,104	30.6%	1,240	1,240	-41.1%	-
Depreciation	1,580	-4.2%	1,656	1,656	4.8%	45.0%
Amortization of goodwill	3,089	4.0%	3,417	3,417	10.6%	45.9%
Profit per share (yen)	89.55		114.67	136.39		49.1%

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

(1) Pharmacy Business

In FY3/22 in the Pharmacy Business, the forecasts are for increases in sales and profits. It was anticipated that there would be around 50 to 70 new store openings, including those through M&A, which were expected to result in a sales increase of more than ¥3bn; however, the pace of store acquisitions through M&A is somewhat delayed and as of November 15, 2021, the number of new stores has only reached 28 (7 stores were acquired by M&A in November). Furthermore, the Company is projecting a YoY increase of around 8% in the number of prescriptions for 2H. In October, the number of prescriptions decreased for the first time in 8 months, with a YoY decrease of 1.3% for the month due to the impact of COVID-19, but it appears to have recovered again in November. However, there is a risk that if another surge in COVID-19 cases occurs going forward, it may hamper growth in the number of prescriptions, which could lead to a downturn in net sales. In this situation, the Company's policy is to work to bolster dispensing pharmacy's technical fees by strengthening its functions as a primary pharmacy and promoting initiatives in the Home and Facility Delivery Dispensing Business, thereby expanding earnings. In 2022, the Company plans to hire around 200 newly graduated pharmacists, around the same number as the previous year. (The Company employs 2,341 full-time pharmacists as of September 30, 2021).

(2) Medical Related Business

The Medical Related Business is forecasting higher sales and profits for FY3/22. In the CSO Business, the Company is projecting an increase in full-year sales and profits due to a recovery in demand for CMR dispatch in 2H. The trend towards outsourcing of MRs among pharmaceutical companies continues as before, and the Company's policy is to step up its active recruitment and training of MRs with strong abilities in specialist areas such as specialty drugs and MRs with high levels of IT literacy with a view to capturing 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 600 people.

Conversely, in the Medical Professional Referral Dispatch Business, the recovery in demand for pharmacist dispatches has been somewhat delayed, and even if it were to recover during 2H, the full-year earnings are projected to be no more than the level with the previous fiscal year. The trend in numbers of prescriptions is key to the recovery of demand for pharmacist dispatches. Therefore, the Company's strategy is to grow earnings by expanding dispatch of public health nurses and other services. In the Pharmaceutical Manufacturing Business, the forecast is that sales and profits will increase from the expansion of products handled at Group pharmacies and their stable supply through thoroughly conducting quality control.

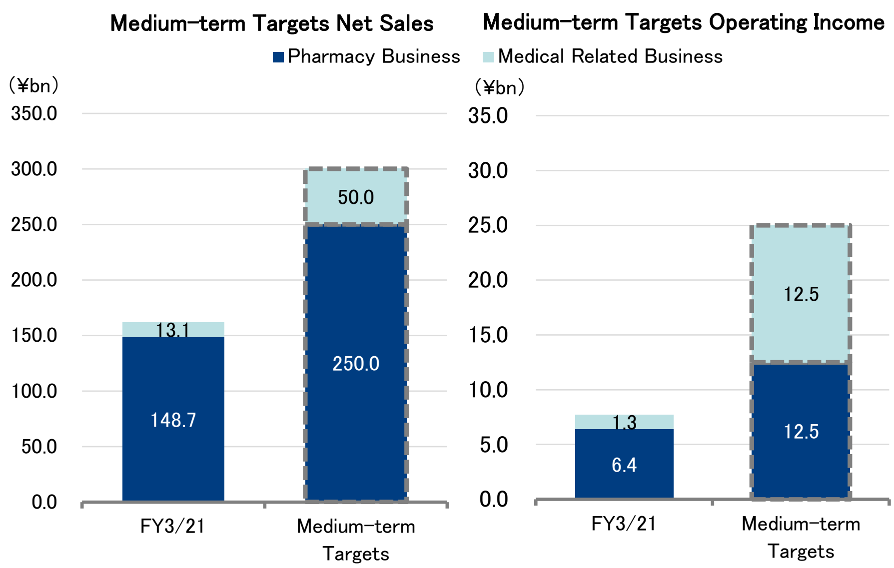
Medium- to long-term growth strategy and progress

Incorporate currently expanding home and facility delivery dispensing market, and works on value creation at pharmacies 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 toward achieving them have been consistent from before 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. Targets by segment are ¥250bn in net sales, a 1.7 times increase from FY3/21 in the Pharmacy Business and ¥50bn in net sales, a 3.8 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.

