

Summary of Consolidated Financial Results of Fiscal Year Ended March 31, 2020

May 14, 2020

Name of Listed Company: TOHO HOLDINGS CO., LTD. Listed: Tokyo Stock Exchange
 Securities Code Number: 8129 URL: <http://www.tohohd.co.jp/en/>
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Planned Date of General Meeting of Shareholders: June 26, 2020 Planned Date of Dividends Payment: June 10, 2020

Planned Date of Filing of Annual Securities: June 26, 2020

Supplemental explanatory materials for the Financial Results: Available

Financial results briefing: Hold (For institutional investors and analysts)

(Amounts are truncated to the nearest million yen.)

1. Consolidated Results of Operations for the March 2020 (from April 1, 2019 to March 31, 2020)

(1) Consolidated Results of Operations

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

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY Ended March 2020	1,263,708	3.4	17,590	11.4	23,732	10.6	16,230	17.1
FY Ended March 2019	1,222,199	0.7	15,783	-17.0	21,452	-14.3	13,863	-3.6

(Note) Comprehensive income: FY Ended March 2020: 14,414 million yen (26.0%); FY Ended March 2019: 11,440 million yen (-48.6%)

	Profit per Share	Profit per Share - Diluted	Return on Equity	Ordinary Income/ Total Assets	Operating Income/ Net Sales
	Yen	Yen	%	%	%
FY Ended March 2020	233.34	208.55	7.3	3.6	1.4
FY Ended March 2019	207.71	177.78	6.6	3.3	1.3

(Reference) Equity in earnings of an affiliate: FY Ended March 2020: 55 million yen; FY Ended March 2019: 53 million yen

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholder's Equity Ratio	Net Assets per Share
	Million yen	Million yen	%	Yen
FY Ended March 2020	670,827	231,009	34.4	3,273.86
FY Ended March 2019	663,727	213,848	32.2	3,135.45

(Reference) Shareholder's equity: FY Ended March 2020: 230,842 million yen; FY Ended March 2019: 213,680 million yen

(3) Consolidated Cash Position

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
	Million yen	Million yen	Million yen	Million yen
FY Ended March 2020	10,815	-15,664	9,479	80,013
FY Ended March 2019	13,428	-7,649	5,329	75,382

2. Payment of Dividends

	Annual Cash Dividend per Share					Total Dividends	Payout Ratio (Consolidated)	Dividends per Net Assets (Consolidated)
	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY Ended March 2019	—	15.00	—	15.00	30.00	2,020	14.4	1.0
FY Ended March 2020	—	20.00	—	20.00	40.00	2,815	17.1	1.2
FY Ending March 2021 (Projected)	—	—	—	—	—	—	—	—

- Breakdown of cash dividends for the FY ended March 2020: Commemorative dividend: 10yen; Ordinary dividend: 30yen
- The amount of dividends for the fiscal year ending March 31, 2021 has not yet been determined since it is difficult to forecast financial results for the fiscal year at this point.

3. Consolidated Projected Results of Operations during Fiscal Year Ending March 2021 (from April 1, 2020 to March 31, 2021)

The Consolidated Projected Operations Results during Fiscal Year Ending March 2021 is on hold, since it is difficult to forecast the impact of the spread of novel coronavirus infections (COVID-19) at this point. The results will be disclosed promptly when a rational estimation becomes available.

※ Notes

- (1) Changes in material subsidiaries during the period (changes in special subsidiaries accompanying with a change in the scope of consolidation) : N.A.
 Inclusion —(—) Exclusion —(—)
- (2) Changes in accounting policies and accounting estimates, and correction and restatement
 (i) Changes in accounting policies accompanying with revisions in accounting standards, etc.: N.A
 (ii) Changes in accounting policies other than the above item (i): N.A
 (iii) Changes in the accounting estimates: N.A.
 (iv) Correction and restatement: N.A

(3) Number of shares outstanding (Common stock)

- (i) Number of shares outstanding at the end of fiscal year
 (Including common stock for treasury)
- (ii) Number of treasury stocks at the end of fiscal year
- (iii) The average number of shares during the fiscal year

FY Ended March 2020	78,270,142	FY Ended March 2019	78,270,142
FY Ended March 2020	7,759,209	FY Ended March 2019	10,120,311
FY Ended March 2020	69,554,534	FY Ended March 2019	66,741,203

(Reference) Summary of Unconsolidated Financial Results

1. Unconsolidated Results of Operations for Fiscal year ended March 2020 (from April 1, 2019 to March 31, 2020)

(1) Unconsolidated Results of Operations (The figures in percentages indicate changes year-on-year.)

	Net Sales		Operating Income		Ordinary Income		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY Ended March 2020	13,500	-3.4	6,498	-25.1	8,532	-16.3	9,720	-5.1
FY Ended March 2019	13,970	22.6	8,672	55.5	10,190	29.2	10,238	63.1

	Profit per Share	Profit per Share - Diluted
	yen	yen
FY Ended March 2020	139.74	124.80
FY Ended March 2019	153.38	131.19

(2) Unconsolidated Financial Position

	Total Asset	Net Assets	Shareholder's Equity Ratio	Net Assets per Share
	Million yen	Million yen	%	yen
FY Ended March 2020	242,585	150,349	61.9	2,129.58
FY Ended March 2019	195,676	139,916	71.4	2,050.25

(Reference) Shareholder's Equity FY Ended March 2020: 150,183 million yen FY Ended March 2019: 139,748 million yen

※ The Summary of Consolidated Financial Results of Fiscal Year Ended March 31, 2020 is unaudited information.

※ 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 considers rational at the time of the release of this report, and does not indicate that the Company undertakes to achieve such results. Actual results may differ significantly from the projections above, due to a variety of factors. As for precautions regarding the use of the Performance Projections and the conditions underlying the assumptions for the Performance Projections, refer to Section "1. Summary of Management Results (1) Summary of Management Results for the Current Fiscal Year" on Page 2 of the Attached Document.
- The Company plans to hold a briefing on the financial results for institutional investors and analysts on the web on May 19, 2020. The Company also intends to provide a record of the progress of the session and the outline of the briefing (voice recording), together with the briefing material, on its website promptly after the briefing.

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1. Summary of Management Results

(1) Summary of Management Results for the Current Fiscal Year

(Management Results for the Current Fiscal Year)

In the consolidated fiscal year ended March 31, 2020, the prescription pharmaceuticals market continued to face a severe environment as evidenced by the promotion of measures to cut medical expenses including promoting generic drug use, and by the fact that NHI drug prices were reduced by 2.40% due to the NHI drug price revisions in October 2019 resulting from the increase in the consumption tax rate. The Company achieved favorable results due to sales growth of new drugs such as cancer treatment drugs, specialty pharmaceuticals and pharmaceuticals for rare diseases as well as an expansion of our customer support systems including Initial Examination Reservation Service.

As a business group involved in medical care, health and nursing care, the Group as a whole has made a concerted effort to accelerate the shift to a business model centered on value-added services which are actually useful in a wide range of areas, by developing and proposing customer support systems to offer solutions to problems faced by patients and medical institutions, and by contributing to the establishment of community comprehensive healthcare systems. Moreover, the Company has taken active steps to improve profitability by challenging highly functional logistics, the most appropriate frequency of deliveries and consolidation of generic drugs produced by KYOSOMIRAI PHARMA CO., LTD. Furthermore, to respond to the Guidelines on Ethical Drug Detailing Activities published in September 2018, the Company established the Group Risk Management Division, while its pharmaceutical wholesaling subsidiaries including Toho Pharmaceutical Co., Ltd., a consolidated subsidiary of the Company, also established Product Information Supervision Office in order to enhance their organizational strength to adapt to the changing environment.

In the logistics division, the integrated logistics center “TBC DynaBASE” has been under construction within the Keihin Truck Terminal in Ota-ku, Tokyo, aiming to start operations in fall 2020. We built full-scale systems with the aim of further enhancing our productivity by further advancing the automation technology we have developed so far, and even more importantly, fulfilling our social mission of providing a steady supply of pharmaceuticals even during a disaster.

KYOSOMIRAI PHARMA CO., LTD., which was established in November 2016 as part of our business strategy to improve medium-to-long-term profitability, has continued to endeavor to expand the product line-up by launching 3 ingredients and 8 products within this fiscal year, as well as by obtaining marketing approval for 3 ingredients and 8 products in February 2020. As of the end of the fiscal year under review, it dealt with 76 ingredients in 164 generic products.

The Company’s consolidated operating results for fiscal year ended March 31, 2020 recorded 1,263,708 million yen for net sales (an increase of 3.4% on a year-on-year basis), 17,590 million yen for operating income (an increase of 11.4% on a year-on-year basis), 23,732 million yen for ordinary income (an increase of 10.6% on a year-on-year basis), and 16,230 million yen for profit attributable to owners of parent (an increase of 17.1% on a year-on-year basis). The Company’s achievement rate for the full-year earnings forecasts, which was revised up on November 7, 2019 in consideration of the business results for the first half of the current fiscal year, recorded 99.7% for net sales, 102.9% for operating income, 98.9% for ordinary income, and 106.8% for profit attributable to owners of parent.

TOHO PHARMACEUTICAL CO., LTD., one of our consolidated subsidiary, received an onsite inspection by the Japan Fair Trade Commission for suspected violation of the Antimonopoly Act regarding its bidding to supply ethical pharmaceuticals to Japan Community Health care Organization (JCHO) on November 27, 2019. Together with TOHO PHARMACEUTICAL, we are taking this situation seriously and fully cooperating with the investigation by the Japan Fair Trade Commission. We will disclose further information on important concerns immediately upon the occurrence of such concerns.

The outline of business segment operating results is as follows:

In the pharmaceutical wholesaling business, we have made efforts to conduct unit price negotiations per single item based on the value of each product and in accordance with the Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs for Manufacturers, Wholesalers, and Medical Institutions/Pharmacies, which were published in January 2018. In addition to having released Future ENIF, our new order/information terminal for pharmaceuticals incorporating a mobile network (LTE) in June 2019, we have also engaged in activities to promote and enhance sales of the Company’s unique customer support systems in order to solve the challenges that medical institutions are facing, such as the Initial Examination Reservation Service, ENIFvoice SP+A, ENIFvoice Core and Core-POS. We have also continued to press ahead with measures to decrease the number of express/frequent deliveries, which impose a heavy burden on both the Company’s and our customers’ operations, and to achieve the most appropriate frequency of deliveries through the proposal of “Mizar”, a centralized administration system for pharmacy operations with an automated ordering function. As a result, the pharmaceutical wholesaling business posted net sales of 1,214,030 million yen (an increase of 3.3% on a year-on-year basis) and segment income (operating income) of 18,011 million yen (an increase of 12.0% on a year-on-year basis).

In the dispensing pharmacy business, while responding to the dispensing fee revision, we have strived to

improve profitability by increasing management efficiency through standardization of store operations with the adoption of our customer support system such as ENIFvoice SP+A, ENIFvoice Core and the centralized administration system of pharmacy operations “Mizar”. We have also upgraded our training programs including those held in hospitals as a measure for a functional shift of pharmacies. Consequently, the dispensing pharmacy business posted net sales of 96,124 million yen (an increase of 3.1% on a year-on-year basis) and segment income (operating income) of 2,700 million yen (an increase of 89.5% on a year-on-year basis).

