# Qol Holdings Co., Ltd. (Qol)

## 3034

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# Summary

## Record high results to continue in FY3/23, centered on the mainstay Pharmacy Business

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 FY3/22, profits reached a record high for the first time in four years**

In its FY3/22 consolidated financial results, the Company posted record high net sales for the first time in two years and record high operating income for the first time in four years, with net sales increasing 2.7% year on year (YoY) to ¥166,199mn and operating income increasing 33.8% to ¥9,855mn. The main factors were a recovery in the number of prescriptions in the mainstay Pharmacy Business, as well as an increase in technical fees due to the strengthening of Home and Facility Delivery Dispensing Business, promoting the increase in generic drug dispensing premiums, and enhanced productivity due to efforts to optimize the number of pharmacists, which led to net sales increasing by 2.9% YoY and operating income increasing by 23.5%. This was offset by decreases in sales and profits in the Medical Related Business due to the impact of the spread of COVID-19 pandemic. The number of dispensing pharmacies as of the end of FY3/22 increased by 23 stores from the previous fiscal year-end to 834.

**2. Forecast double-digit growth in profits to continue in FY3/23**

The outlook for FY3/23 results is for increased sales and profits, with net sales to increase 8.3% YoY to ¥180,000mn and operating income to increase 21.8% to ¥12,000mn. The Pharmacy Business is expected to achieve single-digit growth in sales and a double-digit increase in profits due to a recovery in the number of prescriptions and rising technical fee unit prices at existing pharmacies, in addition to the opening of new pharmacies and M&A activities offsetting such negative impact as the lowering of drug prices. Moreover, double-digit growth is forecast in both sales and profits for the Medical Related Business, CSO Business and Medical Professional Referral Dispatch Business due to a recovery in earnings. The number of new openings of dispensing pharmacies is expected to be in the range of 10 to 20 pharmacies, with an additional 30 to 70 through M&A. The impact of the COVID-19 pandemic has lowered the number of pharmacies acquired through M&A to under 20 in the past 2 fiscal years, but this pace will accelerate again in FY3/23. In addition, as priority measures, the Company intends to expand Home and Facility Delivery Dispensing Business sales and expand services utilizing IT (such as accepting reservations for prescriptions via LINE).

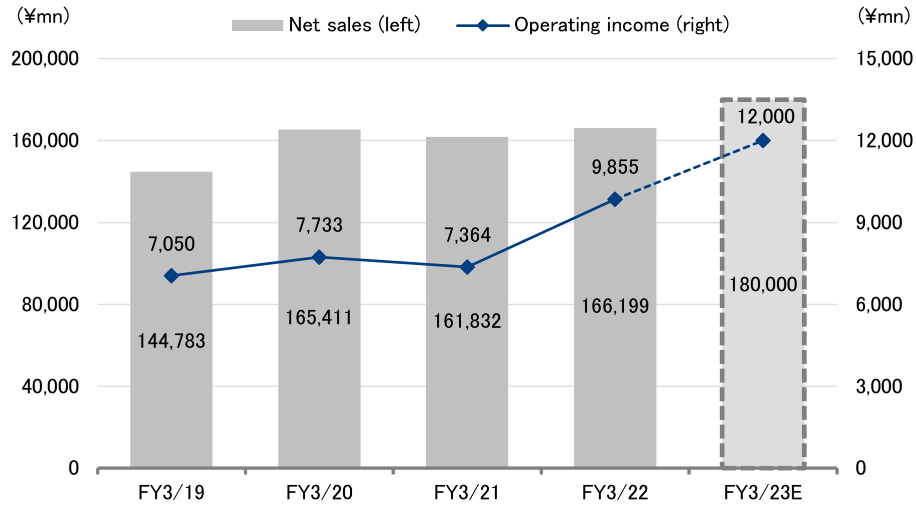
### 3. Policy of aiming for net sales of ¥300bn driven by the twin axis of the Pharmacy Business and the Medical Related Business

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 40 to 90 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 raising added value as part of efforts to strengthen its functions as a primary pharmacy for local communities, which will gain importance going forward. Under the authorization system for pharmacies that started in August 2021, the Company had 155 authorized pharmacies as of March 31, 2022, having moved ahead on acquiring authorization as a community cooperative pharmacy or a pharmacy in cooperation with specialized medical institutions. It aims to obtain authorization for all of its pharmacies in the future. 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 in 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 will strive 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 FY3/22, the Company updated record high results due to the recovery of the Pharmacy Business
- In FY3/23, the Company forecasts double-digit growth in profits for both the Pharmacy Business and Medical Related Business
- The Company will incorporate currently expanding Home and Facility Delivery dispensing market, and work 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 years). In a revision year, there are often negative factors in terms of earnings, 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 91.9% of net sales and 90.9% of operating income (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&As

## 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 FY3/22, 812 (97%) of the 834 stores were dispensing pharmacies, while the remaining 22 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> (1,099 stores as of the end of April 2022) and third in net sales after Ain Holdings and Nihon Chouzai Co., Ltd. <3341>. Nihon Chouzai, which is third in the number of stores at 697, has net sales that exceed those of the Company because it has developed many pharmacies located adjacent to hospitals, which generate strong sales.

### (2) Pharmacy development strategy

A feature of the Company’s pharmacy development strategy is that it conducts the business through two formats that are largely different in type. The first type is the “one-on-one pharmacies,” and the second type is “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. As of the end of FY 3/22, there were 36 "new format pharmacies" in alliance with Lawson, Inc., 5 inside BIC CAMERA stores, and 2 within train stations.

**Overall image of the pharmacy strategy**

| Business format | Pharmacy type | Location | Function | Opening method | Degree of focus |
|---|---|---|---|---|---|
| QOL Pharmacies | One-on-one | Urban type. Clinic-adjacent | Primary pharmacist 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 FY3/22, Kanto leads with 338 stores (40.5% of the total volume), followed by Kansai with 133 stores (15.9%), and Koshinetsu with 110 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 FY3/17, Kansai has had the greatest increase, with 40 stores, followed by the Tokai and Hokuriku regions with 25 stores and Kanto with 24 stores, suggesting the Company has focused on new organic openings and M&A in major urban areas outside of the Kanto area in the past several years. The focus areas are the Tokyo, Nagoya, and Osaka areas, which have a high population density. Looking at a comparison of the number of stores and population composition ratio by region, the Company has a higher ratio 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 FY3/17 | End of FY3/21 | | End of FY3/22 | | Increase on end of FY3/17 | Population composition |
|---|---|---|---|---|---|---|---|
| | Number of stores | Number of stores | Composition ratios | Number of stores | Composition ratios | | |
| Hokkaido | 10 | 10 | 1.2% | 10 | 1.2% | 0 | 4.1% |
| Tohoku | 75 | 84 | 10.4% | 90 | 10.8% | 15 | 6.8% |
| Kanto | 314 | 333 | 41.1% | 338 | 40.5% | 24 | 34.6% |
| Koshinetsu | 91 | 107 | 13.2% | 110 | 13.2% | 19 | 4.0% |
| Tokai, Hokuriku | 45 | 67 | 8.3% | 70 | 8.4% | 25 | 14.2% |
| Kansai | 93 | 135 | 16.6% | 133 | 15.9% | 40 | 16.3% |
| Chugoku, Shikoku | 51 | 48 | 5.9% | 48 | 5.8% | -3 | 8.7% |
| Kyushu, Okinawa | 17 | 27 | 3.3% | 35 | 4.2% | 18 | 11.3% |
| Total | 696 | 811 | 100.0% | 834 | 100.0% | 138 | 100.0% |

Note: Japan's population composition based on national census data from 2020
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, the development trend for new drugs among pharmaceutical companies has shifted from primary medicine (for treatment of lifestyle related diseases, etc.) that targets many customers (medical facilities and doctors) to specialty drugs (anti-cancer drugs, etc.) for which the target customers are limited. Accordingly, there has been a noticeable movement toward reducing their in-house MR personnel and switching to CMR personnel.