Medium-term targets and ideal business portfolio



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, in FY 3/22 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, also by utilizing M&A, and by strengthening collaborations with major pharmaceutical companies.

Growth strategies of each business segment 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

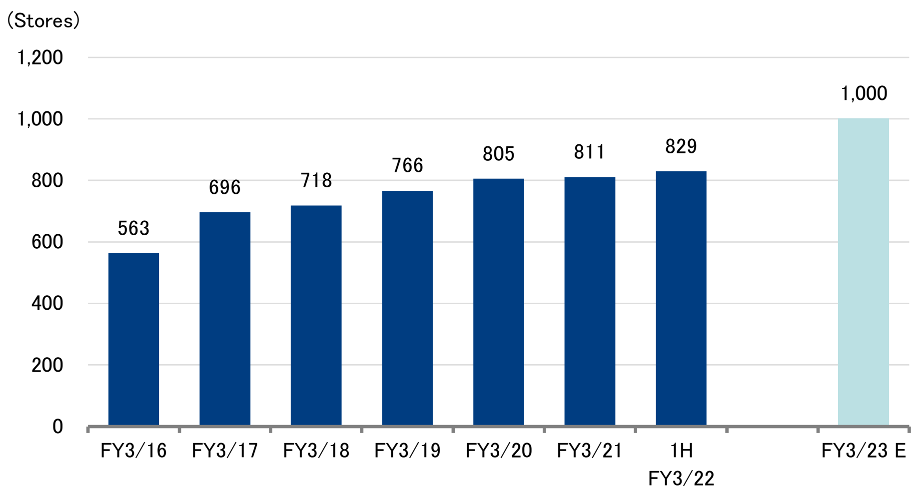
In the Pharmacy Business, the Company is aiming for growth through the basic strategy of expanding scale through strategic store openings and creating value of pharmacies.

(1) Expanding scale through strategic store openings

For the number of pharmacies, the Company opens them at a pace of 50 to 70 pharmacies per year through both organic openings and M&A, and it was targeting an increase to 1,000 pharmacies by FY3/23. However, the impact of the COVID-19 pandemic since FY3/21 has caused the pace of growth in store numbers through M&A to falter, and the 1,000 pharmacy milestone might be delayed for a further year. 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 41 as of September 30, 2021. Breaking this down, 36 were collaborative stores with Lawson, 5 were pharmacies within BIC CAMERA stores. Among these, due to the improved recognition of the mainstay collaborative stores with Lawson, profitability is also improving. Going forward, the Company will focus on these as a differentiation strategy during the expansion of the Home and Facility Delivery Dispensing Business. Specifically, in combination with visiting drug administration guidance, it has started mobile sales services that deliver OTC drugs and other products to customers' orders for senior facilities such as paid nursing care homes. The services offer high convenience to users by enabling them to purchase daily necessities together with pharmaceutical products, which is a factor that differentiates the Company from its competitors.

Trends in the number of stores



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

In the dispensing pharmacy industry, in addition to the lifting of the ban on online drug administration guidance in 2020 and the introduction of the authorization system for pharmacies with specific functions in August 2021, electronic prescriptions are scheduled to begin operation from 2023. Looking ahead, as an even greater degree of DX will be required in pharmacy operations, building such systems will require capital capabilities above a certain level, and this is one factor supporting the view that the industry will increasingly become an oligopoly dominated by major corporations. Furthermore, there are approximately 60,000 dispensing pharmacies nationwide, with a market scale of approximately ¥7.5 trillion in FY3/20. 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 would seem natural that the major players in the dispensing pharmacy industry will proceed to form an oligopoly through a similar process of industry reorganization. The Company will use these environmental changes as an opportunity to promote a strategy of expanding store openings, both organically and through M&A. 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.