In the SMO operations, net sales amounted to 256 million yen (a decrease of 8.7% on a year-on-year basis) and segment loss (operating loss) was 126 million yen. In the information equipment sales operations, net sales totaled 1,445 million yen (an increase of 4.3% on a year-on-year basis), with segment income (operating income) of 29 million yen (a decrease of 18.9% on a year-on-year basis).

(Note) Segment sales include inter-segment transactions.

(Projections for the Next Fiscal Year)

In the prescription pharmaceuticals market that the Company is part of, NHI drug prices were reduced by 4.38% in accordance with the NHI drug price revisions implemented in April 2020. Moreover, it is expected there will also be interim NHI drug price revisions in April 2021, although details on the method of implementing these revisions are still under consideration. Therefore, the market trends are difficult to predict in view of the situation mentioned above. The spread of COVID-19, which is bound to have a major impact on the Japanese and overseas economies, is also expected to have various impacts on our industry, including stagnated marketing activities and limited clinic visits by patients who are alert to the risks of infection.

In March, the Company has taken active steps to prevent COVID-19 by providing an adequate number of surgical masks, which meets the required number up to early July, to all 13,960 employees of the Group including part-time workers, dispatched workers and contractors. In addition, we have conducted remote work and staggered working hours in order to limit physical contact, and have made efforts to maintain healthcare delivery systems by adopting rotating shifts for employees in the logistics and sales divisions.

The Consolidated Projected Operations Results during Fiscal Year Ending March 2021 is on hold, since it is difficult to forecast the impact of the spread of COVID-19 at this point. The results will be disclosed promptly when a rational estimation becomes available.

(2) Summary of Financial Position for the Current Fiscal Year

① State of assets, liabilities, and net assets

(i) Assets

Consolidated current assets as of the end of March 2020 decreased 0.3% from the end of the previous consolidated fiscal year to 477,958 million yen, due mainly to an increase in cash and deposits of 4,612 million yen, a decrease in trade notes and accounts receivable of 1,657 million yen, a decrease of in inventories of 2,910 million yen, and a decrease in purchase rebates receivable of 770 million yen.

Non-current assets as of the end of March 2020 increased 4.6% from the end of the previous year to 192,869 million yen, due mainly to an increase in property, plant and equipment of 7,304 million yen.

As a result, consolidated total assets as of the end of March 2020 increased 1.1% from the end of the previous consolidated fiscal year to 670,827 million yen.

(ii) Liabilities

Current liabilities decreased 5.6% from the end of the previous consolidated fiscal year to 378,000 million yen, owing to an increase in accrued income taxes of 2,423 million yen, a decrease in trade notes and accounts payable of bonds of 19,182 million yen, and a decrease in current portion of bonds of 7,955 million yen.

Noncurrent liabilities increased 24.6% from the end of the previous consolidated fiscal year to 61,817 million yen with an increase in long-term borrowings of 13,629 million yen.

As a result, total liabilities decreased 2.2% year-on-year to 439,818 million yen.

(iii) Net Assets

Total net assets increased 8.0% from the end of the previous consolidated fiscal year to 231,009 million yen, with an increase in retained earnings of 13,802 million yen, a decrease in treasury stock of 4,471 million yen, and a decrease in valuation difference on available-for-sale securities of 1,816 million yen.

② Cash Flows

Cash and cash equivalents (hereinafter referred to as “cash”) during this consolidated fiscal year increased by 4,630 million yen from the end of the previous consolidated fiscal year. As a result, the balance at the end of this consolidated fiscal year totaled 80,013 million yen. The following describes the three categories of consolidated cash positions during this consolidated fiscal year, as well as the factors responsible.

(i) Cash Flows from Operating Activities

Cash flow from operating activities was an inflow of 10,815 million yen (a decrease of 2,612 million yen on a year-on-year basis). Although inflow was secured by some positive factors such as net profit before income taxes of 24,246 million yen, depreciation of 5,198 million yen, a decrease in trade notes and accounts receivable of 1,696 million yen, a decrease in inventories of 2,910 million yen, and an increase in accrued consumption taxes of 2,425 million yen, these were somewhat offset by negative factors including a decrease in trade notes and accounts payable of 19,196 million yen, and income taxes paid of 7,152 million yen.

(ii) Cash Flows from Investing Activities

Cash flow from investing activities was an outflow of 15,664 million yen (a decrease of 8,015 million yen from the previous fiscal year). Although inflow was secured by some positive factors such as proceeds from sales and redemption of investment securities of 2,318 million yen, these were somewhat offset by negative factors including purchases of property, plant and equipment of 11,887 million yen, and payments for purchases of intangible assets of 1,983 million yen, and purchases of investment securities of 3,539 million yen.

(iii) Cash Flows from Financing Activities

Cash flow from financing activities was an inflow of 9,479 million yen (an increase of 4,150 million yen from the previous fiscal year). Positive factor, proceeds from long-term borrowings of 15,000 million yen, was somewhat offset by negative factors including purchase of treasury stock of 2,822 million yen, and dividends paid of 2,427 million yen.

(Reference) Trends in key indicators of cash flows

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Shareholder's Equity Ratio (%)	27.2	31.5	32.1	32.2	34.4
Shareholder's Equity Ratio at Market Value (%)	25.7	26.8	26.6	28.4	23.8
Ratio of cash flows to interest- bearing debts (%)	1,148.0	132.2	42.1	254.9	394.5
Interest Coverage Ratio (times)	7.3	83.0	423.3	179.6	198.2

Shareholders' equity ratio: Shareholders' equity / Total assets

Shareholders' equity ratio at market value: Total market value of stock / Total assets

Ratio of cash flows to interest-bearing debts: Interest-bearing debts / Cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities / Interest paid

1. All indicators are calculated using consolidated financial data.
2. The total market value of stock is calculated by multiplying the closing price of stock at the end of the fiscal year by the number of shares outstanding at the end of the fiscal year (after deducting treasury shares).
3. Cash flows from operating activities is the "Cash Flows from Operating Activities" in the Consolidated Statements of Cash Flows. Interest-bearing debt is all the interest-bearing debts in the Consolidated Balance Sheets. Interest paid is the interest payments in the Statements of Consolidated Cash Flows.

(3) Basic Policy of Profit and Dividend Appropriation for the Current Term and Next Term

The Company believes that returning earnings to its shareholders is one of its most important management tasks and recognizes its obligation to improve its earnings per share. With respect to the allocation of earnings, we intend to maintain the basic dividend policy of paying stable dividends. We also seek to retain adequate earnings to augment the Company's earnings structure and to provide for future market fluctuations. The Company decided to pay an interim dividend of 20 yen per share and a year-end dividend of 20 yen per share for the fiscal year ended March 31, 2020, with an annual dividend per share totaling 40 yen. Each of the interim and year-end dividends comprised of an ordinary dividend of 15 yen and a special dividend of 5 yen commemorating the 10th anniversary of the transition to a holding company. The amount of dividends for the fiscal year ending March 31, 2021 has not yet been determined since it is difficult to forecast financial results for the fiscal year at this point.

(4) Business Risks

The major risks relevant to business operations and other matters of the Company and the Group are described below. Forward-looking statements in this report were determined by the Company at the end of the consolidated fiscal year ended March 31, 2020, and they do not cover all the risks of the businesses and other aspects of the Company and Group.

1. Legal Regulations, etc.

The Group's core businesses and products are governed by applicable laws and regulations including the Act on Securing Quality, Efficacy and Safety of Products including Pharmaceuticals and Medical Devices. Confirmation of cases that deviate from these laws and regulations and are subject to guidance or punishment by the supervisory authorities, and the circumstances regarding approvals and licenses from the supervisory authorities may affect the Group's business performance.

2. Ramifications of Revision of the NHI Drug Price Standards and Reform of the Health Insurance Regime

The prescription pharmaceuticals that constitute the Toho Holdings Group's primary line of products are listed in the National Health Insurance Drug Price Standards. The standards provide for the scope of use of pharmaceuticals available under the coverage of health insurance and the prices chargeable for pharmaceuticals administered by medical institutions. This means that basically the NHI Drug Price Standards act as ceilings for the sale prices of ethical pharmaceuticals.

The Ministry of Health, Labor and Welfare carries out a survey on the prevailing prices of prescription pharmaceuticals in the marketplace ("drug price survey" hereinafter) and revises the NHI Drug Price Standards once every two years to reflect its findings. Under the fundamental reforms of the drug pricing system in April 2018, the drug price survey and revision of drug prices will be conducted even during an interim period, beginning in April 2021. Accordingly, expected revisions to the NHI Drug Price Standards and the health insurance system reforms could impact the Group's earnings.

3. Unique Business Practices

In the prescription pharmaceutical wholesale industry, which the Group is a part of through its main business, there is a unique form of transactions that has continued from long ago in which pharmaceutical products are delivered to medical institutions and dispensing pharmacies while their prices have not yet been decided, and prices are negotiated later. This practice stems from the understanding that pharmaceutical products are life-related products so deliveries must not be delayed. The government and private sector have been working together to improve this distribution practice, but in cases where negotiations do not go smoothly, the Group books a reasonable estimate of the final price as sales. Cases in which price negotiations drag on for a long period or instances in which the decided prices are different from initial estimates could affect the Group's financial performance.

4. Sales Suspensions, Product Recalls, Etc.

Cases in which sales must be suspended for products handled by the Group or the products need to be recalled or other steps need to be taken owing to unexpected side effects, contamination, etc. could impact the Group's earnings.

5. Dispensing Operations

If any error occurs in dispensing operations due to the characteristics of prescription pharmaceuticals, this may damage human bodies. If a dispensing error occurs due to human error, the pharmacy concerned may not only face claims for substantial damages, but also impair credits within existing customers and the society. In this case, the Group's financial results may be affected according to severity of the error. Ordinances of the Ministry of Health, Labour and Welfare strictly regulates the number of pharmacists stationed in pharmacies. If we are unable to secure the necessary number of pharmacists, it may affect the Group's earnings.

Furthermore, the dispensing pharmacies business generates income mainly from the sale of prescription pharmaceuticals based on NHI drug prices as well as dispensing fees and pharmaceutical management fees based on dispensing fee points set forth in the Health Insurance Act. As such, the Group's financial performance may be impacted by revisions of NHI drug prices or dispensing fees; and reform of the health insurance regime depending on the contents of the reform.

6. Consumption Tax

Prescription pharmaceuticals that dispensing pharmacies sell to patients are not subject to the consumption tax under the Consumption Tax Act, but prescription pharmaceuticals that dispensing pharmacies buy from wholesalers are subject to the consumption tax under the same law. As such, the dispensing pharmacies business bears the final burden of the consumption tax, and it books the consumption tax as an expense. Therefore, if the consumption tax is revised in the future and NHI drug prices are not revised in accordance with the consumption tax change, then that may affect the Group's earnings.

7. Impairment Losses

Under impairment accounting for fixed assets, the book value of fixed assets is reduced up to the recoverable amount, and the reduction amount is booked as an impairment loss in the same fiscal year. In the case where the profitability of fixed assets owned by the Group decreases or their market value falls sharply, for example, the application of impairment accounting on fixed assets may make it necessary to book an extraordinary loss, and this may affect the Group's financial performance.

