

Total commitment to good health



# Financial Results Briefing for the First Half of Fiscal Year Ending March 31, 2020

November 13, 2019 (Wed)



[Notice]

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  - **Atsushi Udoh**, President and Chief Operating Officer (COO), Representative Director



# Financial Highlights for the First Half of Fiscal Year Ending March 31, 2020

**Hiromi Edahiro,**  
**Vice Chairman of the Board and Chief Financial Officer (CFO),**  
**Representative Director**

- **Continuous efforts towards unit price negotiations based on each product's value and expansion of customer support systems**
- **Increase in sales of new drugs such as cancer therapeutic drugs, specialty drugs and orphan drugs**
- **Temporary demand due to a drug price revision resulting from an increase in the consumption tax rate**
- **In all items of net sales, operating income, ordinary income and net income\*, initial forecasts are achieved**
- **Upward revision of first half earnings forecasts on October 24, 2019 and full year earnings forecasts on November 7, 2019**

\* "Profit attributable to owners of parent" has been shortened to "net income."

# Profit and Loss Statement (Consolidated)

Unit: million Yen

	1st half of FY ended March 2019		1st half of FY ending March 2020						Initial forecasts for FY ending March 2020		Progress (%)
			Initial forecasts		Results						
	Sum	% of net sales	Sum	% of net sales	Sum	% of net sales	YoY change (%)	Ratio to forecast (%)	Sum	% of net sales	
Net sales	593,635		587,000		634,050		6.81	108.02	1,223,000		51.84
Gross income	52,383	8.82	54,700	9.32	56,760	8.95	8.36	103.77	113,300	9.26	50.10
S G & A	47,578	8.01	48,900	8.33	48,839	7.70	2.65	99.88	98,300	8.04	49.68
Operating income	4,804	0.81	5,800	0.99	7,920	1.25	64.86	136.55	15,000	1.23	52.80
Ordinary income	7,664	1.29	8,700	1.48	10,951	1.73	42.89	125.87	21,800	1.78	50.23
Net income	4,943	0.83	5,500	0.94	7,121	1.12	44.06	129.47	13,600	1.11	52.36

# Balance Sheet (Consolidated)

Unit: million Yen

	FY ended March 2019		1st half of FY ending March 2020			Major factors behind the increase or decrease
	Sum	Proportion	Sum	Proportion	Incr. or decr.	
Current assets	479,427	72.23	463,731	71.40	-15,696	Increase in accounts receivable-trade of 11,662 Decrease in cash and deposits of 18,226 Decrease in merchandise of 6,247
Noncurrent assets	184,299	27.77	185,712	28.60	1,412	Increase in property, plant and equipment of 5,172 Decrease in investment securities of 3,589
<b>Total assets</b>	<b>663,727</b>	<b>100.00</b>	<b>649,443</b>	<b>100.00</b>	<b>-14,284</b>	
Current liabilities	400,265	60.31	379,338	58.41	-20,927	Decrease in accounts payable-trade of 16,595 Decrease in current portion of bonds of 4,615
Noncurrent liabilities	49,612	7.47	47,972	7.39	-1,640	Decrease in deferred tax liabilities of 1,100
<b>Total liabilities</b>	<b>449,878</b>	<b>67.78</b>	<b>427,310</b>	<b>65.80</b>	<b>-22,567</b>	
Net assets	213,848	32.22	222,132	34.20	8,283	Increase in retained earnings of 6,099 Decrease in treasury stock of 4,242 Decrease in valuation difference on available-for-sale securities of 2,471
<b>Total liabilities and net assets</b>	<b>663,727</b>	<b>100.00</b>	<b>649,443</b>	<b>100.00</b>	<b>-14,284</b>	

Shareholder's Equity Ratio FY ended March 2019: 32.19%, 1st half of FY ending March 2020: 34.18%