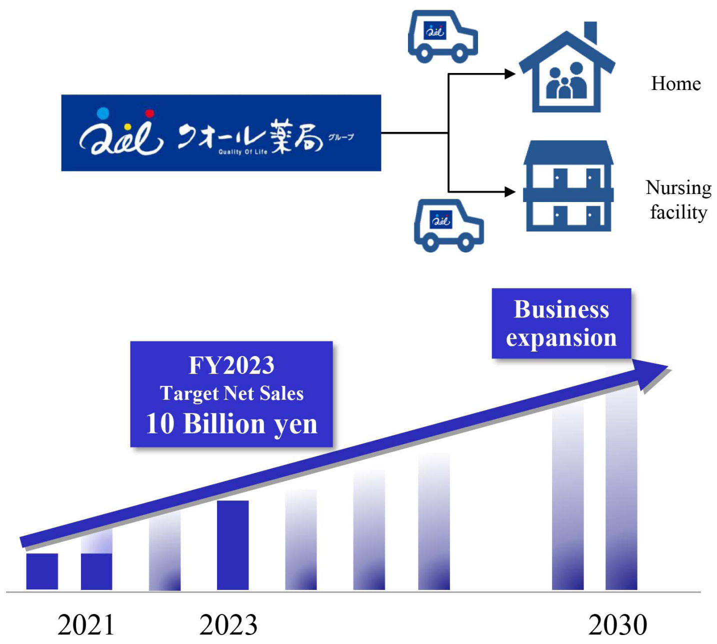
(2) Creating value of pharmacies

As its measures for creating value of pharmacies, the Company has been creating pharmacies that offer high quality sought by the public. Regarding the "health-support pharmacies" that were launched in 2016, the Company has 157 authorized stores as of November 2021, and 83 stores authorized as community cooperative pharmacies and 7 stores authorized as a pharmacy in cooperation with specialized medical institution under the authorization system for pharmacies with specific functions that started in August 2021. The Company also plans to proceed with applications as needed for authorization of community cooperative pharmacies going forward.

Furthermore, as priority measures for FY3/22, the Company is strengthening the Home and Facility Delivery Dispensing Business and working to transform the structure of pharmacy functions by promoting DX. According to materials from the Ministry of Health, Labour and Welfare, currently the scale of the Home and Facility Delivery dispensing 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 from 2025 onwards, when the baby boomer generation reaches the age of 75, demand for the Home and Facility Delivery Dispensing Business is projected to expand further with expectations for increased demand for at-home medical and nursing care services under the regional comprehensive care system. Nearly 90% of the Home and Facility Delivery Dispensing Business are for facilities such as special nursing homes for the elderly or paid-for nursing homes, and the Company's policy is to target acquiring customers centered on these facilities.

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 previously mentioned mobile-sales service is also one of these measures. In the Home and Facility Delivery Dispensing Business, there is an additional dispensing premium for at-home patients, which means the expansion of this business is also connected to increases in the unit price of dispensing pharmacy's technical fees. The Home and Facility Delivery Dispensing Business net sales are expected to increase from approximately ¥3bn in FY3/21 to approximately ¥5bn in FY3/22, and the Company is targeting ¥10bn in FY3/24.

Home and Facility Delivery Dispensing Business



Source: The Company's results briefing materials

Meanwhile, on the other priority measures, promoting DX, the Company is working not only to streamline operations inside pharmacies through the utilization of IT, but also to promote initiatives that will lead to shorter waiting times and greater convenience for users. The Company has been a sector leader in reforming operations through proactive introduction of digital technology, such as having all stores ready to work with online drug administration guidance by September 2020. Moreover, in October 2021, the Company announced that it had started discussions regarding a business alliance in the medical field with M3, Inc. <2413>, which provides innovative medical services using the internet. The two companies aim to realize sustainable, efficient, and safe medical services using digital technology and mutually using each other's data resources in the medical field. The specific details of the initiative will be announced as they are decided, and will be a focus point.

