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Consolidated Financial Results for the Six Months Ended September 30, 2023 [Japanese GAAP]

November 2, 2023

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 Stock exchange listing: Tokyo
 Code number: 3034
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 Scheduled date of filing quarterly securities report: November 14, 2023
 Scheduled date of commencing dividend payments: December 1, 2023
 Availability of supplementary briefing material on quarterly financial results: Yes
 Schedule of quarterly financial results briefing session: Yes

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Six Months Ended September 30, 2023 (April 1, 2023 to September 30, 2023)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2023	88,540	7.4	3,559	(11.5)	3,675	(11.9)	1,888	(20.2)
September 30, 2022	82,459	0.8	4,022	(3.7)	4,174	(2.3)	2,366	(3.6)

(Note) Comprehensive income: Six months ended September 30, 2023: ¥ 1,894 million [(20.0)%]
 Six months ended September 30, 2022: ¥ 2,367 million [(3.1)%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2023	50.80	-
September 30, 2022	64.11	-

(Note)

EBITDA (Operating profit + Depreciation + Amortization of goodwill)	As of September 30, 2023: ¥ 6,110million
	As of September 30, 2022: ¥ 6,382million
Net income before Amortization of goodwill (Profit attributable to owners of parent + Amortization of goodwill)	As of September 30, 2023: ¥ 3,563million
	As of September 30, 2022: ¥ 3,949million
EPS before Amortization of goodwill (Profit before Amortization of goodwill / Average number of shares during the period)	As of September 30, 2023: ¥ 95.86
	As of September 30, 2022: ¥107.01

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
	Millions of yen	Millions of yen	%
As of September 30, 2023	107,365	50,260	46.8
March 31, 2023	101,905	48,856	47.9

(Reference) Equity: As of September 30, 2023: ¥ 50,219 million
 As of March 31, 2023: ¥ 48,808 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended March 31, 2023	Yen -	Yen 15.00	Yen -	Yen 17.00	Yen 32.00
Fiscal year ending March 31, 2024	-	15.00			
Fiscal year ending March 31, 2024 (Forecast)			-	15.00	30.00

(Note) Revision to the forecast for dividends announced most recently: No

Year-end dividend for the fiscal year 2022 includes an ordinary dividend of ¥15.00 and commemorative dividend of ¥2.00 for the 30th anniversary of founding.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2024(April 1, 2023 to March 31, 2024)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	180,000	5.9	10,000	5.3	10,700	6.0	6,200	9.6	166.78

(Note) Revision to the financial results forecast announced most recently: No

* Notes:

(1) Changes in significant subsidiaries during the six months ended September 30, 2023

(changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

September 30, 2023: 38,902,785 shares

March 31, 2023: 38,902,785 shares

2) Number of treasury shares at the end of the period:

September 30, 2023: 1,676,209 shares

March 31, 2023: 1,777,609 shares

3) Average number of shares outstanding during the period:

Six months ended September 30, 2023: 37,173,934 shares

Six months ended September 30, 2022: 36,907,549 shares

(Note) Treasury stock includes shares owned by the exclusive trust account of the Company's Employee Stock Ownership Association.

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1. QUALITATIVE INFORMATION ON QUARTERLY FINANCIAL RESULTS

(1) Operating Performance Analysis

In the consolidated first six months ended September 30, 2023, the Japanese economy moved steadily toward the normalization of economic activities in line with the reclassification of COVID-19 as a Class 5 infection. However, the future of the economy remains uncertain due to price hikes associated with soaring energy and raw material costs and other conditions.

In the dispensing pharmacy industry, as economic activities normalize, the impact of patients refraining from being seen and receiving outpatient treatments at medical institutions is easing. At the same time, the completion of transitional measures for Community Support System Premium in line with NHI drug price and dispensing fee revisions have led to a decline in dispensing and technical fee unit prices.