# Profit and Loss Statement

## (Pharmaceutical Wholesaling Business)

Unit: million Yen

	1st half of FY ended March 2019		1st half of FY ending March 2020						Initial forecasts for FY ending March 2020		Progress (%)
			Initial forecasts		Results						
	Sum	% of net sales	Sum	% of net sales	Sum	% of net sales	YoY change (%)	Ratio to forecast (%)	Sum	% of net sales	
Net sales	571,243		564,000		609,955		6.78	108.15	1,176,000		51.87
Gross income	36,744	6.43	38,500	6.83	40,267	6.60	9.59	104.59	80,300	6.83	50.15
S G & A	31,246	5.47	32,400	5.74	32,152	5.27	2.90	99.23	65,100	5.54	49.39
Operating income	5,498	0.96	6,100	1.08	8,115	1.33	47.60	133.03	15,200	1.29	53.39

[The Company's net sales of limited-handling products for selected wholesalers]

1st half of FY ended March 2019: 39.7 billion yen → 1st half of FY ending March 2020: 50.9 billion yen  
(Including hepatitis C medications of Gilead)

# Profit and Loss Statement (Dispensing Pharmacy Business)

Unit: million Yen

	1st half of FY ended March 2019		1st half of FY ending March 2020						Initial forecasts for FY ending March 2020		Progress (%)
			Initial forecasts		Results						
	Sum	% of net sales	Sum	% of net sales	Sum	% of net sales	YoY change (%)	Ratio to forecast (%)	Sum	% of net sales	
Net sales	45,427		46,100		47,714		5.03	103.50	93,800		50.87
Gross income	15,622	34.39	16,100	34.92	16,510	34.60	5.68	102.55	32,800	34.97	50.34
S G & A	15,420	33.94	14,900	32.32	15,152	31.76	-1.74	101.69	29,900	31.88	50.68
Operating income	201	0.44	1,200	2.60	1,358	2.85	575.62	113.17	2,900	3.09	46.83

## ■ Number of stores (as of September 30, 2019)

	Consolidated Subsidiaries	Non-Consolidated Subsidiaries	Affiliates Companies	Total
TOHO HOLDINGS	4 companies 79 stores	9 companies 55 stores	3 companies 26 stores	16 companies 160 stores
PharmaCluster	5 companies 463 stores	15 companies 66 stores	3 companies 87 stores	23 companies 616 stores
Total	9 companies 542 stores	24 companies 121 stores	6 companies 113 stores	39 companies 776 stores



# **Business Strategies to Improve Profitability over the Medium Term**

**Atsushi Udoh, President and Chief Operating Officer (COO),  
Representative Director**

**Akira Umada, Senior Executive Managing Director,  
President and Representative Director of TOHO PHARMACEUTICAL**

- 1. Improve commercial transaction practices of ethical drugs**
- 2. Guidelines for providing sales information of ethical drugs**
- 3. Towards the most appropriate frequency of deliveries**
- 4. Further expansion of customer support systems**
- 5. Expand KYOSOMIRAI PHARMA's product line and consolidate generic drugs**
- 6. Logistics innovation to achieve our mission**
- 7. Enhance functionality of the dispensing pharmacy business**

# 1. Improve commercial transaction practices of ethical drugs

## Comply with **the guidelines** for commercial transaction practices of ethical drugs

- Promote the early conclusion of negotiations and unit-based pricing contracts
- Reduce the frequency of price re-negotiation
- Dissuade customers from negotiating a lower price far below the actual value of drugs



**Negotiations for unit price per single item based on distribution costs and product values**  
**Strict application of the price lock system**

**Continue our efforts to improve distribution**

# 1. Improve commercial transaction practices : Composition of sales by category and contract rate

## Composition of sales by category

	April 2018-September 2018	April 2019-September 2019
	Proportion	Proportion
Drugs for premium to promote the development of new drugs and eliminate off-label use	32.9%	32.2%
Patented drugs, others	35.7%	39.9%
Long-listed original drugs	17.8%	14.1%
Generic drugs	13.6%	13.8%

