

Summary of Financial Statements for the First Quarter of Fiscal Year Ending April 2018

[Japan GAAP] (Consolidated)

September 13, 2017

Name of listed company: **AIN HOLDINGS INC.**
Exchange listed on: First Section of Tokyo Stock Exchange and Sapporo Securities Exchange
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Date of filing quarterly securities report: September 14, 2017
Start of dividend payment: —
Supplementary documents for quarterly results: Yes
Quarterly results briefing: No

(Amounts are rounded down to the nearest million yen.)

1. Consolidated results for the first quarter of fiscal year ending April 30, 2018 (May 1, 2017 to July 31, 2017)

(1) Consolidated operating results

(Percentage figures show year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended July 31, 2017	66,095	14.3	3,963	73.7	4,135	74.0	2,120	54.6
Three months ended July 31, 2016	57,819	10.9	2,281	(15.8)	2,376	(17.7)	1,371	(10.5)

(Note) Comprehensive income: Three months ended July 31, 2017: ¥2,123 million (+53.4%)
Three months ended July 31, 2016: ¥1,384 million (-14.3%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended July 31, 2017	66.88	—
Three months ended July 31, 2016	43.25	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of July 31, 2017	155,698	60,717	39.0	1,912.69
As of April 30, 2017	156,323	60,178	38.4	1,895.63

(Reference) Shareholders' equity: As of July 31, 2017: ¥60,646 million As of April 30, 2017: ¥60,105 million

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	End of year	Full year
	Yen	Yen	Yen	Yen	Yen
Year ended April 30, 2017	—	0.00	—	50.00	50.00
Year ending April 30, 2018	—				
Year ending April 30, 2018 (forecast)		0.00	—	50.00	50.00

(Note) Revision to the most recently announced dividend forecasts: No

3. Consolidated financial forecasts for the fiscal year ending April 30, 2018 (May 1, 2017 to April 30, 2018)

(Percentage figures show year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First six months	129,400	10.7	6,700	32.7	6,900	29.1	3,600	26.1	109.76
Full year	267,500	7.8	16,600	14.0	17,000	12.7	8,900	12.0	262.63

(Note) Revision to the most recently announced consolidated financial forecasts: No

Earnings per share is calculated including new shares issued through a public offering (2,820,000) and a private placement (270,000). The Company plans to issue additional shares (450,000) through a private placement for a secondary offering using an over-allotment option, but the impact of those shares has not been factored into the earnings per share calculation as the payment date is October 3, 2017.

*Notes

(1) Major changes in subsidiaries during the period (changes in specified subsidiaries resulting from changes in scope of consolidation): No
Newly consolidated: – Excluded: –

(2) Application of specified accounting methods for the preparation of quarterly consolidated financial statements: Yes
(Note) For detail, please refer to “2. Quarterly consolidated financial statements and major notes (3) Notes on quarterly consolidated financial statements” on page 8 of the Attachment.

(3) Changes in accounting principles, changes in accounting estimates, and restatement of revisions

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|---|----|
| 1) Changes in accounting principles as a result of revisions to accounting standards, etc.: | No |
| 2) Changes in accounting principles other than 1): | No |
| 3) Changes in accounting estimates: | No |
| 4) Restatement of revisions: | No |

(4) Number of outstanding shares (common stock)

1) Number of outstanding shares (including treasury stock):	As of July 31, 2017	31,888,212 shares	As of April 30, 2017	31,888,212 shares
2) Number of shares held in treasury:	As of July 31, 2017	180,644 shares	As of April 30, 2017	180,644 shares
3) Average number of shares outstanding:	Three months ended July 31, 2017	31,707,568 shares	Three months ended July 31, 2016	31,707,568 shares

*This Summary of Financial Statements is outside the scope of quarterly review procedures.

*Statement regarding the proper use of financial forecasts and other special remarks

The above forecasts are calculated based on the information available as of the publication date of this material, and actual financial results may vary due to change in future economic conditions and others.

