

Summary of Consolidated Financial Results for the Third Quarter of Fiscal 2014

February 3, 2014

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Quarterly Supplemental Explanatory Material Prepared: None

Quarterly Results Briefing Held: None

(Amounts are truncated to the nearest million yen.)

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 2014

(from Apr 1, 2013 to Dec 31, 2013)

(1) Consolidated Results of Operations (Cumulative)

(Percentages indicate the rate of change compared with the preceding fiscal year.)

	Net Sales		Operating Income		Ordinary Income		Current Net Income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Third Quarter of Fiscal 2014	898,889	4.2	10,432	22.2	15,102	15.7	9,134	16.3
Third Quarter of Fiscal 2013	862,368	3.0	8,539	50.1	13,051	23.8	7,852	17.2

(Note) Comprehensive income: Third Quarter of Fiscal 2014: 9,508 million yen (11.0 %); Third Quarter of Fiscal 2013: 8,567 million yen (28.9 %)

	Current Net Income per Share	Current Net Income per Share - Diluted
	Yen	Yen
Third Quarter of Fiscal 2014	122.95	122.92
Third Quarter of Fiscal 2013	107.58	—

(Note) Since the Company changed its method of representation of financial statements since the consolidated first quarter of the fiscal year ending March 2014, financial data for the third quarter of the fiscal year ended March 2013 provide the reclassified figures and percent changes from the previous year by retroactively applying the changes in the method of representation. Operating income before reclassification was 10,645 million yen.

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholder's Equity Ratio
	Million yen	Million yen	%
Third Quarter of Fiscal 2014	618,080	146,467	23.7
Fiscal 2013	562,668	134,272	23.9

(Reference) Shareholder's equity: Third Quarter of Fiscal 2014: 146,448 million yen; Fiscal 2013 : 134,272 million yen

2. Historical Payment of Dividends

	Annual Cash Dividend per Share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal 2013	—	8.00	—	—	16.00
Fiscal 2014	—	10.00	—	—	—
Fiscal 2013 (Projected)	—	—	—	10.00	20.00

(Note) Revision of dividend forecast in the current quarter: None

Breakdown of cash dividends for the first half of fiscal 2014 Commemorative dividend: 2yen Ordinary dividend: 8yen

3. Consolidated Projected Results of Operations during Fiscal Year 2014 (from April 1, 2013 to March 31, 2014)

(Percentages indicate the rate of change compared with the preceding fiscal year.)

	Net Sales		Operating Income		Ordinary Income		Current Net Income		Current Net Income per Share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Year-end	1,181,000	3.6	14,700	-7.4	20,400	4.2	11,600	0.6	155.45

(Note) 1. Revision of consolidated projected results of operations in the current quarter: None

2. The Company changed its method of representation of financial statements since the consolidated first quarter of the fiscal year ending March 2014. If operating income for the full-year of the fiscal year ended March 2013 was calculated based on the reclassified figures, the year-on-year rate of operating income for the full-term would be 11.8%, instead of "a minus 7.4%" as indicated above.

※ Notes

(1) Changes in material subsidiaries during the third quarter of fiscal 2014: N.A.

(Changes in special subsidiaries accompanying a change in the scope of consolidation)

Inclusion — (—) Exclusion — (—)

(2) Application of accounting process which is peculiar to the compilation of consolidated quarterly financial statements: N.A.

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

(i) Changes in accounting policies with revisions in the accounting standards, etc.: N.A

(ii) Changes in accounting policies other than those under the item (i): N.A.

(iii) Changes in the accounting estimates: N.A

(iv) Correction and Restatement: N.A

(4) Number of shares outstanding (Common stock)

(i) Number of shares outstanding at end of fiscal year
(Including common stock for treasury)

(ii) Number of treasury stocks at end of fiscal year

(iii) The average number of shares during the third quarter

Third Quarter of FY2014	78,270,142	FY2013	78,270,142
Third Quarter of FY2014	2,880,975	FY2013	7,690,841
Third Quarter of FY2014	74,293,064	Third Quarter of FY2013	72,993,754

* Indicates quarterly review procedure implementation status

This quarterly earnings report is exempt from the quarterly review procedure under the Financial Instruments and Exchange Act. The quarterly financial statements are under the quarterly review procedure process at the time of disclosure of this report.