## Contract rate

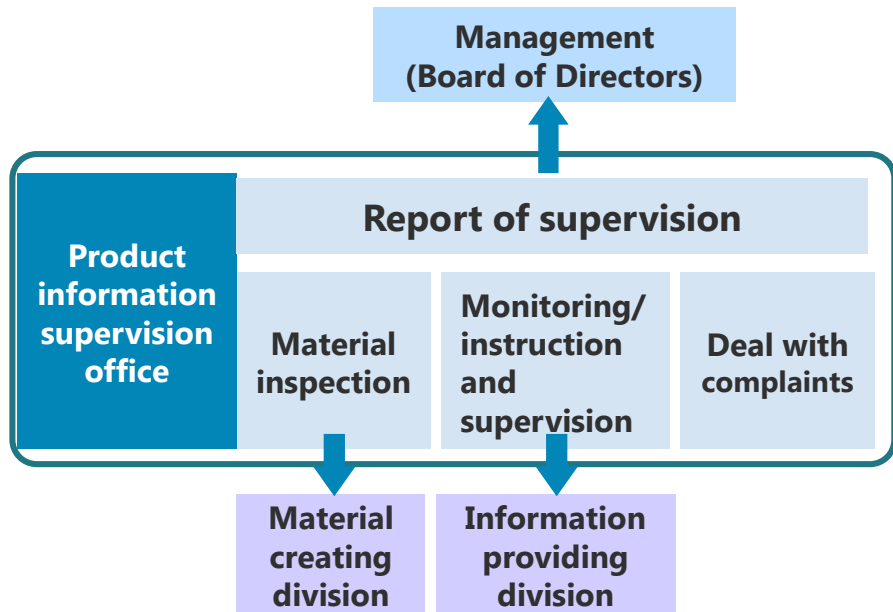
	2015/9	2016/3	2016/9	2017/3	2017/9	2018/3	2018/9	2019/3	2019/9
Value Basis	98.2%	99.7%	93.3%	97.2%	98.0%	99.9%	91.7%	95.5%	99.7%
Number Basis	92.7%	100.0%	79.7%	92.9%	87.9%	100.0%	69.6%	86.7%	100.0%

## 2. Guidelines for providing sales information of ethical drugs

Established **group risk management division** within TOHO HOLDINGS and **product information supervision office** within the pharmaceutical wholesaling subsidiaries including TOHO PHARMACEUTICAL

### ■ The future office (plans)

- ✓ Record sales information provision activities and prepare the manuals for reports and material creation
- ✓ Employee education and assessment
- ✓ Set up the inquiries desk



## Renamed ENIF hombu Centralized administration system of pharmacy operation “Mizar”

Based on the demonstration tests’ results of our Group’s pharmacies, started with the new name full-scale promotion activities to our customers such as members of Kyoso Mirai in Pharmacies



### Mizar:

a doubled star in the constellation of Ursa Major; a pair of stars that orbit each other, from which it has been named in the hope of both “a system as the strong partner of operation” and “growing together as the customers’ important partner”

### 3. Towards the most appropriate frequency of deliveries

## Centralized administration system of pharmacy operation

**“Mizar”** (Number of users : **2,009** stores)

**Main function**

[1] Automatic order placement based on prescription data; [2] Online warehousing based on delivery data; [3] Placement of orders for products in small lot; [4] Automatic register of surplus stock; and [5] Inventory clearance in conjunction with ENIF

**Benefits**

Reduce the risk of shortages in items by proper inventories amount  
Spend more time on its tasks as a pharmacist