8. System Trouble

The Group depends on computer systems and their networks to conduct its operations. The mission-critical systems and peripheral systems have been fully duplicated to create a backup system, although the occurrence of major system problems may affect the Group's earnings.

9. Natural Disasters / Pandemics

As a precaution against natural disasters, pandemics and other emergencies, the Group has established crisis management frameworks, prepared a complete copy of its mission-critical systems together with its peripheral systems, and automated logistics centers. However, a disaster or a pandemic larger than anticipated could interfere with the Group's operations in the form of the closure of offices, logistics centers and retail shops, and may have a negative impact on the Group's earnings depending on the degree of decreased net sales and restoration duration/costs. In particular, the impact of the spread of COVID-19, including the time to converge, is difficult to forecast and may have a significant impact on the Group's business activities and performance.

10. Control of Personal Information

The Group is handling a substantial amount of personal data concerning health professionals and patients. Considering the importance of protection of personal data, the Group complies with the Act on the Protection of Personal Information and other regulations, and has built a management system to handle personal data in accordance with the Code of Ethical Practice of Kyoso Mirai Group and the Personal Information Handling Regulations stipulated by the Company. However, with respect to the personal data on health professionals and patients, if there is any irregularity in handling them, the Group may face more severe impairment of credit and claims for compensation compared with leakage of general personal information, due to its value as an asset and high degree of confidentiality.

2. State of Corporate Group

For the purposes hereof, the Group (TOHO HOLDINGS CO., LTD. and its associated companies) or simply the “Group” consists of TOHO HOLDINGS CO., LTD. or simply the “Company,” 68 subsidiaries, and 13 affiliates. The Group’s primary business operations and their positions, and their relationships with the segments classified by types of business operations are described below.

In addition, the following 4 divisions are the same as the categories of the segments described in “Segment Information”.

(1) Pharmaceutical Wholesaling Business

The Company’s 4 consolidated subsidiaries (TOHO PHARMACEUTICAL CO., LTD., Kyushu Toho Co., Ltd., SAYWELL inc., KOYO Co., Ltd.), 7 unconsolidated subsidiaries and 2 affiliates (SAKAI MEDICINES CO., LTD and other one affiliate) purchase pharmaceuticals and health-related products, mainly from pharmaceutical manufacturers, for distribution primarily to hospitals, clinics, and dispensing pharmacies.

As for the products purchased from pharmaceutical manufacturers, etc., the consolidated subsidiaries mentioned above supply these products to 34 subsidiaries (PHARMA DAIWA, J.MIRAIMEDICAL, Shimizu Pharmacy, PHARMA MIRAI INC., SEIKO MEDICAL BRAIN, VEGA PHARMA, Cure co., Ltd., AOBADO, KOSEI, and other 25 subsidiaries) and 6 affiliates.

Toho System Service Co., Ltd. (a consolidated subsidiary) is mainly engaged in mission-critical system operations such as data processing for the Kyoso Mirai Group (the Company, affiliates which are mainly engaged in wholesale sales of pharmaceuticals, and companies that have a business tie-up with the Group). SQUARE·ONE Co., Ltd. (a consolidated subsidiary) is engaged in real estate agency business.

(2) Dispensing Pharmacy Business

The Company’s 9 consolidated subsidiaries (PHARMA DAIWA, J.MIRAIMEDICAL, Shimizu Pharmacy, PHARMA MIRAI INC., SEIKO MEDICAL BRAIN, VEGA PHARMA, Cure co., Ltd., AOBADO, and KOSEI), 25 unconsolidated subsidiaries and 6 affiliates are primarily engaged in health insurance dispensing pharmacies business.

PharmaCluster Co., Ltd (a consolidated subsidiary) is engaged in the management of the dispensing pharmacies business.

(3) Site Management Organization (SMO) Business

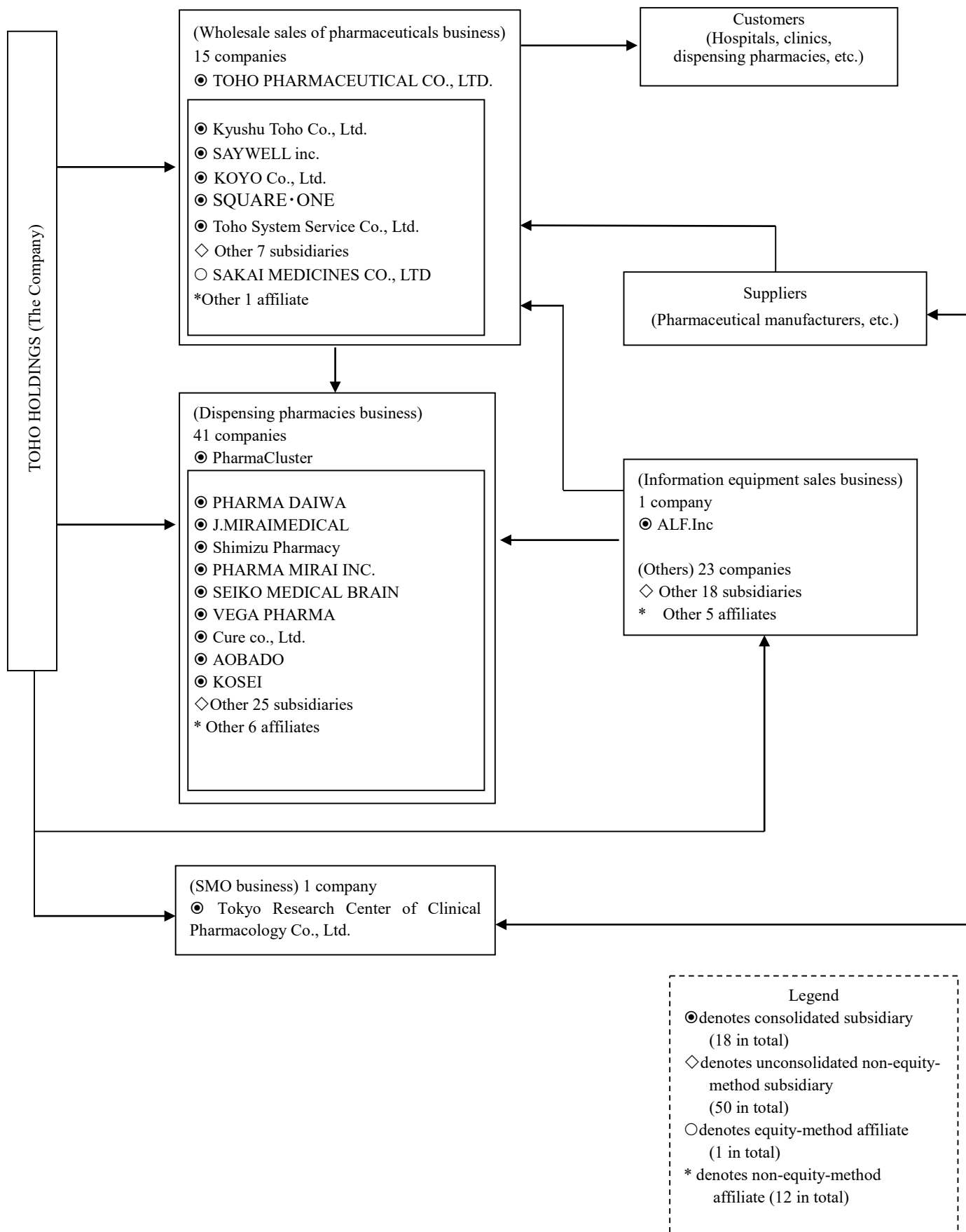
Tokyo Research Center of Clinical Pharmacology Co., Ltd. (a consolidated subsidiary) is engaged in support of SMO (Site Management Organization) operations.

(4) Information Equipment Sales Business

ALF.Inc (a consolidated subsidiary) is engaged in manufacture and sale of information processing equipment.

Other companies (18 unconsolidated subsidiaries and 5 affiliates) are engaged in operations related to the Company.

Illustrated below is a structure of business relationships between and among the Company and its associated companies.



[State of Associated Companies]

Name	Location	Capital (Million Yen)	Main Business Description	The Company's Voting Ownership (%)	Relationship with the Company
(Consolidated Subsidiaries) TOHO PHARMACEUTICAL CO., LTD.	Setagaya-ku, Tokyo	300	Pharmaceutical wholesaling	100.00	Management guidance and real estate rent by the Company. Concurrently hold on the director. Financial support from the Company.
Kyushu Toho Co., Ltd.	Higashi-ku, Fukuoka City, Fukuoka	522	Pharmaceutical wholesaling	100.00 (100.00)	Pharmaceuticals supplied by TOHO PHARMACEUTICAL CO., LTD., a consolidated subsidiary. Concurrently hold on the director.
SAYWELL inc.	Nishi-ku, Hiroshima City, Hiroshima	95	Pharmaceutical wholesaling	100.00 (100.00)	Pharmaceuticals supplied by TOHO PHARMACEUTICAL CO., LTD., a consolidated subsidiary. Concurrently hold on the director.
KOYO Co., Ltd.	Takamatsu City, Kagawa	72	Pharmaceutical wholesaling	100.00 (100.00)	Pharmaceuticals supplied by TOHO PHARMACEUTICAL CO., LTD., a consolidated subsidiary. Concurrently hold on the director.
SQUARE・ONE Co., Ltd.	Setagaya-ku, Tokyo	100	Real estate agency	100.00	Financial support from the Company.
Toho System Service Co., Ltd.	Setagaya-ku, Tokyo	10	Information processing	100.00	Data processing and software creation for the Group. Distribution of software to medical institutions jointly with the Group. Concurrently hold on the director.
PharmaCluster Co.,Ltd	Chiyoda-ku, Tokyo	10	Management of dispensing pharmacies business companies	100.00	Management guidance. Concurrently hold on the director. Financial support from the Company.
PHARMA DAIWA	Minami-ku, Kumamoto City, Kumamoto	100	Operation of dispensing pharmacies	100.00 (100.00)	Pharmaceuticals supplied by a consolidated subsidiary.
J.MIRAIMEDICAL	Miyakojima-ku Osaka City, Osaka	100	Operation of dispensing pharmacies	100.00 (100.00)	Pharmaceuticals supplied by a consolidated subsidiary. Concurrently hold on the director.
Shimizu Pharmacy	Hino City, Tokyo	67	Operation of dispensing pharmacies	100.00	Pharmaceuticals supplied by a consolidated subsidiary.
PHARMA MIRAI INC.	Setagaya-ku, Tokyo	50	Operation of dispensing pharmacies and small-lot wholesaling of pharmaceuticals	100.00 (100.00)	Pharmaceuticals supplied by a consolidated subsidiary.
SEIKO MEDICAL BRAIN	Higashi-ku, Fukuoka City, Fukuoka	30	Operation of dispensing pharmacies	100.00	Pharmaceuticals supplied by a consolidated subsidiary.
VEGA PHARMA	Fujiidera City, Osaka	10	Operation of dispensing pharmacies	100.00 (100.00)	Pharmaceuticals supplied by a consolidated subsidiary.
Cure co., Ltd.	Nagaoka City, Niigata	5	Operation of dispensing pharmacies	100.00 (100.00)	Pharmaceuticals supplied by a consolidated subsidiary.
AOBADO	Higashiumiyos hi-ku, Osaka City, Osaka	3	Operation of dispensing pharmacies	100.00	Pharmaceuticals supplied by a consolidated subsidiary.
KOSEI	Sumiyoshi-ku, Osaka City, Osaka	3	Operation of dispensing pharmacies	100.00	Pharmaceuticals supplied by a consolidated subsidiary.
Tokyo Research Center of Clinical Pharmacology Co., Ltd.	Shinjuku-ku, Tokyo	401	Site management organization	100.00	Financial support from the Company.
ALF.Inc	Setagaya-ku, Tokyo	90	Manufacture and marketing of information processing equipment	92.32 (0.83)	Distributions of the Group's customer support systems. Concurrently hold on the director. Financial support from the Company.
(Equity-Method Affiliates) SAKAI MEDICINES CO., LTD	Mitaka City, Tokyo	60	Pharmaceutical wholesaling	35.00	Pharmaceuticals supplied by TOHO PHARMACEUTICAL CO., LTD., a consolidated subsidiary. Concurrently hold on the director.