In addition, regarding electronic prescriptions, which are a measure for promoting DX of medical administration, the Company intends to begin implementing them in January 2023, when the Japanese government begins to operate the system. Using electronic prescriptions enables pharmacies to respond rapidly as they can prepare drugs quickly by being able to access prescription data directly, and also enables patients to manage their own prescription details because they will be able to confirm their prescription information online any time. It is also expected to help prevent over-administration of drugs and rapid response. The Company has over 3 million QOL card members and plans to use the big data from this membership base to create new services that contribute to improved QOL, and to further expand its market share.

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 companies 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, where CMR markets were established in advance, the ratio is between 12% to 17%. In particular, during COVID-19, pharmaceutical companies are progressing the optimization of their marketing structures, the trend toward relying on outsourcing for MR has accelerated further, and 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%. To this end, the Company will focus on the pursuit of specialization and further developing the number of companies it transacts with. 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, there has recently been strong needs in such fields as oncology, inflammatory bowel disease and central nervous system diseases, and the Company's strategy is to further expand the scale of its business by training CMR in these specialized fields. In addition, in the CRO Business as well, the Company's policy is to capture orders in the food field where it has strength, and to promote strengthening of other highly specialized fields.

(2) Medical Professional Referral Dispatch Business

In the Medical Professional Referral Dispatch Business, in addition to expanding dispatch services for medical professionals such as pharmacists, public health nurses and registered sales personnel, the Company is seeking to expand its service lineup to such areas as consulting for business succession for pharmacies and for matters related to health and productivity management for corporations, and has a policy aimed at growth by leveraging M&A and the like.

(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, dispensing, and services for patients.

For Group synergies, as previously stated, the Company will increase the number of pharmacies among the Group's dispensing pharmacies that handle Fujinaga products. In addition, the Company plans to develop new generic pharmaceuticals and its policies are to expand business by rigorously conducting quality control measure and through capital investment in plants and advancing M&A and the like, while also conducting outsourced manufacturing from major pharmaceutical companies as the next step. 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)

	FY3/18	FY3/19	FY3/20	FY3/21	1H FY3/22
Net sales	145,516	144,783	165,411	161,832	81,814
YoY	10.7%	-0.5%	14.2%	-2.2%	3.4%
Gross profit	19,648	17,863	21,094	21,102	10,857
Gross margin	13.5%	12.3%	12.8%	13.0%	13.3%
SG&A expenses	10,557	10,812	13,361	13,737	6,679
SG&A expense ratio	7.3%	7.5%	8.1%	8.5%	8.2%
Operating income	9,091	7,050	7,733	7,364	4,177
YoY	32.4%	-22.4%	9.7%	-4.8%	100.8%
Operating margin	6.2%	4.9%	4.7%	4.6%	5.1%
Ordinary income	9,333	7,208	8,024	7,403	4,274
YoY	32.1%	-22.8%	11.3%	-7.7%	102.7%
Profit attributable to owners of parent	4,986	3,908	4,067	3,365	2,455
YoY	14.5%	-21.6%	4.1%	-17.3%	289.7%
Split-adjusted EPS (¥)	141.19	101.73	107.23	89.55	66.98
Split-adjusted dividend (¥)	28.00	28.00	28.00	28.00	14.00
Split-adjusted BPS (¥)	936.74	1,006.55	1,074.57	1,124.31	1,120.19

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

Simplified balance sheet

(¥mn)