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1. Qualitative information on consolidated results for the period under review

(1) Consolidated operating results

During the first three months of the current fiscal year (May 1, 2017 to July 31, 2017), consumer spending in the Japanese economy rose at moderate pace, capital investment showed signs of a pickup and corporate earnings improved.

In this economic environment, the AIN HOLDINGS Group (the Group) worked to expand its business and increase earnings. Specifically, the Group opened new dispensing pharmacies and used M&A to expand the business. It also developed its urban drug and cosmetic store business.

In the first three months of the fiscal year, net sales increased 14.3% year on year to ¥66,095 million, operating income increased 73.7% to ¥3,963 million, ordinary income increased 74.0% to ¥4,135 million, and profit attributable to owners of parent increased 54.6% to ¥2,120 million.

Financial results by business segment are as follows.

(Dispensing pharmacy business)

In the dispensing pharmacy business, sales continued to rise at existing dispensing pharmacies, supported by growth in average sales per prescription.

To ensure our pharmacists and dispensing pharmacies fulfill their role at the heart of local communities, the Group continues to build links with local healthcare service providers, mainly in the area of home-based dispensing, step up the integration and continuous management of drug information using patient medication notebooks and other means, and promote wider use of generic drugs. In addition, we stepped up training for the 307 newly graduated pharmacists that joined the Group in April 2017 in order to enhance their skills as primary care pharmacists.

In business development, the Group continued to push ahead with business expansion by opening new dispensing pharmacies and through M&A deals.

As a result, for the first three months of the fiscal year, the dispensing pharmacy business reported higher sales and profits, with sales rising 14.6% year on year to ¥58,929 million and segment income increasing 40.3% to ¥4,821 million.

During the period under review, the Group opened 11 new dispensing pharmacies, including those acquired through M&A deals, and closed 23 pharmacies, resulting in a total of 1,054.

(Drug and cosmetic store business)

In the drug and cosmetic store business, the market environment remained challenging due to a narrowing competitive gap between companies in the sector and the emergence of new competitors from sector consolidation and realignment that also extends to other business sectors.

Against this backdrop, the Group continued to open *ainz & tulpe* urban drug stores and worked to make stores more appealing by refurbishing existing stores and strengthening merchandise lineups, particularly drug and cosmetics products. Earnings are also improving, supported by an increase in the gross margin due to active efforts to develop *LIPS and HIPS, cocodecica* and other proprietary brands, and by improvements in business efficiency.

As a result, for the first three months of the fiscal year, the drug and cosmetic store business reported an increase in sales of 11.1% year on year to ¥5,827 million. However, segment income was ¥37 million, compared with segment loss of ¥194 million in the same period a year earlier.

During the period under review, there were no store openings or closures, resulting in a total of 52 drug stores at the end of the period.

(Other businesses)

Net sales from other businesses rose 18.0% year on year to ¥1,338 million and segment loss was ¥238 million compared with the loss of ¥419 million a year earlier.

(2) Consolidated financial position

The balance of total assets at the end of the first quarter decreased by ¥625 million from the end of the previous fiscal year to ¥155,698 million.

That mainly reflected an increase in inventories related to business expansion through new store openings and M&A, against decreases in notes and accounts receivable and goodwill.

The balance of liabilities decreased ¥1,163 million to ¥94,981 million, mainly reflecting an increase in accounts payable and decreases in accrued income taxes and the balance of long-term debt.

The balance of short- and long-term debts decreased by ¥955 million to ¥24,896 million.

Total net assets increased by ¥538 million to ¥60,717 million and the shareholders' equity ratio improved 0.6 percentage points to 39.0%.

(3) Forecast of consolidated financial results and other forward-looking information

The Group has made no change to its earnings forecasts for the first six months of the fiscal year and for the full fiscal year, announced on June 6, 2017.