* Explanation of Appropriate Use of Performance Projections and Other Items Requiring Special Description

Any forward-looking statements contained in this report, including performance projections, are based on information currently available to the Company as well as certain assumptions that the Company determined to be rational at the time of the release of this report, and it is not intended that the Company undertake to achieve such results. Actual results may differ significantly from the projections above, due to a variety of factors.

Please refer to Qualitative Information on Projected Consolidated Results of Operations on page 3 of this report (the Attached Document) for the suppositions on which the performance projections are based and points that have to be borne in mind for the use of such projections.

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1. Qualitative Information on Financial Results for the Third Quarter of Fiscal 2014

(1) Explanation of Management Results

During the cumulative third quarter under review, the market for prescription pharmaceuticals grew by only 2.7% on a year-on-year basis (estimates by Crecon Research & Consulting Inc.). Nevertheless, the Group successfully achieved higher growth than the market average as a result of boldly promoting proposal-based marketing and sales toward the achievement of the Group's medium-term management plan "Total Commitment to Good Health 14-16." To cite a specific example, the Company's pharmaceutical wholesaling business proposed new service menus by capitalizing on the Company's unique customer support systems that demonstrate our competitive advantage.

As a result, the Company's operating results for the consolidated cumulative third quarter of the fiscal year ending March 2014 recorded 898,889 million yen for net sales (an increase of 4.2% on a year-on-year basis), 10,432 million yen for operating income (an increase of 22.2% on a year-on-year basis), 15,102 million yen for ordinary income (an increase of 15.7% on a year-on-year basis), and 9,134 million yen for net income (an increase of 16.3% on a year-on-year basis).

Meanwhile, the "loss before deduction of temporary consumption tax payment (non-deductible consumption tax, etc.)" that had traditionally been booked under the classification of "non-operating expenses" has started to be posted under a new accounting treatment employed from the first quarter of the consolidated fiscal year ending March 2014 as "selling, general and administrative (SG&A) expenses." For the purpose of year-on-year comparison, the comparative figure of the previous year has been re-calculated based on the new accounting treatment.

The outline of operating results by business segment is as follows:

In the pharmaceutical wholesaling operations, the Company strictly operated a price lock system to secure appropriate profits, and tackled improvements in relation to distribution problems, including total value transactions and the issue of the gap between the NHI price and the market prices as well as the problem of provisional shipping with the pricing yet to be negotiated. The Company has also promoted the expansion of fee-based businesses resulting from the sufficient use of Meissa and customer support systems, as well as cost reduction activities within the companies of the whole Group. As a result, the net sales were 864,778 million yen, an increase by 4.1% against the same period of the preceding year and operating income were 9,269 million yen, an increase by 21.2% on a year-on-year basis.

In the field of dispensing pharmacy operations, the Company constantly expanded its business scale through setting up new dispensing pharmacies, however, the increased expenses for setting up new pharmacies and employing pharmacists have weighed on profits. As a result, the net sales were 64,214 million yen, an increase by 7.2% against the same period of the preceding year and operating income were 1,032 million yen, an increase by 11.2% on a year-on-year basis.

In the SMO operations, net sales for the third quarter of fiscal 2014 amounted to 389 million yen (a year-on-year increase of 43.9%) and segment income (operating income) was 235 million yen (a year-on-year increase of 123.4%), assisted by a constant increase in commissioned business.

In the information equipment sales operations, net sales for the third quarter of fiscal 2014 amounted to 1,055 million yen (a year-on-year increase of 9.2%) and segment loss (operating loss) was 17 million yen.

(Note) Segment sales include inter-segment transactions.

(2) Explanation of Financial Position

(Assets)

Current assets as of the end of December 2013 increased 10.3% from the end of the previous consolidated fiscal year to 452,696 million yen, due mainly to an increase in notes and accounts receivable-trade of 33,575 million yen, and an increase in merchandise and finished goods of 14,945 million yen, despite a decline in cash and deposits of 8,659 million yen.