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 FY3/22, it had approximately 600 CMR personnel, which is an industry share of around 15%, and it holds the leading position in the industry for the number of customers as well, with 50 to 60 companies. According to the "MR White Paper 2021 Edition" from the MR Education & Accreditation Center of Japan, at the end of March 2021, there were 3,923 CMR (increased 6 YoY) who were being utilized by 138 companies.

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

**(2) Medical Professional Referral Dispatch Business**

This business involves referral dispatches of pharmacists, public health nurses, registered sales personnel, and others. Of these, it mainly conducts referral dispatches of pharmacists. It ranks in the top 10 for the number of dispatched pharmacists in the industry, while it also ranks in the top 3 for public health nurses. In addition, at APO PLUS CAREER, the Company provides pharmacy business succession and management support services and consulting services on health 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 FY3/22, the Company updated record high results due to the recovery of the Pharmacy Business

**1. Summary of FY3/22 results**

In FY3/22 consolidated results, the Company returned to increased sales and profits for the first time in two fiscal years, with net sales increasing 2.7% YoY to ¥166,199mn, operating income increasing 33.8% to ¥9,855mn, ordinary income increasing 36.4% to ¥10,094mn, and profit attributable to owners of parent increasing 63.1% to ¥5,489mn. Although net sales fell slightly short of the Company's forecasts due to the prolonged impact of the COVID-19 pandemic, operating income and ordinary income both resulted almost according to plan, and net sales achieved a record for the first time in two fiscal years and each income item set a new record high for the first time in four years. Sales and profits decreased in the Medical Related Business, but this was covered by increased earnings in the Pharmacy Business. SG&A expenses decreased 3.1% YoY, but this was mainly due to a decrease in rents and reduction in overtime payments due to optimizing allocation of personnel.

**FY3/22 results (consolidated)**

(¥mn)

| | FY3/21 | | FY3/22 | | | | |
|---|---|---|---|---|---|---|---|
| | Results | % of sales | Company forecasts | Results | % of sales | YoY | Compared to forecast |
| Net sales | 161,832 | - | 175,000 | 166,199 | - | 2.7% | -5.0% |
| Gross profit | 21,102 | 13.0% | - | 23,163 | 13.9% | 9.8% | - |
| SG&A expenses | 13,737 | 8.5% | - | 13,308 | 8.0% | -3.1% | - |
| Operating income | 7,364 | 4.6% | 10,000 | 9,855 | 5.9% | 33.8% | -1.5% |
| Ordinary income | 7,403 | 4.6% | 10,000 | 10,094 | 6.1% | 36.4% | 0.9% |
| Extraordinary income/losses | -508 | -0.3% | - | -407 | -0.2% | - | - |
| Profit attributable to owners of parent | 3,365 | 2.1% | 5,000 | 5,489 | 3.3% | 63.1% | 9.8% |
| EBITDA* | 12,035 | 7.4% | 15,073 | 14,588 | 8.8% | 21.2% | -3.2% |

* 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 2.9% YoY to ¥153,164mn, and operating income increased 23.5% to ¥11,865mn. Factors behind the increase in net sales included an increase in the number of stores through new openings and M&A in addition to an increase in the number of prescriptions at existing stores that absorbed the decrease in the unit price of prescriptions. In addition, from an income aspect, in addition to the increased sales effect, other factors that increased income included rising technical fees per prescription 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.

In the Medical Related Business, net sales decreased 2.5% YoY to ¥13,471mn, and operating income decreased 19.4% to ¥1,190mn. The CSO Business increased sales and profits slightly due to the recovery in demand in 2H, but the Medical Professional Referral Dispatch Business saw lower sales and profits due to the impact of the COVID-19 pandemic as demand was sluggish for the dispatch of pharmacists and the Pharmaceutical Manufacturing Business also had reduced sales and profits due to the impact of rising logistical costs as procurement of active pharmaceutical ingredients was stalled due to COVID-19.

**Performance by segment**

(¥mn)

| | FY3/21 | FY3/22 | |
|---|---|---|---|
| | Results | Results | YoY |
| Pharmacy Business | | | |
| Net sales | 148,778 | 153,164 | 2.9% |
| Segment income | 9,605 | 11,865 | 23.5% |
| % of net sales | 6.5% | 7.7% | |
| Medical Related Business | | | |
| Net sales | 13,811 | 13,471 | -2.5% |
| Segment income | 1,476 | 1,190 | -19.4% |
| % of net sales | 10.7% | 8.8% | |

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

## For dispensing pharmacies, recovery in number of prescriptions and increase in technical fees covered falling dispensing fee unit prices

### 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 these in FY3/22, dispensing pharmacy net sales increased 4.0% YoY to ¥142,311mn. Looking at the breakdown by pharmacy opening period and format, among the Company's organic openings, sales at existing pharmacies increased 7.8% YoY, while on a monetary basis, they rose ¥3,181mn. Moreover, 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 3.1% YoY, and increased ¥2,964mn on monetary basis.

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

(¥mn)

| | FY3/21 | | | FY3/22 | | |
|---|---|---|---|---|---|---|
| | Results | Change | Growth rate | Results | Change | Growth rate |
| Existing pharmacies | 40,935 | -809 | -1.9% | 44,116 | 3,181 | 7.8% |
| Newly opened pharmacies | 1,174 | 273 | 30.4% | 508 | -666 | -56.7% |
| M&A, etc. | 94,722 | -3,739 | -3.8% | 97,686 | 2,964 | 3.1% |
| All pharmacies | 136,832 | -4,275 | -3.0% | 142,311 | 5,479 | 4.0% |

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, the number of prescriptions increased 6.0% YoY to 14,176,000 prescriptions, while the unit price of prescriptions decreased 1.9% to ¥10,039. They are affected by other factors such as the opening period and M&A. We will look at these values in detail below.