2. Quarterly consolidated financial statements and major notes**(1) Quarterly consolidated balance sheet**

(Thousand yen)

	Fiscal year ended April 30, 2017 (As of April 30, 2017)	Three months ended July 31, 2017 (As of July 31, 2017)
Assets		
Current assets		
Cash on hand and in banks	29,775,207	29,500,303
Notes and accounts receivable	9,990,401	9,656,541
Merchandise	11,402,078	12,426,957
Supplies	266,095	261,270
Deferred tax assets	1,166,620	1,302,161
Short-term loans	632,826	658,488
Other accounts receivable	9,402,024	8,780,523
Other current assets	2,829,934	3,010,145
Allowance for doubtful accounts	(44,443)	(44,376)
Total current assets	65,420,745	65,552,014
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	15,365,264	15,342,297
Land	9,958,446	9,871,918
Other property, plant and equipment, net	3,140,296	3,015,124
Total property, plant and equipment	28,464,007	28,229,340
Intangible fixed assets		
Goodwill	40,939,448	40,438,300
Other intangible fixed assets	2,170,041	2,144,943
Total intangible fixed assets	43,109,490	42,583,243
Investments and other assets		
Investment securities	2,435,333	2,476,295
Deferred tax assets	2,167,711	2,125,340
Deposits and guarantees	10,443,221	10,763,278
Other investments and other assets	4,595,122	4,281,071
Allowance for doubtful accounts	(312,044)	(312,044)
Total investments and other assets	19,329,345	19,333,943
Total fixed assets	90,902,843	90,146,527
Total assets	156,323,588	155,698,542

(Thousand yen)

	Fiscal year ended April 30, 2017 (As of April 30, 2017)	Three months ended July 31, 2017 (As of July 31, 2017)
Liabilities		
Current liabilities		
Accounts payable	39,325,588	41,779,744
Short-term debt	7,596,939	8,520,056
Accrued income taxes	2,898,695	1,785,632
Deposits received	14,223,768	14,255,391
Allowance for bonuses to employees	1,903,976	1,648,910
Allowance for bonuses to directors	16,090	6,633
Reserve for reward obligations	410,502	410,282
Provision for sales returns	14,165	9,362
Other current liabilities	6,566,001	5,299,139
Total current liabilities	72,955,729	73,715,153
Long-term liabilities		
Long-term debt	18,254,657	16,376,320
Net defined benefit liability	2,331,956	2,312,252
Other long-term liabilities	2,602,261	2,577,417
Total long-term liabilities	23,188,874	21,265,989
Total liabilities	96,144,603	94,981,143
Net assets		
Shareholders' equity		
Common stock	8,682,976	8,682,976
Capital surplus	6,367,844	6,367,844
Retained earnings	45,286,878	45,822,181
Treasury stock	(419,598)	(419,598)
Total shareholders' equity	59,918,101	60,453,404
Accumulated other comprehensive income		
Unrealized holding gains on securities	86,407	102,717
Remeasurements of defined benefit plans	101,414	90,639
Total accumulated other comprehensive income	187,821	193,356
Non-controlling interests	73,061	70,637
Total net assets	60,178,984	60,717,398
Total liabilities and net assets	156,323,588	155,698,542

(2) Quarterly consolidated statements of income and comprehensive income**Quarterly consolidated statement of income**