### Strengthen proposals for members of the Kyoso Mirai in Pharmacy

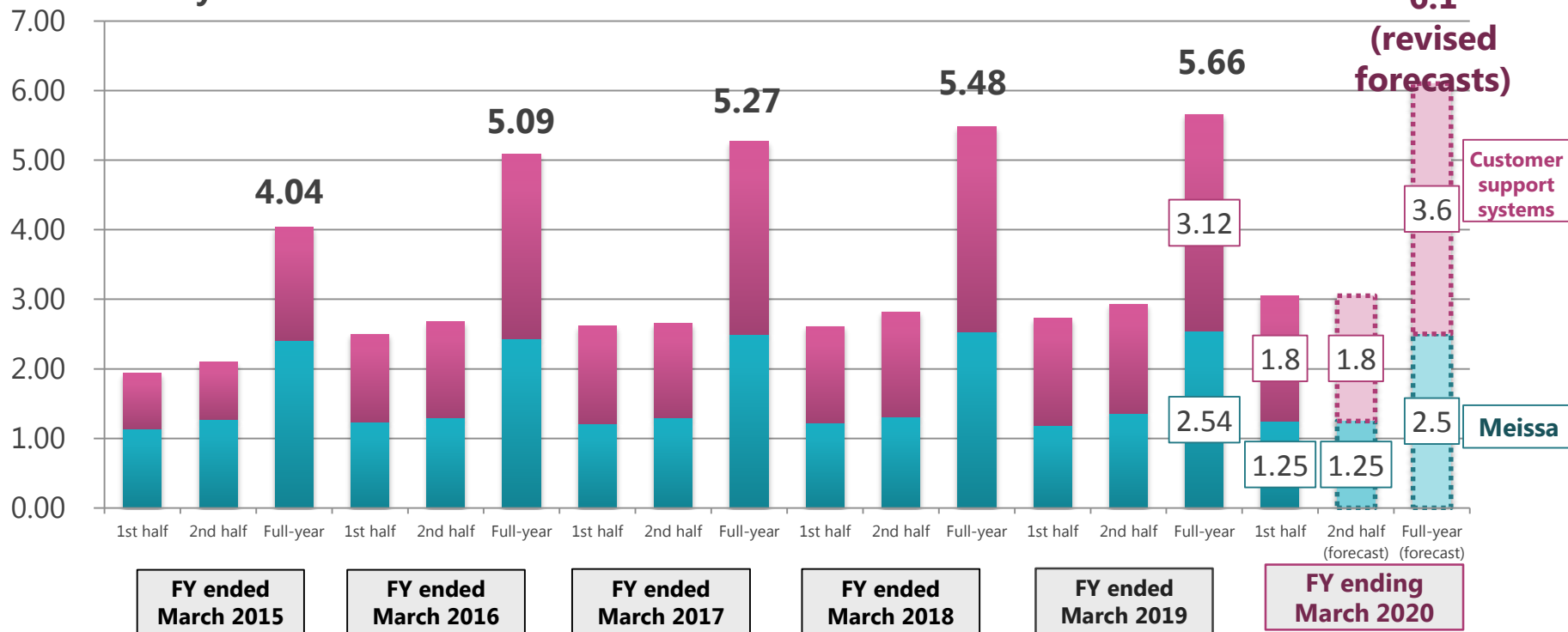
**Members: 7,186 companies / 20,192 stores** (as of October 2019)



# 4. Further expansion of customer support system

**Gross Profit**  
Unit: billion yen

■ Meissa ■ Customer support systems



## Meissa (MS Promotion System)

[FY ending March 2020]

1st half (result): 1.25 billion yen; 2nd half (forecast): 1.25 billion yen;

full-year (forecast): 2.5 billion yen

Number of contracts with pharmaceutical companies: 7 companies (full year) / 5 companies (spot, 1st half)



# 4. Further expansion of customer support system: development of voice recognition technology

## ENIFvoice SP, ENIFvoice SP+A, ENIFvoice Core

Number of sales and contract **11,389** sets (as of October 31, 2019)

2004

Call center

2006

Meissa

2009

ENIFvoice (medication history recording support system)

2010

ENIFvoice SP

2016

ENIF NURSE (operations supporting terminal for visiting nurses)