Even amid these significant changes in the business environment, the Qol Group aims to continue being the Company closest to patients. To achieve our medium-term goals in the post-pandemic era, we are engaged in efforts to integrate all businesses under the three keywords “expand scale,” “maximize profits,” and “digitalize.” In May 2023, Qol resolved to acquire all shares of DAIICHI SANKYO ESPHA CO., LTD. In October 2023, we completed the first phase of this process with the acquisition of 30% of DAIICHI SANKYO ESPHA shares.

In the consolidated first six months ended September 30, 2023, the Qol Group performance was generally in line with initial plans, with net sales of ¥88,540 million (up 7.4% year on year), operating profit of ¥3,559 million (down 11.5%), ordinary profit of ¥3,675 million (down 11.9%) and profit attributable to owners of parent of ¥1,888 million (down 20.2%). EBITDA was ¥6,110 million (down 4.3%).

(Progress in the six months ended September 30, 2023)

	Six months ended September 30, 2023		Achievement rate (%)
	Plan (Millions of yen)	Results (Millions of yen)	
Net sales	85,600	88,540	103.4%
Operating profit	3,500	3,559	101.7%
Recurring profit	3,500	3,675	105.0%
Profit attributable to owners of parent	1,800	1,888	104.9%

Performance by business segment is as follows.

a. Pharmacy Business

In the Pharmacy Business, the Group works to expand scale through M&A, new store openings, and the promotion of the Home and Facility Dispensing Business, maximize profits through increased productivity, and enhance patient convenience through digitization including the creation of next-generation pharmacies.

In the first six months of the fiscal year under review, the Group added 15 new stores and acquired two stores through business transfer, for a total addition of 17 stores, while closing only four stores, resulting in a total of 905 stores across all businesses. Going forward, to develop high added-value pharmacies, the Group will engage in strategic new store openings and scale expansion through M&A to continue expanding scale. In terms of pharmacy operations, we are working to provide dispensing at home at all pharmacies in the Home and Facility Dispensing Business as a new business pillar, and will significantly increase the number of facilities we are in charge of by increasing the number of stores specializing in home dispensing.

In April 2023, we also started collaborations with Suntory Wellness Ltd., related to health support. The Qol Group will contribute to the field of presymptomatic diseases by handling Suntory Wellness health foods and promoting proper understanding through pharmacist explanations.

In September 2023, as a board member company of the Pharmacy DX Promotion Consortium, we jointly proposed the “partial outsourcing of dispensing operations” to the Secretariat of Office

for Promotion of Regional Revitalization, Cabinet Office. Going forward, we will examine mechanisms that will lead to the enhancement of pharmacist interpersonal services in local communities. Further, to realize a society with human-friendly digitalization in which no one is left behind, the Digital Agency has appointed Qol employees as member of the Digital Promotion Committee. We will continue to contribute to local communities through an increase in Digital Promotion Committee members.

Regarding performance, although the completion of transitional measures for Community Support System Premium in line with NHI drug price and dispensing fee revisions led to a decline in dispensing and technical fee unit prices, contributions from M&A conducted in the previous fiscal year, new store openings, and the promotion of the Home and Facility Dispensing Business among other efforts resulted in an increase in prescription numbers at existing pharmacies.

As a result, net sales in this segment amounted to ¥80,966 million (up 7.2% year on year), while operating profit was ¥4,714 million (down 6.8% year on year).

b. Medical-Related Business

In the Medical-Related Business, we continue efforts to expand the core CSO Business, Professional Referral Dispatch Business, Publishing-related Business and Pharmaceutical Manufacturing Business, targeting stable growth to move forward as a comprehensive healthcare company.

In the CSO Business, although numbers increased in line with expanding demand for MR dispatches. Going forward, to increase the number of MR dispatches and meet diversifying needs from medical sites, we will focus efforts on recruiting human resources with a wide range of experience and providing high-quality education including training programs for MRs in specialized fields. Further, contracted business for the development of pharmaceuticals and foods expanded due to an increase in orders, mainly for food testing.