	(Thousand yen)	
	Three months ended July 31, 2016 (May 1, 2016 to July 31, 2016)	Three months ended July 31, 2017 (May 1, 2017 to July 31, 2017)
Net sales	57,819,476	66,095,226
Cost of sales	48,865,278	55,034,844
Gross profit	8,954,198	11,060,382
Selling, general and administrative expenses	6,672,530	7,096,849
Operating income	2,281,667	3,963,533
Non-operating income		
Interest income	16,586	16,884
Dividend income	20,848	19,210
Commissions received	8,628	20,052
Real estate rental revenue	57,203	59,900
Consignment income	34,877	46,847
Other non-operating income	47,662	102,235
Total non-operating income	185,805	265,131
Non-operating expenses		
Interest expenses	32,772	33,725
Losses on sales of accounts receivables	15,862	17,031
Real estate rental expenses	22,242	25,079
Other non-operating expenses	20,251	17,037
Total non-operating expenses	91,128	92,874
Ordinary income	2,376,345	4,135,790
Extraordinary income		
Gain on sales of fixed assets	3,513	1,789
Gain on sales of investment securities	150,400	248
Insurance income	36,908	17,881
Other extraordinary income	—	11,298
Total extraordinary income	190,821	31,217
Extraordinary losses		
Losses on disposal and sales of fixed assets	58,411	71,702
Directors' retirement benefits	2,931	70,000
Other extraordinary losses	23,726	41,794
Total extraordinary losses	85,068	183,496
Profit before income taxes	2,482,098	3,983,511
Income taxes	1,116,690	1,865,254
Profit	1,365,407	2,118,256
Profit attributable to non-controlling interests	(5,998)	(2,424)
Profit attributable to owners of parent	1,371,406	2,120,681

Quarterly consolidated statement of comprehensive income

(Thousand yen)

	Three months ended July 31, 2016 (May 1, 2016 to July 31, 2016)	Three months ended July 31, 2017 (May 1, 2017 to July 31, 2017)
Profit	1,365,407	2,118,256
Other comprehensive income:		
Unrealized holding gains on securities	27,253	16,310
Remeasurements of defined benefit plans, net of tax	(8,171)	(10,774)
Total other comprehensive income	19,082	5,535
Comprehensive income	1,384,490	2,123,792
Comprehensive income attributable to owners of parent	1,390,488	2,126,216
Comprehensive income attributable to non-controlling interests	(5,998)	(2,424)

(3) Notes on quarterly consolidated financial statements

(Notes on the premise of a going concern)

There are no applicable matters to be reported.

(Notes on significant changes in the amount of shareholders' equity)

There are no applicable matters to be reported.

(Application of specified accounting methods for the preparation of quarterly consolidated financial statements)

To calculate tax expenses, the effective tax rate on income before income taxes for the consolidated fiscal year after the application of tax effect accounting is reasonably estimated and the estimated rate is applied to income before income taxes for the quarterly period.

(Segment information, etc.)

I Three months ended July 31, 2016 (May 1, 2016 to July 31, 2016)

1. Net sales and income (loss) by reportable segment

(Thousand yen)

	Reportable segments				Adjustments (Note) 1	Carried on quarterly consolidated statements of income (Note) 2
	Dispensing pharmacy	Drug and cosmetic store	Other	Total		
Sales						
(1) Sales to third parties	51,438,259	5,246,834	1,134,382	57,819,476	—	57,819,476
(2) Intersegment sales	—	—	94,232	94,232	(94,232)	—
Total sales	51,438,259	5,246,834	1,228,614	57,913,708	(94,232)	57,819,476
Segment income (loss)	3,437,257	(194,511)	(419,624)	2,823,121	(446,775)	2,376,345

Notes: 1. The adjustment of ¥(446,775) thousand to segment income (loss) includes ¥822,252 thousand in corporate expenses, ¥(359,661) thousand in (income) loss that is not allocated to reportable segments, and ¥(15,816) thousand in eliminations due to intersegment transactions.

Overall group expenses consist mainly of expenses associated with the administrative divisions of the parent company, such as general affairs and accounting divisions.

2. Segment income (loss) is adjusted with the ordinary income of quarterly consolidated statements of income.

2. Impairment losses on fixed assets and goodwill by reportable segment

[Significant impairment losses on fixed assets]:

There are no applicable matters to be reported.

[Significant changes in the amount of goodwill]:

There are no applicable matters to be reported.