The change rate in the number of existing pharmacies, which is considered to be close to actual conditions regarding the number of prescriptions, was a YoY increase of 9.5%. This was seen to be within the generally conceived range and was largely due to the impact of a rebound from the significant drop in FY3/21 caused by people refraining from seeking treatment due to the COVID-19 pandemic and long-term prescriptions. The COVID-19 pandemic continued in FY3/22, but trends such as people refraining from seeking treatment were limited as hospitals and pharmacies made progress on measures against the spread of infection. Even looking at monthly trends on an all-store basis, the number of prescriptions generally went at a level exceeding that of the corresponding period in the previous fiscal year.

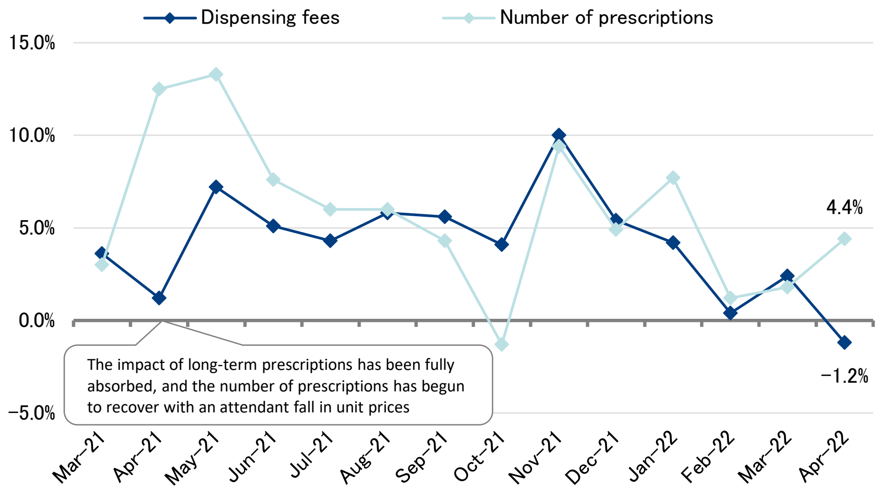
**Number of prescriptions by store-opening period and format (details)**

(thousands)

| | FY3/21 | | | FY3/22 | | |
|---|---|---|---|---|---|---|
| | Results | Change | Growth rate | Results | Change | Growth rate |
| Existing pharmacies | 3,677 | -391 | -9.6% | 4,027 | 350 | 9.5% |
| Newly opened pharmacies | 104 | -21 | -16.9% | 89 | -15 | -14.4% |
| M&A, etc. | 9,588 | -1,040 | -9.8% | 10,059 | 471 | 4.9% |
| All pharmacies | 13,369 | -1,454 | -9.8% | 14,176 | 807 | 6.0% |

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, total at all pharmacies)




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

Meanwhile, the unit price of prescriptions at existing pharmacies decreased 1.6% YoY. Dispensing fees, which are divided into dispensing fees and dispensing pharmacy's technical fees, appeared to decrease by several percent due to the impact of reduced drug prices and a trend toward the decrease of long-term prescriptions. On the other hand, dispensing pharmacy's technical fees, which are the equivalent of the pharmacy's added value, rose YoY due to factors such as handling generic drugs and promoting initiatives in the Home and Facility Delivery Dispensing Business.

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

(¥)

| | FY3/21 | | | FY3/22 | | |
|---|---|---|---|---|---|---|
| | Results | Change | Growth rate | Results | Change | Growth rate |
| Existing pharmacies | 11,132 | 873 | 8.5% | 10,955 | -177 | -1.6% |
| Newly opened pharmacies | 11,294 | 4,097 | 56.9% | 5,652 | -5,642 | -50.0% |
| M&A, etc. | 9,879 | 615 | 6.6% | 9,711 | -168 | -1.7% |
| All pharmacies | 10,234 | 715 | 7.5% | 10,039 | -196 | -1.9% |

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

Regarding the handling ratio of generic drugs (volume basis), the Group overall decreased slightly from 85.9% as of March 2021 to 84.0% as of March 2022, but still exceeds the generic drug ratio of 80% targeted by the Ministry of Health, Labour and Welfare (MHLW). The percentage of pharmacies acquiring the maximum number of 28 points (pharmacies with a handling ratio of at least 85.0%) increased from 64.7% in March 2021 to 69.6% in March 2022, which was one factor in the rise in technical fee unit prices. The cause of the decline in the handling ratio on a volume basis was the issue of an order to halt production to multiple generic drug manufacturers from the summer of 2021 onward, resulting in a supply shortage that persists through to now. Although this has had no direct impact on the Company from a performance aspect, it is believed to have had a far from minor impact on a productivity aspect as it has required such actions to procure alternative drugs due to the supply shortage.

In addition, regarding basic dispensing fees and community support system incentives, the ratio of pharmacies achieving maximum points for both has increased, contributing to the rise in technical fee unit prices. In particular, the community support system incentives can be obtained by strengthening functions as primary pharmacies for local communities, and the number of pharmacies acquiring this status has been increasing due to the Company's promotion of Home and Facility Delivery Dispensing Business. Sales for Home and Facility Delivery Dispensing Business increased steadily from approximately ¥3bn in FY3/21 to approximately ¥5bn.

**Basic dispensing fee**

| | End of FY3/21 | End of FY3/22 |
|---|---|---|
| 42 points | 47.3% | 49.3% |
| 26 points | 0.6% | 0.6% |
| 21 points | 0.0% | 0.0% |
| 16 points | 50.0% | 48.1% |
| 9 points | 2.0% | 2.0% |
| Number of pharmacies | 782 stores | 810 stores |

**Generic drug dispensing premium**

| | End of FY3/21 | End of FY3/22 |
|---|---|---|
| 28 points | 64.7% | 69.6% |
| 22 points | 18.7% | 16.3% |
| 15 points | 6.8% | 5.3% |
| NA | 9.8% | 8.8% |
| Number of pharmacies | 782 stores | 810 stores |
| Rate of change to generic drugs | 85.9% | 84.0% |

**Community support system incentives**

| | End of FY3/21 | End of FY3/22 |
|---|---|---|
| 38 points | 35.7% | 38.5% |
| NA | 64.3% | 61.5% |
| Number of pharmacies | 782 stores | 810 stores |

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

A new authorization system for pharmacies with specific functions was introduced in August 2021. The authorization system for pharmacies with specific functions divides pharmacies into two types according to their functions, community cooperative pharmacies*1 and pharmacy in cooperation with specialized medical institution*2, and the prefectural governor certifies pharmacies that meet certain requirements for each 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.

*1 Pharmacies that can respond to hospital admissions and discharges and home medical care in coordination with other medical provider facilities.
*2 Pharmacies that can respond to specialized pharmaceutical management for cancer and other diseases in coordination with other medical provider facilities.