In the Professional Referral Dispatch Business, demand for professional referral dispatches in all positions is expanding steadily, while the number of contracts concluded is increasing in line with various efforts including customer base expansion and divisions of labor. Additionally, Oncall.Inc, which owns a matching platform for the short-term employment of doctors and nurses, became a Group company in April 2023. Qol will leverage synergies created with Oncall as a Group company to further expand business.

In the Publishing-related Business, Qol provides oncology, digital, and other materials with a high growth potential in to existing customers, while expanding transactions with academic societies and other non-pharmaceutical customers. We will also expand the newly launched convention business, compliance service business, and other highly profitable businesses.

In the Pharmaceutical Manufacturing Business, in addition to Qol products, we will continue to promote sales of “Tegaruna[®] stick SARS-CoV-2 Ag” COVID-19 antigen test kits launched in December 2022. Further, we are conducting various discussions among Group companies to heighten the synergistic effects created from the addition of DAIICHI SANKYO ESPHA CO., LTD., to the Qol Group.

As a result, net sales in this segment were ¥7,573 million (up 9.7% year on year) and operating profit was ¥658 million (up 1.9% year on year).

EBITDA = Operating profit + Depreciation + Amortization of goodwill

CSO: Contract Sales Organization

MR: Medical Representative

(For Reference) Reporting Segment Performance

		Six months ended September 30		Change (%)
		2022 (Millions of yen)	2023 (Millions of yen)	
Pharmacy Business	Net sales	75,557	80,966	7.2
	Segment income	5,056	4,714	(6.8)
Medical-Related Business	Net sales	6,901	7,573	9.7
	Segment income	645	658	1.9
Total	Net sales	82,459	88,540	7.4
	Segment income	5,702	5,372	(5.8)

Note: Sales in each segment do not include internal sales between segments.

(2) Overview of Financial Position at September 30, 2023

a. Assets

As of September 30, 2023, total assets amounted to ¥107,365 million, up ¥5,460 million from March 31, 2023.

This was mainly due to decreases of ¥1,341 million in cash and deposits and ¥750 million in goodwill, and an increase of ¥7,204 million in other current assets.

b. Liabilities

As of September 30, 2023, total liabilities amounted to ¥57,105 million, up ¥4,056 million from March 31, 2023.

This was mainly due to decreases of ¥3,038 million in long-term borrowings and ¥1,454 million in current portion of long-term borrowings, and an increase of ¥7,500 million in short-term borrowings.

c. Net Assets

As of September 30, 2023, total net assets amounted to ¥50,260 million, up ¥1,404 million from March 31, 2023.

This was mainly due to a decrease of ¥150 million in treasury shares and an increase of ¥1,247 million in retained earnings.

d. Cash Flows

Cash and cash equivalents decreased ¥1,343 million compared with March 31, 2023, to ¥17,253 million, with ¥6,391 million in net cash provided by operating activities, ¥9,905 million used in investing activities and ¥2,170 million provided by financing activities.

The cash flow conditions and underlying factors during the first six months of the consolidated fiscal year under review are as described below.

Cash flows from operating activities

Net cash provided by operating activities was ¥6,391 million (compared with an inflow of ¥4,711 million in the same period of the previous fiscal year), with inflows of ¥3,612 million in profit before income taxes and ¥1,675 million in amortization of goodwill.

Cash flows from investing activities

Net cash used in investing activities was ¥9,905 million (compared with an outflow of ¥1,681 million in the same period of the previous fiscal year), with outflows of ¥7,500 million for the purchase of shares of subsidiaries and associates, ¥1,239 million for the purchase of property, plant and equipment, and ¥759 million for the purchase of shares of subsidiaries resulting in change in

scope of consolidation.

Cash flows from financing activities

Net cash provided by financing activities was ¥2,170 million (compared with an outflow of ¥5,223 million in the same period of the previous fiscal year) with ¥4,493 million used for repayments of long-term borrowings, ¥640 million used for dividends paid, and a ¥7,500 million net increase in short-term borrowings.

(3) Consolidated Financial Forecast

There are no changes to the consolidated financial forecast announced on May 16, 2023.

2. QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	18,770	17,428
Notes and accounts receivable - trade, and contract assets	16,951	16,505
Merchandise and finished goods	4,990	5,429
Work in process	90	143
Supplies	205	188
Other	3,208	10,412
Allowance for doubtful accounts	(2)	(2)
Total current assets	44,214	50,106
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,818	7,159
Tools, furniture and fixtures, net	1,538	1,618
Land	6,999	6,942
Other, net	751	639
Total property, plant and equipment	16,108	16,360
Intangible assets		
Goodwill	32,818	32,067
Software	667	705
Other	304	266
Total intangible assets	33,790	33,040
Investments and other assets		
Investment securities	142	139
Leasehold and guarantee deposits	3,942	3,956
Deferred tax assets	2,110	2,141
Other	1,616	1,641
Allowance for doubtful accounts	(21)	(21)
Total investments and other assets	7,791	7,858
Total non-current assets	57,689	57,259
Deferred assets		
Bond issuance costs	1	0
Total deferred assets	1	0
Total assets	101,905	107,365

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	19,958	20,851
Short-term borrowings	-	7,500
Current portion of bonds payable	608	270
Current portion of long-term borrowings	8,104	6,649
Income taxes payable	1,976	1,864
Provision for bonuses	2,310	2,434
Other	3,371	3,919
Total current liabilities	36,330	43,490
Non-current liabilities		
Long-term borrowings	14,038	10,999
Deferred tax liabilities	306	303
Provision for retirement benefits for directors (and other officers)	34	29
Retirement benefit liability	829	826
Asset retirement obligations	1,055	1,067
Other	455	388
Total non-current liabilities	16,719	13,614
Total liabilities	53,049	57,105
Net assets		
Shareholders' equity		
Share capital	5,786	5,786
Capital surplus	11,276	11,276
Retained earnings	34,355	35,603
Treasury shares	(2,596)	(2,445)
Total shareholders' equity	48,823	50,221
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(14)	(1)
Total accumulated other comprehensive income	(14)	(1)
Non-controlling interests	47	40
Total net assets	48,856	50,260
Total liabilities and net assets	101,905	107,365

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income (For the six months)

(Millions of yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Net sales	82,459	88,540
Cost of sales	71,602	77,508
Gross profit	10,856	11,031
Selling, general and administrative expenses	6,834	7,472
Operating profit	4,022	3,559
Non-operating income		
Rental income from buildings	24	62
Commission income	52	73
Surrender value of insurance policies	-	1
Subsidy income	3	4
Guarantee commission income	29	29
Subsidy income	86	21
Other	50	41
Total non-operating income	246	235
Non-operating expenses		
Interest expenses	39	51
Rental expenses	21	34
Other	34	32
Total non-operating expenses	94	118
Ordinary profit	4,174	3,675
Extraordinary income		
Gain on sale of non-current assets	0	1
Total extraordinary income	0	1
Extraordinary losses		
Loss on retirement of non-current assets	14	14
Loss on sale of non-current assets	3	10
Loss on withdrawal from employees' pension fund	-	38
Other	-	1
Total extraordinary losses	18	64
Profit before income taxes	4,156	3,612
Income taxes	1,792	1,731
Profit	2,363	1,880
Loss attributable to non-controlling interests	(2)	(7)
Profit attributable to owners of parent	2,366	1,888

Quarterly Consolidated Statements of Comprehensive Income (For the six months)

(Millions of yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Profit	2,363	1,880
Other comprehensive income		
Valuation difference on available-for-sale securities	3	13
Total other comprehensive income	3	13
Comprehensive income	2,367	1,894
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,369	1,901
Comprehensive income attributable to non-controlling interests	(2)	(7)