2017

ENIFvoice SP+A (all-in-one system for electronic medication history recording)

2018

ENIFvoice Core (all-in-one system for receipt computing and electronic medication history recording)



Widely used in various fields  
other than at pharmacies

# 4. Further expansion of customer support system: Byouin-Navi and Initial Examination Reservation Service

More than 50,000 new patients every month can receive examination in medical institutions via the initial reservation service

**Byouin-Navi** (web-portal site for finding hospitals and clinics)  
 Contained data of medical institutions: 220,000 hospitals/ clinics  
 Number of site visits: 15,925,990 (in October 2019)

**A medical institution's website**  
 Strengthen initiatives for proposals of website creating service of Byouin-Navi

日にちを選ぶ
情報の入力
入力内容の確認
送信完了

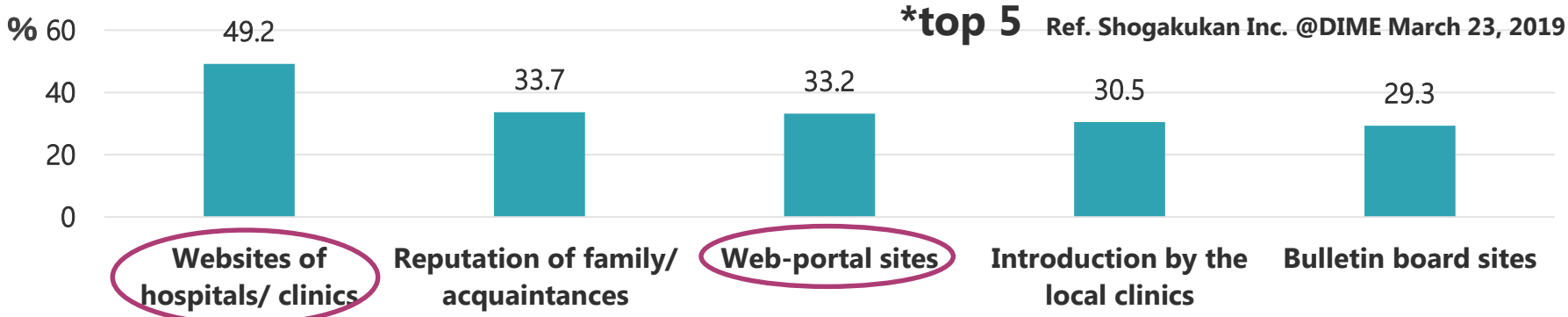
## Initial Examination Reservation Service

Number of account registration: 11,031 hospitals/ clinics

Number of new patients: 54,110 / a month (as of October 31, 2019)

お電話番号	必須	
メールアドレス	必須	[489map.com] を受信できるようにしてください。
メールアドレス (確認用)	必須	

Reference information in selecting hospitals/ clinics [multiple answers allowed]



# 4. Further expansion of customer support system: Future ENIF

**Information terminal for  
pharmaceutical ordering ENIF**  
Number of sales: **32,252** (as of October 31, 2019)

## New model : Future ENIF

Launched  
in 2019

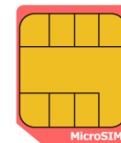
### ■ Built in LTE

- High speed communication/ large capacity data
- Continuous connection provides the latest master
- Automatic system update

### ■ Equipped with 2D barcode scanner

- GS1 data bar (dispensing package unit barcode) available

### ■ Greatly enhanced inventory function



SIM  
built-in

## 5. Expand KYOSOMIRAI PHARMA's product line and consolidate generic drugs

### Promote the GE business in line with social demands

Stable supply of high-quality and high-value added generic drugs

**75 ingredients / 162 products** (as of October 31, 2019)

- ✓ **June 2019: launched Silodosin Tablets / OD Tablets**  
"KMP" (Original Brand Name: URIEF Tab. / OD Tab.)  
KYOSOMIRAI PHARMA has obtained marketing approval  
SANWA KAGAKU KENKYUSHO also sells products and the  
two companies work together to increase market shares
- ✓ **Sept. 2019: launched Carbocisteine Tablets "JG"**  
(Original Brand Name: MUCODYNE Tablets)

KYOSOMIRAI PHARMA products are utilized  
at **468** university hospitals and large hospitals with  
over 200 beds (as of October 2019).