The Company has always focused on "one-on-one pharmacies" and moved ahead on initiatives as the primary pharmacy for local communities, so has steadily progressed in acquiring authorization. As of March 31, 2022, 146 pharmacies had acquired certification as a community cooperative pharmacy and 9 pharmacies as a pharmacy in cooperation with specialized medical institution. Moreover, as of the end of FY3/22, the Company had an increase of 5 pharmacies YoY to 159 "health-support pharmacies," which were launched in FY3/17 as a similar concept to the community cooperative pharmacy

Although profits have currently not been directly impacted by the introduction of this system, as these authorized have been designated as pharmacies that can handle drugs to treat COVID-19, we at FISCO believe that there is a possibility of an impact on the calculation of dispensing pharmacy's technical fees when the revisions to medical fees are carried out in two years' time. Because of this, the Company plans to move ahead on acquiring authorization going forward. In the future it plans to have all pharmacies receive authorization as either a community cooperative pharmacy 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 FY3/22 stood at 834, an increase of 23 stores YoY. There had been a net increase of six stores in FY3/21, so it can be said that the pace of increase in the past two fiscal years was somewhat slow. In addition to the prolonging of M&A negotiations due to the continued COVID-19 pandemic, this was caused by careful scrutiny of projects ahead of the revision of medical fees in FY3/23.

Looking at the breakdown of new store openings, 15 stores were from the Company's orthodox organic openings (one-on-one type), while 15 were acquired through M&As, and 1 opened as a pharmacy inside a hospital. Of the organic openings, one was participation as a collaborating partner in "Machi no Hokenshitsu (town infirmaries)" inside the MUJI 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 attract attention as a new store format with close ties to the community.

On the other hand, there were eight store closures, of which two were collaborative stores with Lawson. In FY3/21 there were 28 store closures, with the number of closures turning to a decrease.

**Store openings and closures status**

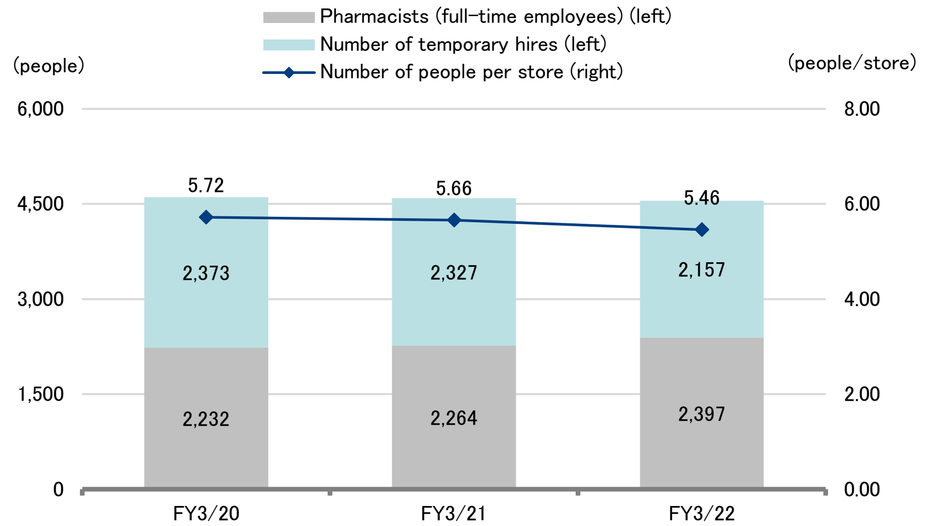
| | | FY3/21 End of FY | FY3/22 Opened | | FY3/22 Closed/ Transferred | FY3/22 End of FY |
|---|---|---|---|---|---|---|
| QOL Pharmacies | | 747 | Organic openings | 14 | 6 | 769 |
| | | | Through M&A | 15 | | |
| New format | Lawson | 38 | 0 | | 2 | 36 |
| | BIC CAMERA | 5 | 0 | | 0 | 5 |
| | Ryohin Keikaku | - | 1 | | 0 | 1 |
| | Within train stations | 0 | 0 | | 0 | 2 |
| Shops | | 21 | 1 | | 0 | 22 |
| Total | | 811 | 31 | | 8 | 834 |

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

### (3) Factors behind improvement to profit margin

In the Pharmacy Business, the operating margin rose from 6.5% in the same period of the previous fiscal year to 7.7%. 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 several 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. Since FY3/21 the Company has continued increasing the number of pharmacists (full-time employees) at a gradual pace and the number of temporary hires has decreased, but at FISCO, we believe this is largely due to a decrease in the number of dispatch pharmacists. As the maximum number of patients that a pharmacist can attend to in one day is set at 40 and there has been a recovery in the number of prescriptions, it seems to be difficult to reduce the number of pharmacists per store, so the current state will be maintained going forward.

Number of pharmacists, temporary hires and people per store




* The number of temporary hires is the figure for the entire Company, of which the Pharmacy Business accounts for a little under 90%. The number of people per store was counted for simplicity, although not all people are store staff.
Source: Prepared by FISCO from the Company's supplemental results materials

## Recovery in demand for CMR dispatches to take place from 2H onward, and for medical professional referral dispatches, demand recovered from 2022 spring onward

### 3. Trends in the Medical Related Business

Within the Medical Related Business, the mainstay CSO Business continued to experience the impact of decreases in demand for CMR dispatches from 2H of the previous fiscal year until 1H, but from 2H onward demand trended toward recovery, centered on drugs related to treatment for COVID-19, and over the full year sales and profits both increased slightly. As of March 31, 2022, approximately 600 CMR dispatches had been made, which is a record high level, and as demand remains strong, further growth is expected in FY3/23.

In the Medical Professional Referral Dispatch Business, sales and profits decreased as the entire industry continued to tighten up on dispatches of pharmacists amid the prolonging of the COVID-19 pandemic. However, there is a recent trend toward recovery in demand for dispatch pharmacists. From a positive aspect, net sales increased due to a recovery in dispatch demand for companies' industrial physicians and health professionals due to increasing interest in health management. In addition, as a result of launching services to support the acquisition of certification as an outstanding health corporation and content provision services such as stress checks and health care seminars, the Company expanded the number of business partners such as pharmacies, medical institutions, drugstores, companies and schools. APO PLUS CAREER acquired 2022 Certified Health & Productivity Management Outstanding Organization status in March 2022.

In the Pharmaceutical Manufacturing Business, the Company is clearly showing the results of group synergies, such as proceeding with introduction of in-house developed generic drugs at Group pharmacies, with some products achieving increased penetration with a switchover rate from brand-name drugs of around 60% in 4Q of the previous fiscal year to around 80%. But results saw decreased sales and profits because of factors including stalled procurement of active pharmaceutical ingredients due to the impact of the COVID-19 pandemic and rising logistical costs.

## In FY3/23, the Company forecasts double-digit growth in profits for both the Pharmacy Business and Medical Related Business

### 4. FY3/23 outlook

The outlook for FY3/23 results is to achieve record highs for consecutive years, with net sales to increase 8.3% YoY to ¥180,000mn, operating income to increase 21.8% to ¥12,000mn, ordinary income to increase 18.9% to ¥12,000mn, and profit attributable to owners of parent to increase 18.4% to ¥6,500mn. The Pharmacy Business and Medical Related Business are both forecast to increase sales and profits as the impact of COVID-19 has almost run its course. Capital investment is planned to be ¥1,174mn, a 32.3% decrease YoY. Capital investment is forecast to decrease during the fiscal year under review as well due to a large number of openings of comparatively smaller-scale stores. On the other hand, depreciation is expected to increase 22.5% YoY to ¥1,916mn, and amortization of goodwill is also expected to increase 8.7% to ¥3,444mn due to proactive progression on M&A. The effect of increased sales will absorb these increases in depreciation and amortization.