- (Note) 1. The indirect ownership % is disclosed in the () of “the Company’s Voting Ownership %”.
2. No subsidiaries and affiliates said above submit registration statements or annual securities reports.
3. TOHO PHARMACEUTICAL CO., LTD. is a specified subsidiary.
4. The subsidiaries of which net sales (excluding internal sales to consolidated companies) account for more than 10% of total consolidated sales are TOHO PHARMACEUTICAL CO., LTD. and SAYWELL inc.

Major financial result information

(i) TOHO PHARMACEUTICAL CO., LTD.	①Net sales	1,204,120 million yen
	②Ordinary income	18,356 million yen
	③Profit	13,240 million yen
	④Net assets	67,092 million yen
	⑤Total assets	453,242 million yen
(ii) SAYWELL inc.	①Net sales	151,462 million yen
	②Ordinary income	3,653 million yen
	③Profit	2,397 million yen
	④Net assets	32,998 million yen
	⑤Total assets	70,868 million yen

3. Business Management Policy

Setting “Total Commitment to Good Health” as our corporate slogan and under the mission statement, “Working in harmony with society and customers, and jointly creating new value through the provision of original services, thereby contributing to the improvement of medical services for, and health of, people around the world”, the Group always places ultimate priority on patients, makes efforts to create customer value in order to increase customer satisfaction, and aims to improve corporate value and establish a corporate brand in the market.

In Japan, the government is currently moving ahead with measures to curtail medical expenses, aiming to develop and maintain sustainable social security systems amidst an extending healthy life expectancy, a super-aging society, and the declining total population. In April 2018, a fundamental reform of the NHI drug pricing system was conducted. Consequently, it was decided to undertake surveys on drug prices and NHI drug price revisions annually. In 2018, the Ministry of Health, Labour and Welfare issued Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs for Manufacturers, Wholesalers, and Medical Institutions/Pharmacies; Guidelines on Ethical Drug Detailing Activities; and Good Distribution Practice (GDP) Guidelines for Pharmaceutical Products. In addition, the ministry announced the revised Pharmaceutical and Medical Devices Act in December 2019 to be executed in a phased manner over the next 3 years. We are required to take action corresponding to the effects of these guidelines and system reforms.

As seen above, the environment surrounding the healthcare and pharmaceuticals industries has been changing drastically. Under these circumstances, the Group will, as a corporate group engaged in the areas of medical care, healthcare, and nursing care, respond quickly and appropriately to the rapidly changing environment, and anticipate such rapid environmental changes and challenges to make a contribution to extending the healthy life expectancy of men and women in Japan, and to establishing and maintaining sustainable social security systems.

In the pharmaceutical wholesaling business, we will actively develop and propose customer support systems, which will help patients, medical institutions, and specialists in the fields of home and nursing care, etc. to solve their problems, as a measure to improve medium term profitability. In anticipation of the era in which generic drugs account for 80% or more of the pharmaceuticals market on a volume basis, we aim to construct a stable supply of generic drugs whose quality is ensured by independent validation. The Group believes this will provide solutions to problems faced by patients and medical institutions, and help to increase the Group’s profitability. In the dispensing pharmacy business, we will implement measures to develop the functionality for pharmacies to correspond to revisions of dispensing fees. We will also maximize added value in our dispensing pharmacy business, by both providing services coherently linked to community medical care and by training pharmacists with advanced knowledge of pharmaceutical management, in order to meet our missions of being pharmacies focused on community-based services as well as pharmacies operating in closer coordination with specialty medical institutions. Meanwhile, we will put more effort into the consolidation and standardization of operations and into workforce optimization, on a group-wide basis so as to boost productivity, secure stable profits, and increase earnings.

Furthermore, we will work to reduce the environmental burden as we strive to realize a sustainable society through our business activities such as optimizing delivery frequency, and also foster a diversified business culture by utilizing a wide variety of human resources regardless of people’s gender, nationality etc. Keenly aware of the public nature of our business as a medical services and healthcare company, and our mission as part of the social infrastructure, we will seek to supply safe and secure pharmaceuticals by reviewing our functions from a business continuity perspective, and making the investments necessary to ensure a stable pharmaceutical supply during disasters, pandemics etc., supported by stakeholders’ trust and cooperation.

Through the implementation of the above-mentioned measures, we will strive to become a corporate group relied upon and continuously supported by all stakeholders including patients, customers, local communities, shareholders and employees.

4. Basic Idea for Selection of Accounting Standards

In order to ensure comparability between companies over time, the Group prepares its consolidated financial statements in accordance with the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (excluding Chapters 7 and 8) (Ordinance of the Ministry of Finance No. 28 of 1976).

The Group will appropriately apply international accounting standards, while taking domestic and overseas situations into account.

5. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Unit: million yen)

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Assets		
Current assets		
Cash and deposits	*3 79,607	*3 84,219
Trade notes and accounts receivable	287,205	285,548
Securities	—	10
Inventories	78,590	75,679
Purchase rebates receivable	13,993	13,223
Others current assets	20,240	19,614
Allowance for doubtful accounts	-209	-337
Total current assets	479,427	477,958
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	*3 33,785	*3 32,418
Vehicles, net	10	8
Land	*3, *4 43,208	*3, *4 43,015
Leased assets, net	4,430	3,669
Construction in progress	375	10,943
Others	7,284	6,345
Property, plant and equipment, net	*1 89,095	*1 96,399
Intangible assets		
Goodwill	1,360	760
Others	2,620	3,843
Total intangible assets	3,981	4,604
Investments and other assets		
Investment securities	*2, *3 80,676	*2, *3 80,351
Long-term loans receivable	2,881	2,460
Deferred tax assets	1,592	1,876
Other assets	*2 8,606	*2 9,593
Allowance for doubtful accounts	-2,533	-2,416
Total investments and other assets	91,222	91,865
Total non-current assets	184,299	192,869
Total assets	663,727	670,827

(Unit: million yen)

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Liabilities		
Current liabilities		
Trade notes and accounts payable	*3 374,322	*3 355,140
Short-term borrowings	*5 278	*5 1,300
Current portion of bonds	7,955	-
Current portion of long-term loans payable	*3 308	*3 1,366
Lease obligations	1,787	1,247
Accrued income taxes	4,204	5,267
Accrued expenses	2,396	2,349
Provision for bonuses	3,428	3,392
Provision for directors' bonuses	71	82
Provision for sales returns	349	287
Asset retirement obligations	25	20
Other current liabilities	5,137	7,547
Total current liabilities	400,265	378,000
Long-term liabilities		
Corporate bonds	20,083	20,063
Long-term borrowings	*3 5,594	*3 19,223
Lease obligations	1,849	1,544
Deferred tax liabilities	17,147	16,094
Deferred tax liabilities for land revaluation	*4 788	*4 788
Liability for retirement benefits	1,986	2,042
Asset retirement obligations	1,094	1,142
Negative goodwill	7	-
Other long-term liabilities	1,060	917
Total long-term liabilities	49,612	61,817
Total liabilities	449,878	439,818
Net assets		
Shareholders' equity		
Common stock	10,649	10,649
Capital surplus	48,566	49,271
Retained earnings	151,943	165,745
Treasury stock	-20,257	-15,785
Total shareholders' equity	190,902	209,881
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	27,285	25,469
Revaluation reserve for land	*4 -4,507	*4 -4,507
Total accumulated other comprehensive income	22,777	20,961
Stock subscription rights	168	166
Total net assets	213,848	231,009
Total liabilities and net assets	663,727	670,827

(2) Consolidated Statements of Income and Statements of Comprehensive Income
Consolidated Statements of Income

(Unit: million yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Net sales	1,222,199	1,263,708
Cost of sales	1,110,152	1,148,354
Gross profit	112,046	115,354
Provision for sales returns	4	-61
Gross profit-net	112,042	115,415
Selling, general and administrative expenses		
Directors' compensations, salaries and allowances	44,984	45,132
Provision for bonuses	3,376	3,372
Provision for bonuses for directors	71	82
Retirement benefits expense	222	221
Welfare expenses	8,023	8,067
Vehicle expenses	1,166	1,076
Provision of allowance for doubtful accounts	-104	61
Depreciation	4,869	5,198
Amortization of goodwill	1,572	641
Rent expenses	7,127	7,893
Taxes and dues	1,784	2,079
Non-deductible temporary paid consumption tax expense	5,159	5,797
Others	18,004	18,202
Total selling, general and administrative expenses	96,258	97,825
Operating income	15,783	17,590
Non-operating income		
Interest income	94	83
Dividend income	1,336	1,386
Commission fee	3,180	3,213
Rent expenses on real estate	803	839
Amortization of negative goodwill	17	7
Share of profit of entities accounted for using equity method	53	55
Others	688	975
Total non-operating income	6,175	6,560
Non-operating expenses		
Interest expense	30	30
Commitment fee	24	15
Rental expenses on real estate	266	256
Others	184	114
Total non-operating expenses	506	418
Ordinary income	21,452	23,732

(Unit: million yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Extraordinary income		
Gain on sales of non-current assets	*1 19	*1 17
Gain on sales of investment securities	0	1,282
Others	3	25
Total extraordinary income	23	1,325
Extraordinary losses		
Loss on disposal of non-current assets	*2 165	*2 79
Impairment loss	*3 93	*3 299
Loss on sales of investment securities	12	264
Others	291	169
Total extraordinary losses	563	812
Profit before income taxes	20,913	24,246
Income taxes - current	7,096	8,594
Income taxes - deferred	-46	-577
Total income taxes	7,050	8,016
Profit	13,863	16,230
Profit attributable to owners of parent	13,863	16,230

Consolidated Statements of Comprehensive Income

(Unit: million yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Profit	13,863	16,230
Other comprehensive income		
Valuation difference on available-for-sale securities	-2,409	-1,838
Share of other comprehensive income of entities accounted for using equity method	-13	22
Total other comprehensive income	*1 -2,422	*1 -1,816
Comprehensive income	11,440	14,414
Total comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	11,440	14,414
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated Statement of Changes in Shareholders' Equity
 Previous fiscal year (From April 1, 2018 to March 31, 2019)