Noncurrent assets as of the end of December 2013 increased 8.5% compared with the end of the preceding consolidated fiscal year to 165,383 million yen, due mainly to an increase in property, plant and equipment of 15,160 million yen, and a decrease in intangible assets of 1,480 million yen.

As a result, consolidated net assets rose 9.8% from a year earlier, to 618,080 million yen.

(Liabilities)

Current liabilities increased 8.5% from the end of the previous consolidated fiscal year to 426,962 million yen with an increase in notes and accounts payable-trade of 40,805 million yen, and a decrease in income taxes payable of 5,173 million yen.

Noncurrent liabilities increased 28.4% from the end of the previous consolidated fiscal year, to 44,650 million yen, due to an increase in long-term loans payable and lease obligations by 3,329 million yen and by 5,951 million yen.

As a result, total liabilities increased 10.1% year-on-year to 471,612 million yen.

(Net assets)

Total net assets were up 9.1% from the end of the previous consolidated fiscal year, to 146,467 million yen, with an increase in capital surplus of 1,670 million yen, and an increase in retained earnings of 4,538 million yen and a decrease in treasury stocks of 5,592 million yen.

(3) Qualitative Information on Projected Consolidated Results of Operations

There are no changes in the projected consolidated results of operations for the full-term of fiscal 2014 published on May 10, 2013. Meanwhile, the “loss before deduction of temporary consumption tax payment (non-deductible consumption tax, etc.)” that had traditionally been booked under the classification of “non-operating expenses” has started to be posted under a new accounting treatment employed from the first quarter of the consolidated fiscal year ending March 2014 as “selling, general and administrative (SG&A) expenses.” If operating income for the full-year of the fiscal year ended March 2013 was calculated based on the reclassified figures, the year-on-year rate of operating income for the full-term would be 11.8%, instead of “a minus 7.4%” as indicated above.

2. Matters Concerning Summary Information (Notes)

(1) Changes in Material Subsidiaries during the Third Quarter of Fiscal 2014

Not Applicable.

(2) Application of Accounting Process which is Peculiar to the Compilation of Consolidated Quarterly Financial Statements

Not Applicable.

(3) Changes in Accounting Policies and Changes in Accounting Estimates, and Correction and Restatement

Not Applicable.

(4) Additional Information

(Change in the Accounting Treatment)

The “loss before deduction of temporary consumption tax payment (non-deductible consumption tax, etc.)” that had traditionally been booked under the classification of “non-operating expenses” has started to be posted under a new accounting treatment employed from the first quarter of the consolidated fiscal year ending March 2014 as “selling, general and administrative (SG&A) expenses.”

The Company has thus far booked expenses such as non-deductible consumption tax as a “loss before deduction of temporary consumption tax payment” under the classification of non-operating expenses because the dispensing pharmacy business had traditionally accounted for a small proportion of total consolidated operations, and accordingly the ratio of such expenses to net sales had been relatively low.

However, judging from the growing scale of the dispensing pharmacy business in the TOHO Group in recent years and the fact that the consumption tax rate is highly likely to be raised in and after April 2014 in a phased manner, the significance of any non-deductible consumption tax, etc., in terms of its monetary amount is expected to increase from this point onward. Furthermore, as the Company has determined that the operating income into which such expenses are factored is more useful as a management indicator, it has decided to employ from the first quarter of the fiscal year ending March 2014 a new accounting treatment under which such expenses are posted as selling, general and administrative (SG&A) expenses.

The Company has reclassified the consolidated financial statements for the prior consolidated fiscal year to reflect the change in representation.

As a result, consolidated operating income for the cumulative third quarter of the previous year decreased by 2,105 million yen compared with that before reclassification of the representation method. Meanwhile, neither the ordinary income nor the current net income is affected by the change.