**FY3/23 outlook**

(¥mn)

| | FY3/22 | | FY3/23 | | |
|---|---|---|---|---|---|
| | Full year results | % of sales | Full year forecasts | % of sales | YoY |
| Net sales | 166,199 | - | 180,000 | - | 8.3% |
| Operating income | 9,855 | 4.6% | 12,000 | 6.7% | 21.8% |
| Ordinary income | 10,094 | 4.6% | 12,000 | 6.7% | 18.9% |
| Profit attributable to owners of parent | 5,489 | 2.1% | 6,500 | 3.6% | 18.4% |
| EBITDA | 14,588 | 8.8% | 17,360 | 9.6% | 19.0% |
| Capital investment | 1,733 | - | 1,174 | - | -32.3% |
| Depreciation | 1,565 | - | 1,916 | - | 22.5% |
| Amortization of goodwill | 3,168 | - | 3,444 | - | 8.7% |
| Profit per share (yen) | 149.51 | | 177.02 | | |

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

#### (1) Pharmacy Business

In FY3/23, the forecast for new store openings, an indicator of performance, is for about 10 to 20 organic openings and 30 to 70 openings through M&A. Of the organic openings, five are planned to be in collaboration with other industries or pharmacies within stations. The Company also plans to move forward proactively on M&A. As of May 17, the Company's results were 5 organic openings and 1 acquisition through M&A for a total of 834 stores, which was on a par with the end of the previous fiscal year. Of the organic openings, one will be a "Machi no Hokenshitsu" inside MUJI Hiroshima Alpark in collaboration with Ryohin Keikaku, which will be the second such opening.

The number of prescriptions is expected to increase at existing stores by just over 5% YoY, while the downward trend in the unit price of prescriptions is forecast to continue due to the impact of declining drug prices on dispensing fees and the decrease in long-term prescriptions, while dispensing pharmacy's technical fees are expected to rise, resulting in a slight decrease in the total. Because of this, the Company expects an increase of about 5% YoY in sales from dispensing fees at existing stores, in addition to an increase in sales through the effects of new store openings and M&A, e-commerce sales, convenience store product sales together with increased sales of OTC pharmaceuticals. Sales for Home and Facility Delivery Dispensing Business will increase for major nursing care facilities and initiatives for individual homes will be strengthened.

In terms of the impact of the revision of medical fees on dispensing pharmacy's technical fees in FY3/23, it is forecast to be a positive factor if efforts are made to strengthen functions as a primary pharmacy in such ways as Home and Facility Delivery dispensing and online drug administration guidance under community support system incentives. Meanwhile, the impact of the revisions on basic dispensing fees and the premium for generics dispensing system appears to have been negligible.

Factors increasing operating income are the increase in gross profit due to the increase in dispensing fee revenue in addition to the contribution from increased technical fee revenue from rising technical fee unit prices and the increase in the number of prescriptions. In regard to the hiring of newly graduated pharmacists in the spring of 2022, it is believed to have been around 200, which was on a par with the previous fiscal year, and the plan is to recruit about the same number in the spring of 2023.

**(2) Medical Related Business**

The Medical Related Business is forecast to achieve double-digit increases in sales and profits in FY3/23. The CSO Business is expected to achieve higher sales and profits due to a recovery in demand for CMR, and the Medical Professional Referral Dispatch Business is expected to return to higher sales and profits due to a recovery in demand for dispatch pharmacists, after having dropped in the previous fiscal year. Regarding CMR, the aim is to increase their number to about 700 to 800 by the end of FY3/23 from approximately 600 people at the end of the previous fiscal year, and the Company is proactively moving ahead on recruiting and training. In particular, the Company is poised to proactively recruit and train MRs in specialty drugs and other specialized domains where demand is strong, and MRs with high IT literacy.

Meanwhile, the Pharmaceutical Manufacturing Business is expected to achieve sales and profits on about the same level as the previous fiscal year. The impact of lower sales prices due to the drug price revision will be offset by new projects.

# Medium- to long-term growth strategy and progress

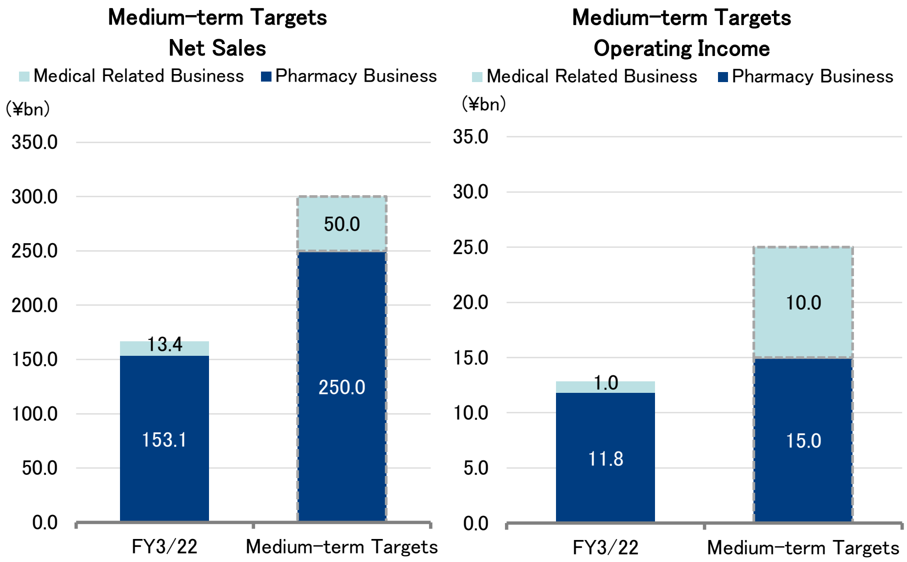
## Pharmacy Business and Medical Related Business to expand as the Company aims at achieving the medium-term targets of net sales of ¥300bn and operating income of ¥25bn

### 1. Overview of the medium-term growth strategy

The Company's medium-term targets and growth strategies to achieve them have remained consistent and unchanged. The medium-term targets are net sales of ¥300bn and operating income of ¥25bn. By business segment, the target for the Pharmacy Business is net sales of ¥250bn, 1.6 times more than FY3/22, and net sales of ¥50bn for the Medical Related Business, 3.7 times greater than FY3/22, continuing with the existing target. For operating income, each segment had previously targeted ¥12.5bn, but now they have been revised to more realistic targets of ¥15bn for the Pharmacy Business and ¥10bn for the Medical Related Business. Compared to FY3/22, the Pharmacy Business target is 1.3 times higher, and the Medical Related Business 8.4 times.