(Unit: million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholder's equity
Balance at the beginning of the period	10,649	47,874	140,317	-16,612	182,228
Changes during period					
Dividends of surplus			-2,025		-2,025
Profit attributable to owners of parent			13,863		13,863
Purchase of treasury stock				-10,002	-10,002
Disposal of treasury stock		692		6,357	7,050
Change of scope of consolidation			-384		-384
Reversal of revaluation reserve for land			173		173
Net changes in items other than shareholders' equity					
Total changes during period	—	692	11,626	-3,644	8,673
Balance at the end of period	10,649	48,566	151,943	-20,257	190,902

	Accumulated other comprehensive income			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total accumulated other comprehensive income		
Balance at the beginning of the period	29,708	-4,333	25,374	168	207,772
Changes during period					
Dividends of surplus					-2,025
Profit attributable to owners of parent					13,863
Purchase of treasury stock					-10,002
Disposal of treasury stock					7,050
Change of scope of consolidation					-384
Reversal of revaluation reserve for land					173
Net changes in items other than shareholders' equity	-2,422	-173	-2,596	-0	-2,596
Total changes during period	-2,422	-173	-2,596	-0	6,076
Balance at the end of period	27,285	-4,507	22,777	168	213,848

Current fiscal year (From April 1, 2019 to March 31, 2020)

(Unit: million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholder's equity
Balance at the beginning of the period	10,649	48,566	151,943	-20,257	190,902
Changes during period					
Dividends of surplus			-2,427		-2,427
Profit attributable to owners of parent			16,230		16,230
Purchase of treasury stock				-2,822	-2,822
Disposal of treasury stock		704		7,294	7,998
Change of scope of consolidation			—		—
Reversal of revaluation reserve for land			—		—
Net changes in items other than shareholders' equity					
Total changes during period	—	704	13,802	4,471	18,978
Balance at the end of period	10,649	49,271	165,745	-15,785	209,881

	Accumulated other comprehensive income			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total accumulated other comprehensive income		
Balance at the beginning of the period	27,285	-4,507	22,777	168	213,848
Changes during period					
Dividends of surplus					-2,427
Profit attributable to owners of parent					16,230
Purchase of treasury stock					-2,822
Disposal of treasury stock					7,998
Change of scope of consolidation					—
Reversal of revaluation reserve for land					—
Net changes in items other than shareholders' equity	-1,816	—	-1,816	-2	-1,818
Total changes during period	-1,816	—	-1,816	-2	17,160
Balance at the end of period	25,469	-4,507	20,961	166	231,009

(4) Consolidated Statements of Cash Flows

(Unit: million yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Cash flows from operating activities		
Profit before income taxes	20,913	24,246
Depreciation	4,869	5,198
Impairment loss	93	299
Amortization of goodwill	1,572	641
Amortization of negative goodwill	-17	-7
Increase (decrease) in retirement benefit liability	68	55
Increase (decrease) in provision for sales returns	4	-61
Increase (decrease) in provision for bonuses	-122	-35
Increase (decrease) in provision for bonuses for directors	2	10
Increase (decrease) in allowance for doubtful accounts	-128	10
Interest and dividend income	-1,431	-1,469
Interest expense	30	30
Loss (gain) on sales of non-current assets	146	62
Loss (gain) on sales and valuation of investment securities	11	-970
Decrease (increase) in notes and accounts receivable-trade	-5,355	1,696
Decrease (increase) in inventories	-5,394	2,910
Decrease (increase) in other assets	1,862	964
Increase (decrease) in notes and accounts payable-trade	5,027	-19,196
Increase (decrease) in other liabilities	-130	-647
Increase (decrease) in accrued consumption taxes	-957	2,425
Other, net	-3,694	-4,278
Subtotal	17,370	11,885
Interest and dividend received	1,398	1,445
Interest paid	-74	-54
Income taxes paid	-9,750	-7,152
Others, net	4,485	4,692
Net cash provided by operating activities	13,428	10,815

(Unit: million yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Cash flows from investing activities		
Payments into time deposits	-1,047	-1,088
Proceeds from withdrawal of time deposits	1,115	1,107
Purchases of property, plant and equipment	-2,799	-11,887
Proceeds from sales of property, plant and equipment	479	295
Purchases of intangible assets	-1,000	-1,983
Proceeds from sales of intangible assets	0	0
Purchases of investment securities	-2,952	-3,539
Proceeds from sales and redemption of investment securities	2	2,318
Purchase of shares of subsidiaries and associates	-791	-86
Proceeds from sales of shares of subsidiaries and associates	—	46
Payments for asset retirement obligations	-10	-63
Loan advances	-672	-178
Collection of loans receivable	174	432
Other, net	-146	-1,037
Net cash used in investing activities	-7,649	-15,664
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-141	1,620
Proceeds from long-term borrowings	—	15,000
Repayments of long-term borrowings	-792	-312
Proceeds from issuance of bonds	20,100	—
Purchases of treasury stock	-10,002	-2,822
Repayments of finance lease obligations	-1,808	-1,577
Dividends paid	-2,025	-2,427
Net cash used in financing activities	5,329	9,479
Net increase(decrease) in cash and cash equivalents	11,109	4,630
Cash and cash equivalents at beginning of period	63,671	75,382
Increase in cash and cash equivalents resulting from merger	601	—
Cash and cash equivalents at end of period	*1 75,382	*1 80,013

- (5) Notes to Consolidated Financial Statements
(Notes Regarding the Going Concern Assumption)
This disclosure is not applicable.

(Basis of Presenting Consolidated Financial Statements)

1. Scope of Consolidation

(1) Number of Consolidated Subsidiaries: 18

The identities of primary consolidated subsidiaries are provided in State of Associated Companies of 2. “State of Corporate Group.”

(2) Name of Major Unconsolidated Subsidiary

Name of main unconsolidated subsidiary:

Nextit Research Institute Co., Ltd

(Reason for exclusion of scope of consolidation)

The unconsolidated subsidiary is small in size and does not have any significant effect on the Company’s consolidated total assets, net sales, consolidated profit, or retained earnings. Moreover, as it is insignificant taken as a whole, it is excluded from the scope of consolidation.

2. Application of Equity Method

(1) Number of Affiliates Accounted for by Equity Method: 1

Names of Primary Affiliates:

SAKAI MEDICINES CO., LTD

(2) State of unconsolidated Subsidiaries and Affiliates Not Accounted for by Equity Method

Names of primary unconsolidated subsidiaries:

Nextit Research Institute, Inc.

Names of Primary Affiliates:

Wakaba

(Reason for non-application of the equity method)

Unconsolidated subsidiary and affiliate not accounted for by the equity method are excluded from being accounted for by equity method, because they individually do not have any significant effect on the Company’s consolidated profit or retained earnings, and also are insignificant as a whole.

3. Fiscal Year Adopted by Consolidated Subsidiaries

The fiscal year end of each consolidated subsidiary corresponds to the Company’s consolidated fiscal year end.

4. Accounting Principles

(1) Basis and Method of Valuation of Significant Assets

① Securities

Held-to-maturity debt securities

Valued at amortized cost by the straight-line method.

Other securities

With market value:

.....Measured at fair value based on market price as of the end of the fiscal year. (All unrealized gains and losses are included directly in net assets, while the cost of securities sold are determined using the moving-average method.)

Without market value:

.....Measured at cost while the cost of securities sold are determined by the moving-average method.

For investments in an investment limited partnership or other similar partnerships (Securities as defined in Article 2, paragraph 2 of the Securities Exchange Law), the Company books the net value of proportional holdings based on the most recent available financial report of the association, according to the financial settlement date stipulated in the association contract.

② Inventories

Inventories of 4 consolidated subsidiaries (TOHO PHARMACEUTICAL CO., LTD., Kyushu Toho Co., Ltd, SAYWELL Inc., and KOYO Co., Ltd.) are stated at the lower of cost or net realizable value, cost being determined by moving average method.

Inventories of the remaining consolidated subsidiaries are stated at cost determined by the last purchase price method.

(2) Method of Depreciation of Significant Depreciable Assets

① Property, plant, and equipment (excluding leased assets)

Depreciated by the declining-balance method. However, buildings (except for facilities attached to buildings) acquired on and after April 1, 1998 and facilities attached to buildings and other non-building structures acquired on and after April 1, 2016 are depreciated by the straight-line method.

The estimated useful lives of major asset categories are as follows:

Buildings and structures:	8 - 50 years
Vehicles and carriers:	4 - 6 years
Tools, furniture and fixtures:	5 - 15 years

② Intangible assets (excluding leased assets)

Amortized by the straight-line method.

Software for internal use is amortized by the straight-line method over the estimated useful life for internal use purpose (five years).

③ Leased assets

Leased assets related to finance lease transactions that do not transfer the ownership to the lessee:

Leased assets related to finance lease transactions that do not transfer the ownership to the lessee are accounted for by using the straight-line method over their leased periods which are deemed to be their useful life with no residual value.

(3) Principles of Accounting for Significant Allowances and Reserves

① Allowance for doubtful accounts

The allowance for doubtful receivables is provided to cover possible losses in the collection of trade receivables, loans receivable, and others. The actual rate of historical bad debts is used for general receivables. For specific receivables subject to possible losses, the recoverability of individual accounts is assessed to estimate the uncollectible amount.

② Provision for bonuses

To provide for bonus payment to employees and directors who hold position as employee, reserve for bonuses is recognized based on the amounts expected to be paid that is afforded by the current fiscal year.

③ Provision for directors' bonuses

To provide for bonus payment to directors, reserve for directors' bonuses is recognized based on the amounts expected to be paid that is afforded by the current fiscal year.

④ Provision for sales returns

To provide for sales return losses, reserve for sales returns is provided based on estimated amounts of loss due to sales returns.

(4) Accounting for Retirement Benefits

6 consolidated subsidiaries (PHARMA DAIWA, J.MIRAIMEDICAL, PHARMA MIRAI INC., VEGA PHARMA, Tokyo Research Center of Clinical Pharmacology Co., Ltd., and ALF Inc.) adopt the simplified method in calculating projected benefit obligations for lump-sum retirement benefit plans, recognizing liabilities at amounts to be required for voluntary termination at the year-end. The Company and 2 consolidated subsidiaries (TOHO PHARMACEUTICAL CO., LTD. and Toho System Service Co., Ltd.) shifted entirely to a defined contributory pension program. In connection with this shift, they adopted a transitional program to pay retirement-age employees (still active on the payroll at said switchover) lump-sum severance allowances in the amount of a portion of all benefits attributable to past service, upon their retirement. This involved recognition of the relevant retirement benefit liability as of the end of March 31, 2020 to prepare for the payment of retirement benefits to these employees. Actuarial gains or losses are insignificant, and thus recognized as expenses in the fiscal year when accrued.

(5) Amortization Method and Period of Goodwill and Negative Goodwill

Goodwill and negative goodwill that was accumulated up until March 31, 2010, is amortized over periods of five or ten years in equal amounts.