	FY3/19	FY3/20	FY3/21	1H FY3/22	Change
Current assets	46,127	45,881	45,499	42,532	-2,967
Cash and deposits	20,220	15,802	19,648	16,431	-3,217
Notes and accounts receivable-trade	17,330	22,862	18,231	17,670	-
Inventories	5,156	5,224	4,854	5,982	1,128
Other	3,421	1,993	2,766	2,449	-317
Noncurrent assets	48,087	56,976	55,062	55,025	-37
Property, plant and equipment	11,079	13,055	12,730	12,877	147
Intangible assets	30,075	36,642	34,938	34,594	-344
Investments and other assets	6,933	7,278	7,393	7,554	161
Deferred assets	21	14	9	7	-2
Total assets	94,236	102,872	100,571	97,565	-3,006
Current liabilities	34,424	38,730	38,709	36,580	-2,129
Accounts payable-trade	17,741	18,623	19,822	18,037	-1,785
Short-term loans payable, etc.	9,430	11,626	11,569	10,986	-583
Other	7,253	8,481	7,318	7,557	239
Noncurrent liabilities	20,795	23,139	20,026	19,918	-108
Long-term loans payable, etc.	19,443	21,024	18,152	17,820	-332
Other	1,352	2,115	1,874	2,098	224
Total net assets	39,017	41,001	41,834	41,066	-768
Total liabilities and net assets	94,236	102,872	100,571	97,565	-3,006

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

Cash flow statement

(¥mn)

	FY3/19	FY3/20	FY3/21	1H FY3/22
Cash flow from operating activities	5,773	4,468	12,912	2,638
Cash flow from investing activities	-8,287	-8,670	-3,065	-1,775
Cash flow from financing activities	2,906	-225	-6,114	-4,125
Cash and cash equivalents at the end of the period	20,193	15,766	19,498	16,236

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

Returns to shareholders and SDGs activities

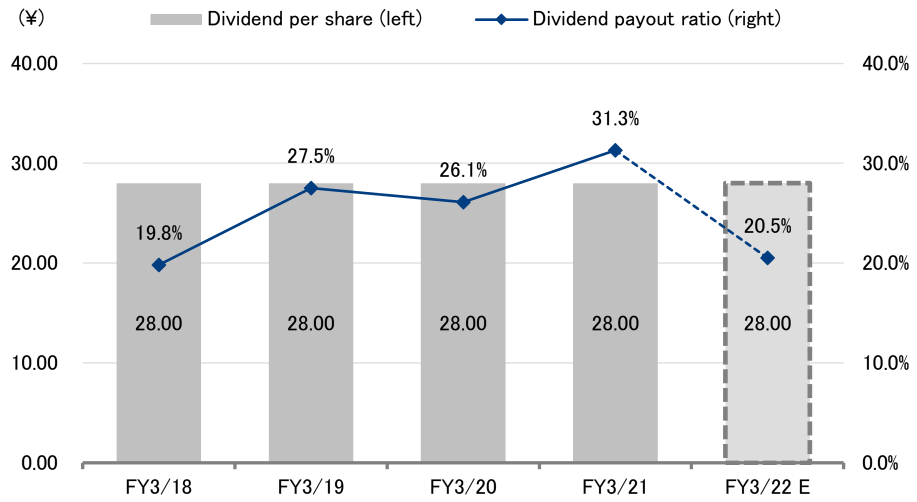
Basic policy is for stable returns to shareholders, as well as introducing the shareholder benefits program

1. Shareholder return policy

Qol primarily conducts 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 20.5%).

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 30 (¥1,381), it is 4.2% if the shares were held for less than 1 year and 5.6% 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 realization of a connected, healthy, prosperous 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. Furthermore, for S (Social), as an initiative to support the physical, mental, and social health of children, in April 2021 the Company became the Japan secretariat of the Sesame Street Pharmacy Membership Program, operated by the U.S.-based NPO Sesame Workshop, and some of the Company's pharmacies will serve as places for learning about health in a fun way by providing health education materials that use Sesame Street characters and so forth. Furthermore, the Company was awarded third place in the Corporate Division (for companies with 1,000 or more employees) in the Forbes JAPAN WOMEN AWARD 2021*, one of the largest women's awards in Japan, which was held in September 2021. In the area of employment for people with disabilities, the Company has also disclosed that it has reached 50 employees working from home in its Group companies. 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, it is aiming to further strengthen its corporate governance system.

* An award for companies that continuously produce female leaders and professionals, and encourage women who forge their own career paths and work in their own way.

FISCO

Disclaimer

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