3. Quarterly Consolidated Financial Statements
 (1) Quarterly Consolidated Balance Sheets

(Million of yen)

	Fiscal 2013 (As of March 31, 2013)	End of consolidated this third quarter (As of December 31, 2013)
Assets		
Current assets		
Cash and deposits	41,119	32,460
Notes and accounts receivable-trade	263,136	296,712
Short-term investment securities	502	502
Merchandise and finished goods	72,356	87,302
Other	33,729	36,558
Allowance for doubtful accounts	-557	-838
Total current assets	410,286	452,696
Noncurrent assets		
Property, plant and equipment	70,710	85,871
Intangible assets		
Goodwill	12,660	10,942
Other	3,026	3,264
Total intangible assets	15,686	14,206
Investments and other assets		
Other	67,966	66,981
Allowance for doubtful accounts	-1,981	-1,674
Total investments and other assets	65,985	65,306
Total noncurrent asset	152,382	165,383
Total assets	562,668	618,080

(Million of yen)

	Fiscal 2013 (As of March 31, 2013)	End of consolidated this third quarter (As of December 31, 2013)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	363,606	404,411
Short-term loans payable	9,884	9,610
Current portion of bonds	10	—
Income taxes payable	6,465	1,292
Provision for bonuses	3,636	1,767
Provision for directors' bonuses	105	66
Provision for sales returns	299	310
Other	9,604	9,502
Total current liabilities	393,611	426,962
Noncurrent liabilities		
Long-term loans payable	10,474	13,803
Provision for retirement benefits	2,074	1,541
Asset retirement obligations	879	1,044
Negative goodwill	1,177	618
Other	20,178	27,642
Total noncurrent liabilities	34,785	44,650
Total liabilities	428,396	471,612
Net assets		
Shareholders' equity		
Capital stock	10,649	10,649
Capital surplus	46,144	47,814
Retained earnings	78,100	82,639
Treasury stock	-9,030	-3,437
Total shareholders' equity	125,864	137,666
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,716	13,091
Revaluation reserve for land	-4,308	-4,308
Total accumulated other comprehensive income	8,407	8,782
Subscription rights to shares	—	18
Total net assets	134,272	146,467
Total liabilities and net assets	562,668	618,080

(2) Quarterly Consolidated Profit and Loss Statement and Quarterly Consolidated Statements of Comprehensive Income

Quarterly Consolidated Profit and Loss Statement

[Cumulative Period for the Consolidated Third Quarter]

(Million of yen)

	Cumulative period for previous consolidated third quarter (from April 1, 2012 to December 31, 2012)	Cumulative period for this consolidated third quarter (from April 1, 2013 to December 31, 2013)
Net sales	862,368	898,889
Cost of sales	787,169	819,305
Gross profit	75,199	79,584
Selling, general and administrative expenses		
Directors' compensations, salaries and allowances	34,774	35,469
Provision for bonuses	1,735	2,017
Provision for directors' bonuses	74	81
Provision for accrued retirement benefits	208	170
Welfare expenses	5,696	5,879
Vehicle expenses	1,157	1,196
Provision of allowance for doubtful accounts	-105	-102
Depreciation	2,138	2,495
Amortization of goodwill	1,805	1,789
Rent expenses	5,302	5,277
Taxes and dues	879	888
Expense before deduction of the temporary consumption tax payment	2,105	2,303
Other	10,886	11,684
Total selling, general and administrative expenses	66,659	69,152
Operating income	8,539	10,432
Non-operating income		
Interest income	94	56
Dividend income	1,006	1,026
Commission fee	2,142	2,244
Amortization of negative goodwill	689	582
Equity in earnings of affiliates	54	59
Other	1,076	1,607
Total non-operating income	5,063	5,576
Non-operating expenses		
Interest expenses	297	311
Rent expenses on real estates	—	400
Other	253	193
Total non-operating expenses	551	905
Ordinary income	13,051	15,102

(Million of yen)

	Cumulative period for previous consolidated third quarter (from April 1, 2012 to December 31, 2012)	Cumulative period for this consolidated third quarter (from April 1, 2013 to December 31, 2013)
Extraordinary income		
Gain on sales of noncurrent assets	274	351
Gain on redemption of investment securities	258	—
Other	246	31
Total extraordinary income	779	383
Extraordinary loss		
Loss on disposal of noncurrent assets	132	264
Other	35	15
Total extraordinary loss	167	279
Income before income taxes	13,663	15,206
Income taxes-current	5,486	4,899
Income taxes-deferred	323	1,172
Total income taxes	5,810	6,072
Income before minority interests	7,852	9,134
Current net income	7,852	9,134