(6) Definition of Cash and Cash Equivalents in Consolidated Statements of Cash Flows

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of changes in value.

(7) Other Important Information for Preparation of Consolidated Financial Statements

Method of Accounting for Consumption Taxes and Others

All financial statement items are net of consumption taxes.

(Change in the Presentation of Consolidated Financial Statements)

(Consolidated income statement)

Gain on sales of investment securities included in others under extraordinary income for the preceding consolidated fiscal year, has been presented independently, beginning in the consolidated fiscal year under review because the gain on sales of investment securities represented more than 10/100 of total extraordinary profit.

Retroactive adjustment has been made to the consolidated financial statements for the preceding fiscal year in order to reflect the change in the way of presentation.

Accordingly, 0 million yen in others under extraordinary income has been reclassified in gain on sales of investment securities on the consolidated financial statements for the prior fiscal year.

Loss on sales of investment securities included in others under extraordinary loss for the preceding consolidated fiscal year, has been presented independently, beginning in the consolidated fiscal year under review because the loss on sales of investment securities represented more than 10/100 of total extraordinary loss.

Retroactive adjustment has been made to the consolidated financial statements for the preceding fiscal year in order to reflect the change in the way of presentation.

Accordingly, 12 million yen in others under extraordinary loss has been reclassified in loss on sales of investment securities on the consolidated financial statements for the prior fiscal year.

Furthermore, impairment loss on investments in subsidiaries and affiliates, which was presented independently in extraordinary loss for the preceding consolidated fiscal year, has been reclassified in other profit or loss, beginning in the consolidated fiscal year under review because the impairment loss represented less than 10/100 of total extraordinary loss.

Retroactive adjustment has been made to the consolidated financial statements for the preceding fiscal year in order to reflect the change in the way of presentation.

Accordingly, 290 million yen impairment loss on investments in subsidiaries and affiliates in extraordinary loss has been reclassified in other profit or loss on the consolidated financial statements for the prior fiscal year.

(Notes to Consolidated Balance Sheets)

*1 Accumulated depreciation of property, plant and equipment:

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
	51,044 million yen	54,640 million yen

*2 Investments in unconsolidated subsidiaries and affiliates:

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Investment securities	13,106 million yen	14,290 million yen

*3 Assets pledged as collateral and liabilities secured by collateral

Classified assets pledged

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Time deposits	165 million yen	165 million yen
Buildings	1,733 million yen	1,742 million yen
Land	4,203 million yen	4,203 million yen
Investment securities	3,860 million yen	4,035 million yen
Total	9,962 million yen	10,145 million yen

Liabilities secured by collateral

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Trade notes and accounts payable	21,688 million yen	20,281 million yen
Long-term borrowings (including current portion of long-term borrowings due within one year)	1,124 million yen	1,841 million yen
Total	22,812 million yen	22,122 million yen

*4 Land revaluation

Pursuant to the “Law concerning Land Revaluation” (Act No. 34, issued on March 31, 1998) and the “Law for Partial Revision of Law concerning Land Revaluation” (Act No. 19, issued on March 31, 2001), the Company revalued its land used for business purposes and accordingly recorded the amount of revaluation difference in value, net of “deferred tax liabilities for land revaluation”, in “Revaluation reserve for land” under shareholders’ equity.

• Method of revaluation:

Based on the land tax assessment register specified in Article 2-3 of the Ordinance for Enforcement of Law concerning Land Revaluation (Government Ordinance No. 119, issued on March 31, 1998)

• Date of revaluation:

March 31, 2002

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Unrecognized loss on land	1,289 million yen	1,297 million yen

*5 Certain consolidated subsidiaries have entered into loan commitment agreements with banks to obtain working capital.

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Total loan commitments	12,000 million yen	12,000 million yen
Loans payable outstanding	-	-
Outstanding balance	12,000 million yen	12,000 million yen

In addition, in order to raise funds for general business purposes in an effective manner, the Company had commitment line agreements with banks.

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Total loan commitments	1,000 million yen	1,000 million yen
Loans payable outstanding	-	-
Outstanding balance	1,000 million yen	1,000 million yen

(Notes to Consolidated Statements of Income)

*1 Gain on sales of fixed assets:

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Gain on sale of buildings	-	9 million yen
Gain on sales of land	15 million yen	7 million yen
Gain on sale of furniture and fixtures	3 million yen	0 million yen
Total	19 million yen	17 million yen

*2 Loss on disposal of fixed assets:

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Loss on disposal of buildings	43 million yen	34 million yen
Loss on disposal of furniture and fixtures	6 million yen	4 million yen
Loss on disposal of software	0 million yen	0 million yen
Loss on sale of buildings	0 million yen	11 million yen
Loss on sale of land	112 million yen	26 million yen
Loss on sale of vehicles and carriers	1 million yen	1 million yen
Total	165 million yen	79 million yen

*3 Impairment loss

The Group recognized impairment losses on the following asset groups during the fiscal year under review.

The Company and its consolidated subsidiaries group assets principally into assets used for business purpose, leased assets and idle assets. For assets used for business purpose, the smallest unit is the asset group is determined based on each office, while the smallest unit for leased assets and idle assets is the individual asset.

Previous fiscal year (From April 1, 2018 to March 31, 2019)

Location	Purpose	Class
Former Ube Sales Office and other 15 sites	Idle real estate	Land

An impairment loss of 93 million yen on idle real estates that were not used for business purposes was recognized due to the decision-making for sales and the continuous decline in market prices. It comprised 67 million yen on land, and 26 million yen on buildings. The Group measured recoverable amounts based on net realizable value. The recoverable amounts were based on the amounts assessed by real estate appraisers, but some assets that were insignificant were based on the tax assessments of fixed assets.

Current fiscal year (From April 1, 2019 to March 31, 2020)

Location	Purpose	Class
Sawara Pharmacy and other 28 sites	Real estate for business use	Land, buildings and goodwill
Former Sakai Sales Office and other 9 sites	Idle real estate	Land, buildings and goodwill

The Group reduced the book value of real estates used for business purposes to the recoverable amount due to consecutive losses, and recognized an impairment loss of 213 million yen. It comprised 22 million yen on land, 173 million yen on buildings, and 18 million yen on goodwill. The recoverable amount was measured based on the net realizable value. The recoverable amounts were based on the amounts assessed by real estate appraisers, but some assets that were insignificant were based on the value assessed for tax purpose.

An impairment loss of 85 million yen on idle real estates that were not used for business purposes was recognized due to the decision-making for sales and the continuous decline in market prices. It comprised 29 million yen on land, 54 million yen on buildings, and 1 million yen on goodwill. The Group measured recoverable amounts based on net realizable value. The recoverable amounts were based on the amounts assessed by real estate appraisers, but some assets that were insignificant were based on the tax assessments of fixed assets.

(Notes to Consolidated Statements of Comprehensive Income)

*1 Reclassification adjustments and tax effects regarding other comprehensive income

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Unrealized gain on other securities		
Amount arising during the year	-3,446 million yen	-1,361 million yen
Reclassification adjustments of gains and losses included in net income	11 million yen	-1,236 million yen
Amount before tax effect	-3,434 million yen	-2,598 million yen
Tax effect	1,024 million yen	759 million yen
Unrealized gain on other securities	-2,409 million yen	-1,838 million yen
Share of other comprehensive income of affiliate accounted for by equity method		
Amount arising during the year	-13 million yen	22 million yen
Total other comprehensive income	-2,422 million yen	-1,816 million yen

(Notes to Consolidated Statements of Changes in Shareholders' Equity)

Previous fiscal year (From April 1, 2018 to March 31, 2019)

1. Types and total number of outstanding stocks, and types and number of treasury stock

Types of stocks	No. of shares as of end of previous period (in thousand shares)	No. of shares increased during this period (in thousand shares)	No. of shares decreased during this period (in thousand shares)	No. of shares as of the end of this period (in thousand shares)
Outstanding stocks				
Common stock	78,270	—	—	78,270
Total	78,270	—	—	78,270
Treasury stock				
Common stock (Note)	9,767	3,549	3,196	10,120
Total	9,767	3,549	3,196	10,120

(Note) 1. The increase of 3,549 thousand shares in treasury common stocks represents an increase of 3,547 thousand shares authorized by the Board of Directors, an increase of 1 thousand shares in acquisition without contribution of restricted stock compensation, and an increase of 1 thousand shares as a result of the purchase of odd-lot shares.

2. The decrease of 3,196 thousand shares in treasury common stocks represents a decrease due to the exercising of subscription rights of Euro-yen denominated convertible bonds maturing in 2019.

2. Stock subscription rights

Account	Description	Types of shares issued	Number of target shares (in thousand stocks)				Balance at current period end (million yen)
			As of previous period end	Increase	Decrease	As of current period end	
TOHO HOLDINGS CO., LTD.	Euro-Yen convertible corporate bonds due in 2019 with subscription rights to shares (Note 1,2,3,4)	Common stock	6,784	16	3,196	3,604	—
	Euro-Yen convertible corporate bonds due in 2023 with subscription rights to shares (Note 1,2)	Common stock	—	5,973	—	5,973	—
	Stock subscription rights as stock options	—	—	—	—	—	168
Total			6,784	5,990	3,196	9,578	168

(Note)1. The number of subscription rights to shares is the number of shares arrived at on the assumption that such rights are exercised.

2. The liability and equity components of the convertible bonds are not accounted for separately.

3. The increase of 16 thousand stocks of the number of Euro-Yen convertible corporate bonds due in 2019 with subscription rights to shares was due to adjustment of the conversion value in accordance with the provision related to the adjustment of the conversion value in the corporate bond guidebook.

4. The decrease of 3,196 thousand stocks of the number of Euro-Yen convertible corporate bonds due in 2019 with subscription rights to shares was due to a decrease due to the exercising of subscription rights.

3. Dividends

(1) Dividend payment

Resolution	Type of stocks	Total dividend amount (million yen)	Dividend per share (yen)	Record date	Effective date
May 9, 2018 Board of directors	Common stock	1,027	15	March 31, 2018	June 8, 2018
November 7, 2018 Board of directors	Common stock	998	15	September 30, 2018	December 7, 2018

(2) Dividend whose record date falls within this term and whose effective date comes in the next term

Resolution	Type of stocks	Total dividend amount (million yen)	Source of dividend	Dividend per share (yen)	Record date	Effective date
May 9, 2019 Board of directors	Common stock	1,022	Retained earnings	15	March 31, 2019	June 7, 2019

Current fiscal year (From April 1, 2019 to March 31, 2020)

1. Types and total number of outstanding stocks, and types and number of treasury stocks

Types of stocks	No. of shares as of end of previous period (in thousand shares)	No. of shares increased during this period (in thousand shares)	No. of shares decreased during this period (in thousand shares)	No. of shares as of the end of this period (in thousand shares)
Outstanding stocks				
Common stock	78,270	—	—	78,270
Total	78,270	—	—	78,270
Treasury stock				
Common stock (Note)	10,120	1,272	3,633	7,759
Total	10,120	1,272	3,633	7,759

(Note) 1. The increase of 1,272 thousand shares in treasury common stocks represents an increase of 1,270 thousand shares authorized by the Board of Directors, an increase of 1 thousand shares in acquisition without contribution of restricted stock compensation, and an increase of 0 shares as a result of the purchase of odd-lot shares.