For operating income, simple comparisons cannot be made because the holding company and common expenses are not taken into account, but the Pharmacy Business seems to be within range of achieving its target. On the other hand, in the Medical Related Business there is a significant divergence between net sales and operating income and the targets for both, and strategies for further growth expansion in each of its businesses will be needed. As a breakdown of the net sales of ¥50bn for the Medical Related Business, the forecast is for the CSO Business and CRO Business and Medical Professional Referral Dispatch Business to achieve a combined ¥20bn and the Pharmaceutical Manufacturing Business and other businesses to make ¥30bn. The strategy is to steadily grow the Pharmacy Business and expand the size and improve the profitability of the Medical Related Business to build a balanced earnings portfolio in the future.

Medium-term targets and ideal business portfolio




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

The growth strategy for the Pharmacy Business is based on the twin axis of 1) expanding scale through strategic openings; and 2) creating value of pharmacies, with the priority measures for FY3/23 given the themes of strengthening the Home and Facility Delivery Dispensing Business and promoting DX. For the Medical Related Business, the strategy is for an operating margin of 20% and to achieve high growth by deepening specialization and maximizing Group synergies.

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

## Aiming for sustainable growth in the Pharmacy Business by expanding the number of stores and creating value of pharmacies

### 2. Pharmacy Business growth strategy and progress

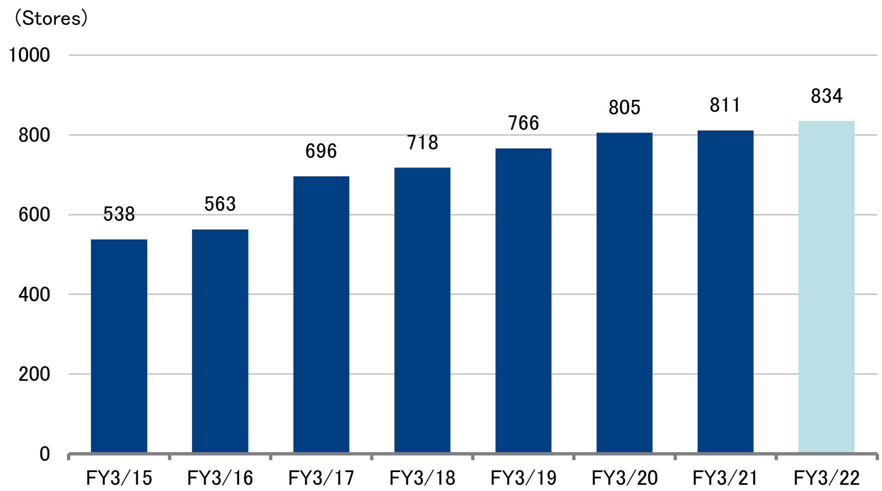
In the Pharmacy Business, the Company is aiming for growth through the basic strategy of expanding scale through strategic store openings and creating value of pharmacies.

### (1) Expanding scale through strategic store openings

Regarding the number of stores, the Company's target for the time being is to have 1,000 stores though 10 to 20 organic openings yearly and by acquiring 30 to 70 annually stores through M&A. Initially, this achievement was targeted for FY3/23, but as the COVID-19 pandemic has slowed the pace of M&A, the Company expects to achieve its aim by about FY3/25 if maintaining the current pace (or earlier if it is possible to achieve a large-scale M&A). The Company will target openings for areas with large populations, such as the three major metropolitan areas and efficiently expand the number of stores through dominant openings. Similarly for M&A, its policy is to move ahead in main urban areas where it is easy to collaborate with communities.

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 44 as of March 31, 2022. Breaking this down, 36 were collaborative stores with Lawson, 5 were pharmacies within BIC CAMERA stores, 1 was a pharmacy within a MUJI store and 2 were pharmacies within stations. 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, and will expand this service. 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. The opening of the "Machi no Hokenshitsu" store inside a MUJI store has become a distinctive feature of the community-based store, and the Company will increase these openings in the future based on needs, with a second store of this type having opened in April 2022.

**Trends in the number of stores**

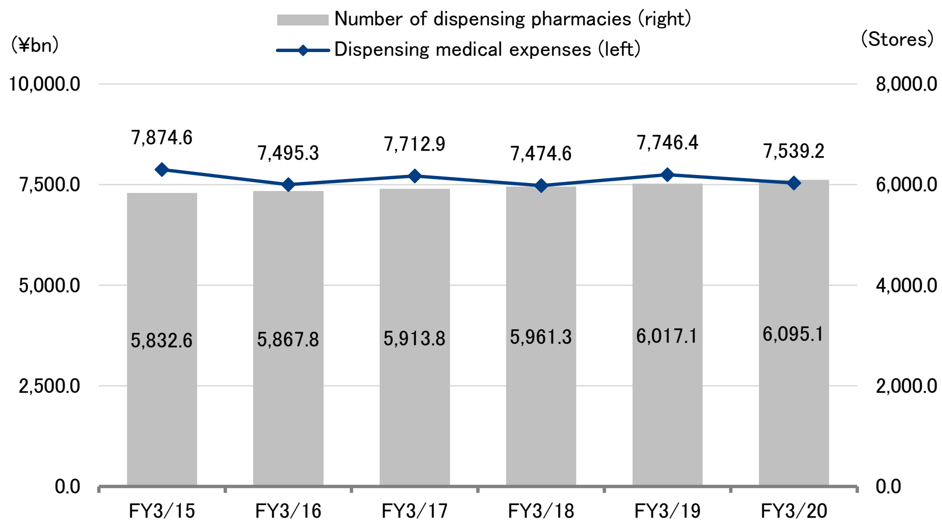



Source: Prepared by FISCO from the Company's results briefing materials

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 ¥7.5tn in FY3/21. Looking at the compound annual growth rate (CAGR) from FY3/16 to FY3/21, the number of pharmacies continued to grow, albeit slightly, at an increase of 0.9%, but dispensing medical expenses trended slightly lower, decreasing by 0.9% in the same period.

Amid a maturing market, major dispensing pharmacies continue sales growth through expanding the number of stores by organic openings and M&A. The Company is one such company, and the five-year CAGR from FY3/16 shows dispensing sales grew 6.4% and the number of stores by 8.7%, which significantly exceeds the industry as a whole. Currently, the total sales of the 10 leading companies in the dispensing pharmacy market are around ¥1.4tn, which converts to a market share of only approximately 19%. Considering that the top 10 companies in the drugstore industry currently have a share of more than 70%, it is highly likely that the major players in the dispensing pharmacy industry will proceed to form an oligopoly going forward. The Company's strategy of expanding store openings, both organically and through M&A, makes sense and we at FISCO believe it is possible for the Company to achieve sustainable growth through the medium-term expansion of store numbers. The Company 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.

Number of dispensing pharmacies and dispensing medical expenses



Source: Prepared by FISCO from the MHLW's "Trends in dispensing medical expenses (Computer Processing) – 2020 edition."