KYOSOMIRAI  
PHARMA's sales  
exceeded 0.5 billion  
yen (in October 2019)

## 5. Expand KYOSOMIRAI PHARMA's product line and consolidate generic drugs

### Quality test for all products

**Test includes:**

**[1]description**

**[2]dissolution**

**[3]assay procedure**



**Machines for dissolution**



**Isolator systems for sterility testing**

# 6. Logistics innovation to achieve our mission : DynaBASE

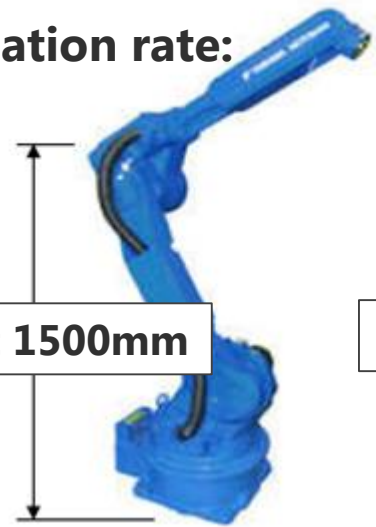


Scheduled for operation in autumn 2020  
 An integrated logistics center will cover as many products as possible and aim for one-stop supply. As a pharmaceuticals supply center at the time of a disaster in the Tokyo Metropolitan Area, it will cooperate with the Ministry of Land, Infrastructure, Transport and Tourism, Tokyo and the Japan Self-Defense Forces.

[piece picking robots]

## TBC Saitama

Automation rate:  
65%



about 1500mm

Load capacity: 20kg

## TBC Hiroshima

Automation rate: 85%

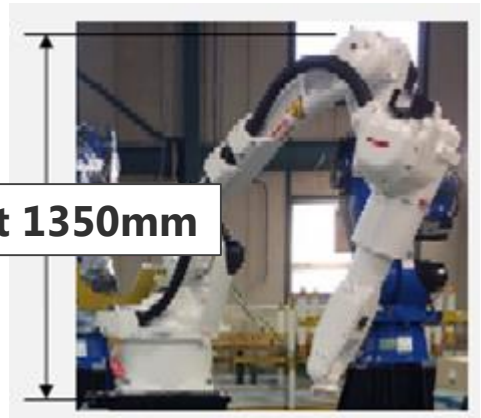


about 900mm

Load capacity: 7kg

## DynaBASE

Automation rate:  
over 90%



about 1350mm

Load capacity: 8kg

# 7. Enhance functionality of the dispensing pharmacy business

## Satisfactory services provided only by dispensing pharmacies

### [1] Response to the amendment of the Act on Securing Quality, Efficacy and Safety of Products, Including Pharmaceuticals and Medical Devices

Pharmacies collaborating with local communities	<ul style="list-style-type: none"><li>✓ Centralize and continue to understand dosage information utilizing ICT</li><li>✓ Respond to home care</li><li>✓ Share information with facilities providing medical services</li></ul>
Pharmacies collaborating with specialized medical institutions	<ul style="list-style-type: none"><li>✓ Cultivate pharmacists with an advanced knowledge of pharmaceuticals</li><li>✓ Share information with specialized medical institutions</li></ul>

Organize trainings for specialized pharmacists in cooperation with university hospitals and large hospitals

### [2] Enhancement of personal pharmacy functions

### [3] Increase in technical fees (rise in generic dispensing rate by consolidating into KYOSOMIRAI PHARMA products)

### [4] Further streamlining achieved through Mizar and the use of customer support systems such as ENIFvoice SP/Core

### [5] According to the notice “about the way of dispensing work” announced by the Ministry of Health, Labor and Welfare on April 2, 2019, upgrade training programs for a functional shift of pharmacies, including e-learning regarding operations allowed to non pharmacists