2. The decrease of 3,633 thousand shares in treasury common stocks represents a decrease of 3,612 thousand shares due to the exercising of subscription rights of Euro-yen denominated convertible bonds maturing in 2019, a decrease of 19 thousand stocks as a disposal as restricted stock compensation, and a decrease of 1 thousand stocks due to exercising stock options.

2. Stock subscription rights

Account	Description	Types of shares issued	Number of target shares (in thousand stocks)				Balance at current period end (million yen)
			As of previous period end	Increase	Decrease	As of current period end	
TOHO HOLDINGS CO., LTD.	Euro-Yen convertible corporate bonds due in 2019 with subscription rights to shares (Note 2,3,4)	Common stock	3,604	8	3,612	—	—
	Euro-Yen convertible corporate bonds due in 2023 with subscription rights to shares (Note 1,2)	Common stock	5,973	—	—	5,973	—
	Stock subscription rights as stock options	—	—	—	—	—	166
Total			9,578	8	3,612	5,973	166

(Note)1. The number of subscription rights to shares is the number of shares arrived at on the assumption that such rights are exercised.

2. The liability and equity components of the convertible bonds are not accounted for separately.

3. The increase of 8 thousand stocks of the number of Euro-Yen convertible corporate bonds due in 2019 with subscription rights to shares was due to adjustment of the conversion value in accordance with the provision related to the adjustment of the conversion value in the corporate bond guidebook.

4. The decrease of 3,612 thousand stocks of the number of Euro-Yen convertible corporate bonds due in 2019 with subscription rights to shares was due to a decrease due to the exercising of subscription rights.

3. Dividends

(1) Dividend payment

Resolution	Type of stocks	Total dividend amount (million yen)	Dividend per share (yen)	Record date	Effective date
May 9, 2019 Board of directors	Common stock	1,022	15	March 31, 2019	June 7, 2019
November 11, 2019 Board of directors	Common stock	1,405	20	September 30, 2019	December 6, 2019

(Note) The dividend per share by the resolution the Board of Directors on November 7, 2019 includes a special dividend of 5 yen commemorating the 10th anniversary of the transition to a holding company.

(2) Dividend whose record date falls within this term and whose effective date comes in the next term

Resolution	Type of stocks	Total dividend amount (million yen)	Source of dividend	Dividend per share (yen)	Record date	Effective date
May 14, 2020 Board of directors	Common stock	1,410	Retained earnings	20	March 31, 2020	June 10, 2020

(Note) The dividend per share includes a special dividend of 5 yen commemorating the 10th anniversary of the transition to a holding company.

(Notes to Consolidated Statements of Cash Flows)

*1 Reconciliation between cash and cash equivalents at the end of the fiscal year and amounts of related accounts in Consolidated Balance Sheet

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Cash and deposits	79,607 million yen	84,219 million yen
Time deposits with a maturity of more than three months or less	-4,225 million yen	-4,206 million yen
Short-term investments (investment securities) with a maturity of three months or less from the date of acquisition	— million yen	— million yen
Cash and cash equivalents	75,382 million yen	80,013 million yen

2 Details of significant non-cash transactions

Previous fiscal year (From April 1, 2018 to March 31, 2019)

The assets and liabilities related to finance leases which were newly recognized in the current period were 348 million yen, respectively.

Current fiscal year (From April 1, 2019 to March 31, 2020)

The assets and liabilities related to finance leases which were newly recognized in the current period were 611 million yen, respectively.

(Segment Information)

1. Outline of reportable segments

The reportable segments of the Company are those business units included in the Company for which separate financial information is available and which are subject to regular review by the Board of Directors so that it can make decisions about resources to be allocated to them as well as assess their business performance.

The Group has put the pharmaceutical wholesaling and dispensing pharmacies businesses under the control of respective management companies. Each management company formulates comprehensive domestic strategies, while operating companies are engaged in actual operations.

Meanwhile, in the SMO and information equipment sales businesses, the Company and respective operating companies work together in formulating comprehensive domestic strategies as well as in actual operations.

Accordingly, the Group consists of business segments that are based on sales of prescription pharmaceuticals, medical care-related products and services, etc. and has four reportable segments, namely Wholesale Sales of Pharmaceuticals, Dispensing Pharmacies, Site Management Organization, and Information Equipment Sales.

Each of the segments is engaged in the following operations: Wholesale Sales of Pharmaceuticals, sales of pharmaceuticals, narcotics, reagents, etc., and sales of medical devices; Dispensing Pharmacies, operation of health insurance pharmacy and home medical care business, and pharmaceutical sales; Site Management Organization, site management organization services; and Information Equipment Sales, design and sales of information processing equipment.

2. The calculation method of net sales, profits or losses, assets and other items by reportable segment

The accounting policies for the reportable segments are generally the same as those described in the “Basic Significant Matters Regarding Preparing Consolidated Financial Statements”.

The inter-segment internal net sales or transfers are based on prevailing market prices.

3. Information about sales, profit or loss, asset and other items by reportable segment

Previous fiscal year (from April 1, 2018 to March 31, 2019)

	Reportable segments					Adjustments (million yen) (Note 1)	Consolidated total (million yen) (Note 2)
	Wholesale Sales of Pharmaceuticals (million yen)	Dispensing Pharmacies (million yen)	Site Management Organization (million yen)	Information Equipment Sales (million yen)	Total (million yen)		
Net sales							
(1) Sales to external customers	1,127,836	92,926	280	1,156	1,222,199	—	1,222,199
(2) Inter-segment sales	47,577	296	—	229	48,102	-48,102	—
Total	1,175,413	93,222	280	1,385	1,270,302	-48,102	1,222,199
Segment profit	16,084	1,425	55	36	17,601	-1,817	15,783
Segment assets	510,467	46,062	898	2,219	559,648	104,078	663,727
Other items							
Depreciation and amortization	2,769	829	7	15	3,622	1,247	4,869
Amortization of goodwill	55	1,517	—	—	1,572	0	1,572
Amortization of negative goodwill	—	17	—	—	17	—	17
Loss on impairment of fixed assets	83	9	—	—	93	—	93
Investment in an affiliate accounted for by the equity method	1,531	—	—	—	1,531	—	1,531
Unamortized balance of goodwill	223	1,137	—	—	1,360	—	1,360
Unamortized balance of negative goodwill	—	7	—	—	7	—	7
Capital expenditures	3,035	782	0	265	4,084	-30	4,053

(Note) 1. Adjustments comprised the following items:

- (1) The adjustment amounts of segment profits represented the elimination of inter-segment transactions, unrealized profit, and corporate expenses not allocated to any reportable segment.
 - (2) The adjustment amounts of segment assets included 126,280 million yen of the corporate assets that are not allocated to any business segment, in addition to the elimination of inter-segment transactions. The corporate assets mainly consist of surplus funds under management (cash and deposits) and long-term investment funds (investment securities and other).
2. The amounts of segment profit were subsequently adjusted with the amount of operating income in the Consolidated Statements of Income.

Current fiscal year (from April 1, 2019 to March 31, 2020)

	Reportable segments					Adjustments (million yen) (Note 1)	Consolidated total (million yen) (Note 2)
	Wholesale Sales of Pharmaceuticals (million yen)	Dispensing Pharmacies (million yen)	Site Management Organization (million yen)	Information Equipment Sales (million yen)	Total (million yen)		
Net sales							
(1) Sales to external customers	1,166,422	95,896	256	1,133	1,263,708	—	1,263,708
(2) Inter-segment sales	47,608	227	—	312	48	-48,148	—
Total	1,214,030	96,124	256	1,445	1,311,857	-48,148	1,263,708
Segment profit	18,011	2,700	-126	29	20,615	-3,024	17,590
Segment assets	514,304	51,019	674	2,298	568,297	102,529	670,827
Other items							
Depreciation and amortization	2,997	822	7	11	3,838	1,359	5,198
Amortization of goodwill	83	557	—	—	641	—	641
Amortization of negative goodwill	—	7	—	—	7	—	7
Loss on impairment of fixed assets	81	187	30	—	299	—	299
Investment in an affiliate accounted for by the equity method	1,605	—	—	—	1,605	—	1,605
Unamortized balance of goodwill	139	621	—	—	760	—	760
Unamortized balance of negative goodwill	—	—	—	—	—	—	—
Capital expenditures	12,253	2,044	0	305	14,604	0	14,604

(Note) 1. Adjustments comprised the following items:

- (1) The adjustment amounts of segment profits represented the elimination of inter-segment transactions, unrealized profit, and corporate expenses not allocated to any reportable segment.
 - (2) The adjustment amounts of segment assets included 154,057 million yen of the corporate assets that are not allocated to any business segment, in addition to the elimination of inter-segment transactions. The corporate assets mainly consist of surplus funds under management (cash and deposits) and long-term investment funds (investment securities and other).
2. The amounts of segment profit were subsequently adjusted with the amount of operating income in the Consolidated Statements of Income.

(Related Information)

Previous fiscal year (from April 1, 2018 to March 31, 2019)

1 Information on each product and service

Descriptions are omitted since the net sales of singular products or services to outside customers exceed 90% of the total net sales under the Consolidated Statements of Income.

2 Geographical segment information

(1) Net sales

Descriptions are omitted since the net sales of outside customers in Japan exceed 90% of the total net sales under the Consolidated Statements of Income.

(2) Property, plant and equipment

This disclosure is not applicable since there is no property, plant or equipment located in overseas countries.

3 Principal customer segment information

Among the net sales to outside customers, there are no customers accounting for 10% or more of total net sales in the Consolidated Statements of Income. Consequently, this description is omitted.

Current fiscal year (from April 1, 2019 to March 31, 2020)

1 Information on each product and service

Descriptions are omitted since the net sales of singular products or services to outside customers exceed 90% of the total net sales under the Consolidated Statements of Income.

2 Geographical segment information

(1) Net sales

Descriptions are omitted since the net sales of outside customers in Japan exceed 90% of the total net sales under the Consolidated Statements of Income.

(2) Property, plant and equipment

This disclosure is not applicable since there is no property, plant or equipment located in overseas countries.

3 Principal customer segment information

Among the net sales to outside customers, there are no customers accounting for 10% or more of total net sales under the Consolidated Statements of Income. Consequently, this description is omitted.

(Information concerning impairment losses for fixed assets by reportable segment)

Previous fiscal year (from April 1, 2018 to March 31, 2019)

This description is omitted since the similar information is disclosed in the segment information above.

Current fiscal year (from April 1, 2019 to March 31, 2020)

This description is omitted since the similar information is disclosed in the segment information above.

(Information on the amortization and unamortized balance of goodwill by reportable segment)

Previous fiscal year (from April 1, 2018 to March 31, 2019)

This description is omitted since the similar information is disclosed in the segment information above.

Current fiscal year (from April 1, 2019 to March 31, 2020)

This description is omitted since the similar information is disclosed in the segment information above.

(Information on the gain on negative goodwill by reportable segment)

Previous fiscal year (from April 1, 2018 to March 31, 2019)

Not applicable.

Current fiscal year (from April 1, 2019 to March 31, 2020)

Not applicable.