Quarterly Consolidated Statements of Comprehensive Income
[Cumulative Period for the Consolidated Third Quarter]

(Million of yen)

	Cumulative period for previous consolidated third quarter (from April 1, 2012 to December 31, 2012)	Cumulative period for this consolidated third quarter (from April 1, 2013 to December 31, 2013)
Income before minority interests	7,852	9,134
Other comprehensive income		
Valuation difference on available-for-sale securities	705	374
Share of other comprehensive income of associates accounted for using equity method	9	0
Total other comprehensive income	715	374
Comprehensive income	8,567	9,508
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	8,567	9,508
Comprehensive income attributable to minority interests	—	—

(3) Notes of Quarterly Consolidated Financial Statements

(Notes Concerning Premise of a Going Business)

Not applicable.

(Notes concerning Material Changes in Shareholders' Equity)

Cumulative period for this consolidated third quarter (from April 1, 2013 to December 31, 2013)

Not applicable

(Segmental Information)

I Cumulative period for previous consolidated third quarter (from April 1, 2012 to December 31, 2012)

1. Information about sales and profit or loss by reportable segment

	Reportable segments					Adjustments (million yen) (Note 1)	Amount on the quarterly consolidated profit and loss statement (million yen) (Note2)
	Pharmaceutical Wholesaling (million yen)	Dispensing Pharmacy (million yen)	SMO (million yen)	Information equipment sales (million yen)	Total (million yen)		
Net Sales							
(1) Net sales to external customers	801,427	59,900	270	769	862,368	—	862,368
(2) Inter-segment internal net sales or transfers	29,133	13	—	196	29,343	-29,343	—
Total	830,561	59,913	270	966	891,712	-29,343	862,368
Segment income or loss	7,646	928	105	-41	8,639	-99	8,539

(Note) 1. Adjustments represent elimination of internal transactions and unrealized profit.

2. The amounts for income or losses in the reportable segments were subsequently adjusted with the amount of operating income on the quarterly consolidated profit and loss statement.

3. As described in (4) Additional Information (Change in the Accounting Treatment) of “2. Matters Concerning Summary Information (Notes)”, the “loss before deduction of temporary consumption tax payment (non-deductible consumption tax, etc.)” that had traditionally been booked under the classification of “non-operating expenses” has started to be posted under a new accounting treatment employed from the first quarter of the consolidated fiscal year ending March 2014 as “selling, general and administrative (SG&A) expenses.”

To reflect the change in the representation method above, the segment income or loss was reclassified as mentioned above.

2. Information about impairment losses on noncurrent assets or goodwill by each business segment

Not applicable.

II Cumulative period for this consolidated third quarter (from April 1, 2013 to December 31, 2013)

1. Information about sales and profit or loss by reportable segment

	Reportable segments					Adjustments (million yen) (Note 1)	Amount on the quarterly consolidated profit and loss statement (million yen) (Note2)
	Pharmaceutical Wholesaling (million yen)	Dispensing Pharmacy (million yen)	SMO (million yen)	Information equipment sales (million yen)	Total (million yen)		
Net Sales							
(1) Net sales to external customers	833,486	64,199	389	813	898,889	—	898,889
(2) Inter-segment internal net sales or transfers	31,292	15	—	242	31,549	-31,549	—
Total	864,778	64,214	389	1,055	930,439	-31,549	898,889
Segment income or loss	9,269	1,032	235	-17	10,519	87	10,432

(Note) 1. Adjustments represent elimination of internal transactions and unrealized profit.

2. The amounts for income or losses in the reportable segments were subsequently adjusted with the amount of operating income on the quarterly consolidated profit and loss statement.

2. Information about impairment losses on noncurrent assets or goodwill by each business segment

Not applicable