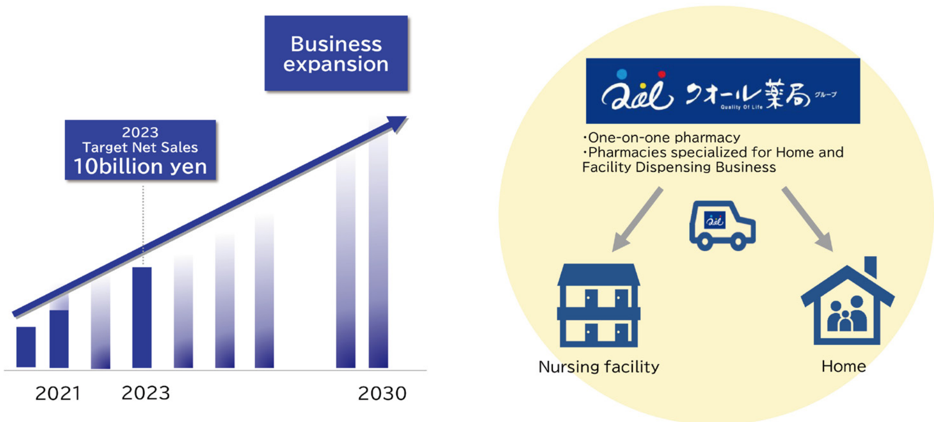
(2) Creating value of pharmacies

As its measures for creating value of pharmacies, the Company has been creating pharmacies that offer high quality sought by the public. As noted earlier, regarding the "health-support pharmacies", the Company has 159 authorized stores as of March 2022, and 146 stores authorized as a community cooperative pharmacy and 9 stores authorized as a pharmacy in cooperation with specialized medical institution under the authorization system for pharmacies that was introduced in August 2021. The Company also plans to proceed with applications in sequence for authorization going forward.

Furthermore, as priority measures for FY3/23, the Company is strengthening the Home and Facility Delivery Dispensing Business and promoting DX. According to materials from the MHLW, currently the Home and Facility Delivery dispensing market scale 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 onward, when the baby boomer generation reaches the age of 75, demand is expected to grow further for at-home medical and nursing care services under the regional comprehensive care system. Nearly 90% of the Home and Facility Delivery Dispensing Business is for facilities such as special nursing homes for the elderly or paid-for nursing homes, but as a condition for the home visit drug dispensing premium, home visit drug administration guidance is required. The Company launched the home and facility delivery dispensing promotion headquarters in April 2021 to promote various initiatives to focus not only on facilities but also on individual homes for the future.

Specifically, the Company is advancing a highly safe and convenient support initiatives, such as introducing and utilizing the latest dispensing equipment as its differentiation strategy for the Home and Facility Delivery Dispensing Business, 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 and providing nutrition support by nutritionists. The Home and Facility Delivery Dispensing Business is targeting net sales of ¥10bn in FY3/24, and is attracting attention as a market with expectations of high growth over the medium term.

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. Even within the industry, the Company has been proactive in introducing digital technology, such as having all stores ready to provide online drug administration guidance by September 2020. In addition, as a new initiative, it conducted testing and verification of using drones to deliver pharmaceuticals in Etajima City, Hiroshima Prefecture, and Imabari City, Ehime Prefecture, in February and March 2022, respectively. The deliveries went smoothly in the testing and verification, with no technical problems, and in the future, there is a possibility of using drones as a delivery method to areas where regular deliveries are difficult, such as remote islands.

Furthermore, the Company launched an advanced reservation prescription service using its official LINE account from April 2022. The system involves users sending their prescription to a designated store through the official account, and when the store has finished preparing the medicine, the user is notified. This process shortens waiting times for users, as well as enhances convenience by enabling such things as using LINE for medicine administration support and confirming their medication notebook. Other companies within the industry are already engaged in this initiative, so there is nothing new about it, but it is an effort that enhances the value of pharmacies and is commendable.

In addition, the Company has over 3 million QOL card members and uses the big data from this membership base to create new services that contribute to improved QOL, and to further expand its market share through a differentiation strategy.

## CMR dispatches is focusing on the pursuit of specialization and expanding the number of business partners, the Medical Professional Referral Dispatch Business is expanding areas and the Pharmaceutical Manufacturing Business is aiming for high growth by utilizing Group synergies

### 3. Medical Related Business growth strategy and progress

The Company 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

The current understanding of the CMR market in the CSO Business is that the main focus of new drugs shifted from primary medicine (for treatment of lifestyle related diseases, etc.) that targets many customers (medical facilities and doctors) to specialty drugs (anti-cancer drugs, etc.) for which the target customers are limited. Amid that shift, pharmaceutical companies have moved ahead on reducing their MR personnel, demand is growing for highly specialized MR and MR with high IT literacy, and within that demand is strong for highly specialized CMR.

Actually, according to the “MR White Paper 2021 Edition,” the number of MR personnel in Japan peaked at 65,000 in fiscal 2013 and had decreased to 53,000 in fiscal 2020, but has been declining at a pace of more than 2,000 people per year since 2017 in particular. On the other hand, the number of CMR peaked at 4,054 people in fiscal 2016 and declined to 3,614 in fiscal 2018, but has since reverted to increasing and in fiscal 2020 was 3,923 people. MRs accounted for 5.9% of CMR in fiscal 2017, but this had risen to 7.3% by fiscal 2020. In Europe and the United States, this figure is at the 10% level, so there is a sufficient probability that this ratio among CMR will continue to rise into the 10% range.

With this situation in the background, the Company is aiming to increase the number of CMR personnel from around 600 people at the end of FY3/22 to 1,000 people in FY3/24, and raising up its industry share from approximately 15% currently to over 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 the Company's CSO Business is that it boasts the best staff formation in the industry, with 20 people who conduct MR training. It 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, central nervous system diseases and COVID-19, 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 for the future aimed at growth through expanding business areas 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, the Company is able 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 products from Fujinaga Pharm. In addition, the Company plans to develop new generic pharmaceuticals and its policies are to expand business 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. Regarding generic drugs, a major manufacturer was found to have conducted fraudulent practices in the manufacturing process in 2021, so the Company plans to move ahead on updating its production implementation system to enable visualization of the production process and to support workers amid calls for greater strengthening of quality control systems. The Company aims to expand business upon a solid quality control system. As a medium-term target, the Company aims for net sales of ¥30bn with a view toward such things as developing new businesses and M&A, so trends going forward will be closely watched.