(Amounts per Share)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Net asset per share	3,135.45 yen	3,273.86 yen
Profit attributable to owners of parent per share	207.71 yen	233.34 yen
Diluted profit attributable to owners of parent per share after adjustments on potential shares	177.78 yen	208.55 yen

(Note) 1. The basis of the calculation of profit attributable to owners parent per share and diluted profit attributable to owners parent per share after adjustments on potential shares is as follows:

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Profit attributable to owners parent per share		
Profit attributable to owners of parent (million yen)	13,863	16,230
Amount not attributed to shareholders of common stock (million yen)	—	—
Profit attributable to owners of parent from common stock (million yen)	13,863	16,230
Weighted-average number of shares of common stock outstanding	66,741,203	69,554,534
Diluted profit attributable to owners parent per share after adjustments on potential shares		
Adjustment for profit attributable to owners of parent (million yen)	-25	-18
(Including interest income (after deducting the portion equivalent to tax) (million yen))	(-25)	(-18)
Increase in number of shares of common stock	11,095,072	8,181,165
(Including stock subscription rights)	(82,231)	(81,815)
(Including bonds with stock subscription rights)	(11,012,841)	(8,099,350)
Outline of potential shares not included in calculation of current profit attributable to owners parent per share after adjustments on potential shares due to no dilution effect	—	

2. The basis of the calculation of the net asset per share is as follows:

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Total net asset on the Consolidated Balance Sheets (million yen)	213,848	231,009
Amounts deducted from total net assets (million yen)	168	166
(Including: Stock subscription rights) (million yen)	(168)	(166)
Net assets available to owners of parent of common stock (million yen)	213,680	230,842
Number of shares of common stock for computation of net asset per share	68,149,831	70,510,933

(Significant Subsequent Events)

Not applicable.

6. Unconsolidated Financial Statements

(1) Balance Sheets

	Previous fiscal year (As of March 31, 2019)	(Unit: million yen) Current fiscal year (As of March 31, 2020)
Assets		
Current assets		
Cash and deposits	43,704	71,068
Prepaid expenses	107	75
Other accounts receivable	3,905	3,335
Short-term loans receivable	556	18,304
Other current assets	14	16
Total current assets	48,288	92,801
Non-current assets		
Property, plant and equipment		
Buildings, net	18,859	18,142
Structures, net	648	584
Tools, furniture and fixtures, net	64	53
Land	20,170	20,128
Leased assets, net	649	505
Construction in progress	166	3,502
Property, plant and equipment, net	40,558	42,916
Intangible assets		
Leasehold right	12	12
Software	439	333
Others	13	39
Total intangible assets	464	385
Investments and other assets		
Investment securities	67,702	67,345
Shares of subsidiaries and affiliates	31,534	31,523
Investments in capital of subsidiaries and affiliates	527	1,670
Long-term loans receivable	939	941
Long-term loans receivable from subsidiaries and affiliates	2,764	2,257
Claims provable in bankruptcy, claims provable in rehabilitation and other	3,570	3,520
Long-term prepaid expenses	99	134
Other assets	1,759	1,639
Allowance for doubtful accounts	-2,532	-2,549
Total investments and other assets	106,365	106,482
Total non-current assets	147,388	149,784
Total assets	195,676	242,585

(Unit: million yen)

	Previous fiscal year (As of March 31, 2019)	Current fiscal year (As of March 31, 2020)
Liabilities		
Current liabilities		
Current portion of bonds	7,955	—
Current portion of long-term loans payable	40	1,152
Lease obligations	231	231
Asset retirement obligations	25	20
Accounts payable-other	204	260
Accrued expenses	64	69
Accrued income taxes	167	199
Accrued consumption taxes	—	130
Deposits received	9,160	39,591
Provision for bonuses	75	76
Provision for directors' bonuses	46	45
Other current liabilities	8	—
Total current liabilities	17,981	41,777
Long-term liabilities		
Corporate bonds	20,083	20,063
Long-term borrowings	—	13,848
Lease obligations	466	300
Deferred tax liabilities	15,954	15,056
Deferred tax liabilities for land revaluation	788	788
Provision for retirement benefits	11	12
Asset retirement obligations	279	289
Other long-term liabilities	193	100
Total long-term liabilities	37,778	50,457
Total liabilities	55,759	92,235
Net assets		
Shareholders' equity		
Common stock	10,649	10,649
Capital surplus		
Legal capital surplus	46,177	46,177
Other capital surplus	3,233	3,938
Total Capital surplus	49,410	50,115
Retained earnings		
Legal retained earnings	664	664
Other retained earnings		
Reserve for reduction entry of land	1,579	1,523
General reserve	6,336	6,336
Retained earnings brought forward	63,104	70,453
Total retained earnings	71,684	78,977
Treasury stock	-20,297	-15,825
Total shareholders' equity	111,447	123,916
Valuation and translation adjustments		
Unrealized gain on other securities	32,785	30,751
Revaluation reserve for land	-4,484	-4,484
Total valuation and translation adjustments	28,300	26,266
Stock subscription rights	168	166
Total net assets	139,916	150,349
Total liabilities and net assets	195,676	242,585

(2) Statements of Income

(Unit: million yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Operating revenue		
Income of management guidance	1,160	1,175
Income of real estate rent	2,268	2,466
Dividend income	9,911	9,549
Others	630	308
Total operating revenue	13,970	13,500
Operating expenses		
Real estate related expenses	1,496	1,853
General and administrative expenses		
Directors' compensations, salaries and allowances	1,399	1,639
Provision for bonuses	75	76
Provision for directors' bonuses	46	45
Provision for retirement benefits	-0	0
Welfare expenses	217	214
Vehicle expenses	2	1
Provision of allowance for doubtful accounts	-328	17
Depreciation	406	386
Amortization of goodwill	0	—
Rent expenses	275	1,118
Taxes and dues	324	371
Others	1,383	1,275
Total operating expenses	5,298	7,002
Operating income	8,672	6,498
Non-operating income		
Interest income	117	283
Dividend income	1,276	1,327
Research fee income	192	187
Income from rental properties	13	15
Others	142	433
Total non-operating income	1,742	2,246
Non-operating expenses		
Interest expense	117	197
Bond issuance cost	50	—
Commitment fee	0	1
Others	55	14
Total non-operating expenses	223	212
Ordinary income	10,190	8,532

(Unit: million yen)

	Previous fiscal year (From April 1, 2018 to March 31, 2019)	Current fiscal year (From April 1, 2019 to March 31, 2020)
Extraordinary income		
Gain on sales of non-current assets	12	—
Gain on sales of investment securities	0	1,580
Others	0	—
Total extraordinary income	14	1,580
Extraordinary loss		
Loss on disposal of non-current assets	86	22
Impairment loss	27	48
Loss on sales of investment securities	—	47
Loss on valuation of investment securities	12	264
Total extraordinary loss	125	382
Profit before income taxes	10,078	9,730
Current	17	56
Deferred	-177	-46
Total income taxes and other	-159	9
Profit	10,238	9,720

(3) Statement of Changes in Shareholders' Equity
 Previous fiscal year (From April 1, 2018 to March 31, 2019)

(Unit: million yen)

	Shareholders' equity			
	Common stock	Capital surplus		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balance at the beginning of the current period	10,649	46,177	2,541	48,718
Changes during period				
Dividends of surplus				
Profit				
Reversal of reserve for tax purpose reduction entry of land				
Purchase of treasury stock				
Disposal of treasury stock			692	692
Reversal of revaluation reserve for land				
Net changes in items other than shareholders' equity				
Total changes during period	—	—	692	692
Balance at the end of period	10,649	46,177	3,233	49,410

	Shareholders' equity						
	Retained earnings					Treasury stock	Total shareholder's equity
	Legal retained earnings	Other retained earnings			Total retained earnings		
		Reserve for tax purpose reduction entry of land	General reserve	Retained earnings brought forward			
Balance at the beginning of the current period	664	1,589	6,336	54,707	63,297	-16,652	106,013
Changes during period							
Dividends of surplus				-2,025	-2,025		-2,025
Profit				10,238	10,238		10,238
Reversal of reserve for tax purpose reduction entry of land		-9		9	—		—
Purchase of treasury stock						-10,002	-10,002
Disposal of treasury stock						6,357	7,050
Reversal of revaluation reserve for land				173	173		173
Net changes in items other than shareholders' equity							
Total changes during period	—	-9	—	8,396	8,386	-3,644	5,433
Balance at the end of period	664	1,579	6,336	63,104	71,684	-20,297	111,447

	Valuation and translation adjustments			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments		
Balance at the beginning of the current period	35,135	-4,310	30,824	168	137,006
Changes during period					
Dividends of surplus					-2,025
Profit					10,238
Reversal of reserve for tax purpose reduction entry of land					—
Purchase of treasury stock					-10,002
Disposal of treasury stock					7,050
Reversal of revaluation reserve for land					173
Net changes in items other than shareholders' equity	-2,349	-173	-2,523	-0	-2,523
Total changes during period	-2,349	-173	-2,523	-0	2,909
Balance at the end of period	32,785	-4,484	28,300	168	139,916

Current fiscal year (From April 1, 2019 to March 31, 2020)

(Unit: million yen)

	Shareholders' equity			
	Common stock	Capital surplus		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balance at the beginning of the current period	10,649	46,177	3,233	49,410
Changes during period				
Dividends of surplus				
Profit				
Reversal of reserve for tax purpose reduction entry of land				
Purchase of treasury stock				
Disposal of treasury stock			704	704
Reversal of revaluation reserve for land				
Net changes in items other than shareholders' equity				
Total changes during period	—	—	704	704
Balance at the end of period	10,649	46,177	3,938	50,115

	Shareholders' equity						
	Retained earnings					Treasury stock	Total shareholder's equity
	Legal retained earnings	Other retained earnings			Total retained earnings		
		Reserve for tax purpose reduction entry of land	General reserve	Retained earnings brought forward			
Balance at the beginning of the current period	664	1,579	6,336	63,104	71,684	-20,297	111,447
Changes during period							
Dividends of surplus				-2,427	-2,427		-2,427
Profit				9,720	9,720		9,720
Reversal of reserve for tax purpose reduction entry of land		-56		56	—		—
Purchase of treasury stock						-2,822	-2,822
Disposal of treasury stock						7,294	7,998
Reversal of revaluation reserve for land				—	—		—
Net changes in items other than shareholders' equity							
Total changes during period	—	-56	—	7,349	7,292	4,471	12,469
Balance at the end of period	664	1,523	6,336	70,453	78,977	-15,825	123,916

(Unit: million yen)

	Valuation and translation adjustments			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments		
Balance at the beginning of the current period	32,785	-4,484	28,300	168	139,916
Changes during period					
Dividends of surplus					-2,427
Profit					9,720
Reversal of reserve for tax purpose reduction entry of land					—
Purchase of treasury stock					-2,822
Disposal of treasury stock					7,998
Reversal of revaluation reserve for land					—
Net changes in items other than shareholders' equity	-2,034	—	-2,034	-2	-2,036
Total changes during period	-2,034	—	-2,034	-2	10,432
Balance at the end of period	30,751	-4,484	26,266	166	150,349