# Forecasts For FY 2020

**Atsushi Udoh, President and Chief Operating Officer (COO),  
Representative Director**



# Forecasts for Fiscal Year Ending March 2020

(Consolidated)

Unit: million Yen

	FY ended March 2019		FY ending March 2020							
			Forecasts		Revised forecasts		Vs. initial forecasts		YoY change	
	Sum	% of net sales	Sum	% of net sales	Sum	% of net sales	Incr. or Decr.	Incr. or Decr. (%)	Incr. or Decr.	Incr. or Decr. (%)
Net sales	1,222,199		1,223,000		1,267,000		44,000	3.60	44,801	3.67
Gross profit	112,042	9.17	113,300	9.26	115,000	9.08	1,700	1.50	2,958	2.64
S G & A	96,258	7.88	98,300	8.04	97,900	7.73	-400	-0.41	1,642	1.71
Operating income	15,783	1.29	15,000	1.23	17,100	1.35	2,100	14.00	1,317	8.34
Ordinary income	21,452	1.76	21,800	1.78	24,000	1.89	2,200	10.09	2,548	11.88
Net income	13,863	1.13	13,600	1.11	15,200	1.20	1,600	11.76	1,337	9.64

# Forecasts for Fiscal Year Ending March 2020

(Pharmaceutical Wholesaling Business)

Unit: million Yen

	FY ended March 2019		FY ending March 2020							
			Forecasts		Revised forecasts		Vs. initial forecasts		YoY change	
	Sum	% of net sales	Sum	% of net sales	Sum	% of net sales	Incr. or Decr.	Incr. or Decr. (%)	Incr. or Decr.	Incr. or Decr. (%)
<b>Net sales</b>	1,175,413		1,176,000		1,218,000		42,000	3.57	42,587	3.62
<b>Gross profit</b>	79,715	6.78	80,300	6.83	81,700	6.71	1,400	1.74	1,985	2.49
<b>S G &amp; A</b>	63,630	5.41	65,100	5.54	64,600	5.30	-500	-0.77	970	1.52
<b>Operating income</b>	16,084	1.37	15,200	1.29	17,100	1.40	1,900	12.50	1,016	6.32
<b>Ordinary income</b>	20,008	1.70	20,100	1.71	22,000	1.81	1,900	9.45	1,992	9.96
<b>Net income</b>	13,644	1.16	13,500	1.15	14,700	1.21	1,200	8.89	1,056	7.74

# Forecasts for Fiscal Year Ending March 2020

(Dispensing Pharmacy Business)

Unit: million Yen

	FY ended March 2019		FY ending March 2020							
			Forecasts		Revised forecasts		Vs. initial forecasts		YoY change	
	Sum	% of net sales	Sum	% of net sales	Sum	% of net sales	Incr. or Decr.	Incr. or Decr. (%)	Incr. or Decr.	Incr. or Decr. (%)
<b>Net sales</b>	93,222		93,800		95,400		1,600	1.71	2,178	2.34
<b>Gross profit</b>	32,251	34.60	32,800	34.97	33,200	34.80	400	1.22	949	2.94
<b>S G &amp; A</b>	30,826	33.07	29,900	31.88	30,100	31.55	200	0.67	-726	-2.36
<b>Operating income</b>	1,425	1.53	2,900	3.09	3,100	3.25	200	6.90	1,675	117.54

## [Our policies for dividends]

We remain committed to a flexible distribution policy that takes account of results during each period, while also ensuring the enhancement of our future revenue base and the retention of sufficient earnings to allow for market fluctuations.