II Three months ended July 31, 2017 (May 1, 2017 to July 31, 2017)

1. Net sales and income (loss) by reportable segment

(Thousand yen)

	Reportable segments				Adjustments (Note) 1	Carried on quarterly consolidated statements of income (Note) 2
	Dispensing pharmacy	Drug and cosmetic store	Other	Total		
Sales						
(1) Sales to third parties	58,929,336	5,827,118	1,338,771	66,095,226	—	66,095,226
(2) Intersegment sales	—	—	84,824	84,824	(84,824)	—
Total sales	58,929,336	5,827,118	1,423,595	66,180,050	(84,824)	66,095,226
Segment income (loss)	4,821,691	37,737	(238,946)	4,620,482	(484,691)	4,135,790

Notes: 1. The adjustment of ¥(484,691) thousand to segment income (loss) includes ¥930,609 thousand in corporate expenses, ¥(440,189) thousand in (income) loss that is not allocated to reportable segments, and ¥(5,728) thousand in eliminations due to intersegment transactions.

Overall group expenses consist mainly of expenses associated with the administrative divisions of the parent company, such as general affairs and accounting divisions.

2. Segment income (loss) is adjusted with the ordinary income of quarterly consolidated statements of income.

2. Impairment losses on fixed assets and goodwill by reportable segment

[Significant impairment losses on fixed assets]:

There are no applicable matters to be reported.

[Significant changes in the amount of goodwill]:

There are no applicable matters to be reported.

(Significant subsequent events)

Issue of new shares, disposal of treasury stock and sale of shares through secondary offering

At a meeting on August 22, 2017, the Board of Directors passed a resolution approving the issue of new shares through a public offering and a private placement, the disposal of treasury stock and the sale of shares through a secondary offering. On September 6, 2017, the Company received payment for the newly issued shares and the treasury stock detailed in notes 1-3 below.

1. Issue of new shares through public offering (general public offering)

(1) Type and number of shares issued:	2,820,000 ordinary shares
(2) Issue price:	¥7,760 per share
(3) Total value of shares issued:	¥21,883,200,000
(4) Amount paid:	¥7,440 per share
(5) Total amount paid:	¥20,980,800,000
(6) Increase in capital and capital reserves:	Increase in capital ¥10,490,400,000 Increase in capital reserves ¥10,490,400,000
(7) Payment date:	September 6, 2017

2. Disposal of treasury stock through public offering (general public offering)

(1) Type and number of shares sold:	180,000 ordinary shares
(2) Selling price:	¥7,440 per share
(3) Total amount paid:	¥1,339,200,000
(4) Payment date:	September 6, 2017

3. Issue of new shares through private placement with Seven & i Holdings Co., Ltd. as the allottee

(1) Type and number of shares issued:	270,000 ordinary shares
(2) Amount paid:	¥7,760 per share
(3) Total amount paid:	¥2,095,200,000
(4) Increase in capital and capital reserves:	Increase in capital ¥1,047,600,000 Increase in capital reserves ¥1,047,600,000
(5) Payment date:	September 6, 2017

4. Sale of shares through secondary offering (over-allotment option)

(1) Type and number of shares sold:	450,000 ordinary shares
(2) Selling price:	¥7,760 per share
(3) Total value of shares sold:	¥3,492,000,000
(4) Transfer date:	September 7, 2017

5. Issue of new shares through private placement with Nomura Securities Co., Ltd. as the allottee

(1) Type and number of shares issued:	450,000 ordinary shares
(2) Amount paid:	¥7,440 per share
(3) Total amount paid (upper limit):	¥3,348,000,000
(4) Increase in capital and capital reserves:	Increase in capital (upper limit): ¥1,674,000,000 Increase in capital reserves (upper limit): ¥1,674,000,000
(5) Payment date:	October 3, 2017

6. Uses of funds

The Company estimates maximum proceeds from the general public offerings and private placements will total ¥27,623,200,000. Of that amount, the Company plans to use ¥13,400,000,000 by April 30, 2019 for capital investment, such as opening new stores and refurbishing existing stores in the Group's dispensing pharmacy and drug and cosmetic store businesses and to install and upgrade IT systems at the head office and other business sites. The Company plans to use the remaining amount by April 30, 2020 to partially repay borrowings from financial institutions. The borrowed funds were used to acquire shares when some Group companies were converted to subsidiaries, as well as for working capital and capital investment.