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Cash flows from operating activities		
Profit before income taxes	4,156	3,612
Depreciation	776	875
Amortization of goodwill	1,583	1,675
Increase (decrease) in provision for retirement benefits for directors (and other officers)	1	(4)
Increase (decrease) in retirement benefit liability	9	(2)
Increase (decrease) in provision for bonuses	(14)	124
Increase (decrease) in allowance for doubtful accounts	(0)	0
Loss (gain) on sale and retirement of non-current assets	17	23
Surrender value of insurance policies	-	(1)
Interest and dividend income	(4)	(3)
Interest expenses	39	51
Decrease (increase) in inventories	189	(460)
Decrease (increase) in trade receivables	2,122	455
Increase (decrease) in trade payables	(1,201)	892
Other, net	(26)	1,062
Subtotal	7,651	8,299
Interest and dividends received	4	3
Interest paid	(39)	(51)
Income taxes paid	(2,904)	(1,860)
Net cash provided by (used in) operating activities	4,711	6,391
Cash flows from investing activities		
Payments into time deposits	-	(1)
Purchase of property, plant and equipment	(1,087)	(1,239)
Proceeds from sale of property, plant and equipment	1	55
Purchase of intangible assets	(144)	(115)
Proceeds from collection of loans receivable	2	4
Payments of leasehold and guarantee deposits	(82)	(72)
Proceeds from refund of leasehold and guarantee deposits	61	34
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(759)
Purchase of shares of subsidiaries and associates	-	(7,500)
Payments for acquisition of businesses	(426)	(253)
Other, net	(5)	(59)
Net cash provided by (used in) investing activities	(1,681)	(9,905)

(Millions of yen)

	For the six months ended September 30, 2022	For the six months ended September 30, 2023
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-	7,500
Repayments of long-term borrowings	(4,547)	(4,493)
Redemption of bonds	(454)	(338)
Proceeds from disposal of treasury shares	172	168
Dividends paid	(527)	(640)
Proceeds from sale and leaseback transactions	138	-
Other, net	(4)	(25)
Net cash provided by (used in) financing activities	(5,223)	2,170
Net increase (decrease) in cash and cash equivalents	(2,193)	(1,343)
Cash and cash equivalents at beginning of period	16,516	18,596
Cash and cash equivalents at end of period	14,323	17,253

(4) Notes to Quarterly Financial Statements

Note on Assumptions for Going Concern

Not applicable

Note in the Event of Major Change in Shareholders' Equity

Not applicable

Material Subsequent Events

(Daiichi Sankyo Espha Co., Ltd. becomes an equity method affiliate)

On May 16, 2023, Qol Holdings resolved to acquire all shares (phased acquisition) of DAIICHI SANKYO ESPHA CO., LTD., and concluded the stock transfer agreement on the same date. Based on the stock transfer agreement, Qol Holdings acquired 30% of shares on October 1, 2023, making the company an equity method affiliate.

(1) Purpose of acquisition of shares

The purpose of this share acquisition is to contribute to medical care and business development by sharing Group information and know-how with DAIICHI SANKYO ESPHA CO., LTD., in order to develop high value-added pharmaceutical products and create products that meet customer needs, especially in the AG products. We also believe that efficient and reliable business operations will enable us to provide pharmaceutical products that contribute to people's health and peace of mind.

The Qol Group will continue to explore new business opportunities by integrating the businesses of these two companies in an effort to strengthen its ability to develop and stably supply pharmaceutical products. We will also maintain efforts aimed at expanding profitability in the Medical-Related Business, including Pharmacy Manufacturing, and in conjunction with our mainstay Pharmaceutical Business, we will develop and contribute to society as a Company providing comprehensive medical services through the combined efforts of the entire Group.

(2) Overview of the acquired company

Name:	DAIICHI SANKYO ESPHA CO., LTD.
Business:	Research, development, and sales of pharmaceuticals
Business scale:	Capital ¥450 million

(3) Date of share acquisition

October 1, 2023

(4) Number of shares held after acquisition, acquisition costs and percentage of voting rights after acquisition

a) Number of shares held after acquisition	5,400 shares
b) Acquisition costs after acquisition	¥7,500 million
c) Percentage of voting rights after acquisition	30%