### Income statement and main indicators

(¥mn)

| | FY3/18 | FY3/19 | FY3/20 | FY3/21 | FY3/22 |
|---|---|---|---|---|---|
| Net sales | 145,516 | 144,783 | 165,411 | 161,832 | 166,199 |
| YoY | 10.7% | -0.5% | 14.2% | -2.2% | 2.7% |
| Gross profit | 19,648 | 17,863 | 21,094 | 21,102 | 23,163 |
| Gross margin | 13.5% | 12.3% | 12.8% | 13.0% | 13.9% |
| SG&A expenses | 10,557 | 10,812 | 13,361 | 13,737 | 13,308 |
| SG&A expense ratio | 7.3% | 7.5% | 8.1% | 8.5% | 8.0% |
| Operating income | 9,091 | 7,050 | 7,733 | 7,364 | 9,855 |
| YoY | 32.4% | -22.4% | 9.7% | -4.8% | 33.8% |
| Operating margin | 6.2% | 4.9% | 4.7% | 4.6% | 5.9% |
| Ordinary income | 9,333 | 7,208 | 8,024 | 7,403 | 10,094 |
| YoY | 32.1% | -22.8% | 11.3% | -7.7% | 36.4% |
| Profit attributable to owners of parent | 4,986 | 3,908 | 4,067 | 3,365 | 5,489 |
| YoY | 14.5% | -21.6% | 4.1% | -17.3% | 63.1% |
| Split-adjusted EPS (¥) | 141.19 | 101.73 | 107.23 | 89.55 | 149.51 |
| Split-adjusted dividend (¥) | 28.00 | 28.00 | 28.00 | 28.00 | 28.00 |
| Split-adjusted BPS (¥) | 936.74 | 1,006.55 | 1,074.57 | 1,124.31 | 1,189.70 |

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

### Simplified balance sheet

(¥mn)

| | FY3/19 | FY3/20 | FY3/21 | End of FY3/22 | Change |
|---|---|---|---|---|---|
| Current assets | 46,127 | 45,881 | 45,499 | 42,296 | -3,202 |
| Cash and deposits | 20,220 | 15,802 | 19,648 | 16,685 | -2,963 |
| Notes and accounts receivable-trade, and contract assets | 17,330 | 22,862 | 18,231 | 17,382 | -849 |
| Inventories | 5,156 | 5,224 | 4,854 | 5,582 | 728 |
| Noncurrent assets | 48,087 | 56,976 | 55,062 | 53,682 | -1,379 |
| Property, plant and equipment | 11,079 | 13,055 | 12,730 | 12,846 | 115 |
| Intangible assets | 30,075 | 36,642 | 34,938 | 33,238 | -1,700 |
| Investments and other assets | 6,933 | 7,278 | 7,393 | 7,598 | 205 |
| Deferred assets | 21 | 14 | 9 | 4 | -5 |
| Total assets | 94,236 | 102,872 | 100,571 | 95,984 | -4,586 |
| Current liabilities | 34,424 | 38,730 | 38,709 | 35,460 | -3,249 |
| Short-term interest-bearing debt | 9,430 | 11,626 | 11,569 | 8,722 | -2,847 |
| Noncurrent liabilities | 20,795 | 23,139 | 20,026 | 16,642 | -3,384 |
| Long-term interest-bearing debt | 19,443 | 21,024 | 18,152 | 14,560 | -3,592 |
| Total liabilities | 55,219 | 61,870 | 58,736 | 52,103 | -6,633 |
| Total net assets | 39,017 | 41,001 | 41,834 | 43,881 | 2,046 |
| Total liabilities and net assets | 94,236 | 102,872 | 100,571 | 95,984 | -4,587 |

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

### Cash flow statement

(¥mn)

| | FY3/19 | FY3/20 | FY3/21 | FY3/22 |
|---|---|---|---|---|
| Cash flow from operating activities | 5,773 | 4,468 | 12,912 | 10,112 |
| Cash flow from investing activities | -8,287 | -8,670 | -3,065 | -3,087 |
| Cash flow from financing activities | 2,906 | -225 | -6,114 | -10,006 |
| Cash and cash equivalents at the end of the period | 20,193 | 15,766 | 19,498 | 16,516 |

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

# Returns to shareholders and SDGs initiatives

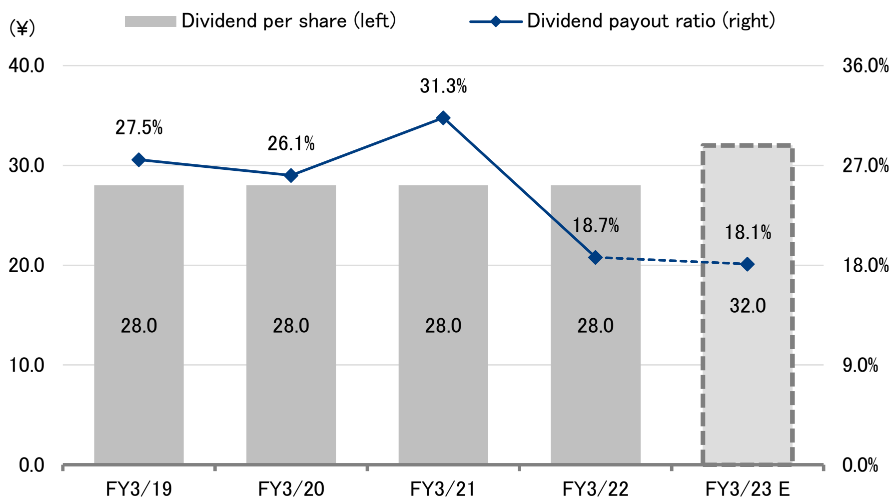
## Basic policy is to stable returns to shareholders, as well as introducing shareholder benefits program

### 1. Shareholder return policy

Its basic policy is to pay stable return of profits to shareholders while also giving consideration to internal reserves for future business development and reinforcement of its management foundation. It does not set an official payout ratio or other standards on dividend. Also, in order to execute a flexible capital policy, the Company considers acquisitions of treasury shares when necessary. Based on this basic policy, in FY3/23, the Company is planning a dividend per share of ¥32 (dividend payout ratio of 18.1%), an increase of ¥4 per share compared to the previous fiscal year. In conjunction with the increase in its retained earnings due to the growth of its results, the Company plans to increase the ordinary dividend by ¥2 per share in addition to paying a commemorative dividend of ¥2 per share to mark the 30th anniversary of foundation in October 2022. The Company has indicated that it intends to maintain the dividend level in FY3/24, but the commemorative dividend will be removed.

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 10 (¥1,333), it is 4.7% if the shares were held for less than 1 year and 6.2% 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

Regarding initiatives for SDGs, the Company established a Sustainability Committee in May 2022, appointing the president and representative director as chair, as an advisory body to the Board of Directors to strengthen activities related to the Group's sustainability. Going forward, the Company plans to move ahead on such activities as sustainability trend surveys, proposals for sustainability-related management strategies, reviews of important issue (materiality), monitoring of progress status and evaluation of achievement status.

As examples of sustainability initiatives, the entire Group is conducting a store greening campaign for store beautification and to promote SDGs. In addition, it has concluded a partnership agreement with the Japan Inclusive Football Federation to support inclusive football associations and soccer teams through lectures and dietary and nutritional consultation given by sports pharmacists with highly advanced specialist knowledge and registered dieticians. Moreover, the Company established Qol Assist Co, Ltd. in 2009, the industry's first special subsidiary with the objective of promoting employment for people with disabilities, and currently more than 50 employees are active in the company, centered on people with severe disabilities engaged in home-based employment.

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