	Interim	Year End	Annual Dividend
FY ended March 2018	15 yen	15 yen	30 yen
FY ended March 2019	15 yen	15 yen	30 yen
FY ending March 2020 (Forecasts)*	20 yen (Ordinary dividend: 15 yen Commemorative dividend: 5 yen)	20 yen (Ordinary dividend: 15 yen Commemorative dividend: 5 yen)	40 yen (Ordinary dividend: 30 yen Commemorative dividend: 10 yen)

\* We plan to pay an interim dividend of 20 yen per share and a year-end dividend of 20 yen per share for Fiscal year ending March 2020, with an annual dividend per share totaling 40 yen. Each of the interim and year-end dividends will be 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.

# References

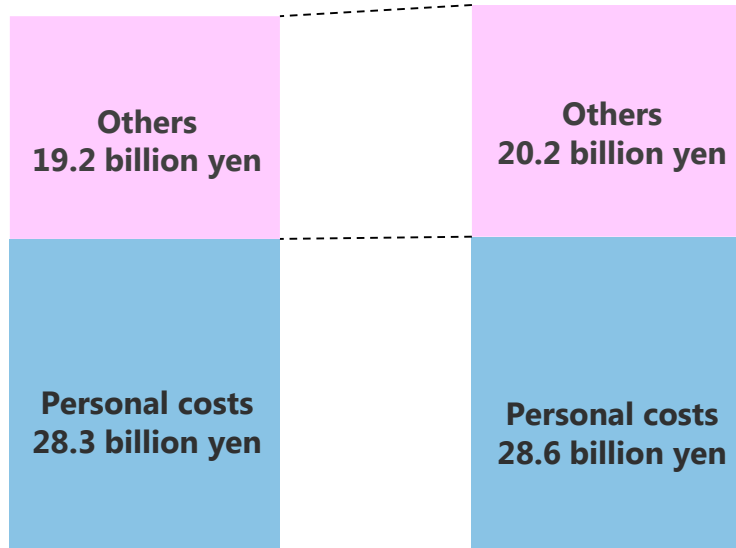
# Cash Flow

Unit: million Yen

	1st half of FY ended March 2019	1st half of FY ending March 2020	Major factors for 1st half of FY ending March 2020
Cash and cash equivalents at the beginning of period	63,671	75,382	
Operating activities	11,644	-8,326	Income before income taxes: 10,808 Depreciation: 2,711 Decrease in inventories: 6,247 Increase in notes and accounts receivable-trade: -11,644 Decrease in notes and accounts payable-trade: -16,602
Investment activities	-2,351	-7,892	Purchase of property, plant and equipment: -7,810
Financing activities	10,123	-1,969	Repayments of lease obligations: -810 Cash dividends paid: -1,022
Cash and cash equivalents at the end of period	83,662	57,192	Decrease (FY ending March 2020): -18,190

## <Year on Year>

**+1.3 billion yen**



**1st half of FY Ended  
March 2019**

**1st half of FY Ending  
March 2020**

### Others +1.0 billion yen

- Pharmaceutical wholesaling business: +1.37 billion yen
- Depreciation etc. of TBC Hiroshima : +1.07 billion yen
- Rent of DynaBASE: +0.2 billion yen
- Dispensing pharmacy business: -0.37 billion yen  
(Amortization of goodwill: -0.5 billion yen, dispatching fee etc.: +0.1 billion yen)

### Personal costs +0.27 billion yen

- Pharmaceutical wholesaling business: +0.17 billion yen
- Dispensing pharmacy business: +0.1 billion yen

# Capital Investment and Depreciation

## <Capital Investment>

<b>FY ending March 2020</b>
<b>Forecast : 14,582 million yen</b>
<b>1. Integrated Distribution Center in "DynaBASE" (Building, System): 9,572 million yen</b>
<b>2. Pharmaceutical sales office (New construction, relocation of sales office and others): 3,453 million yen</b>
<b>3. Others: 1,557 million yen</b>

<b>1st half of FY ending March 2020</b>
<b>Result : 7,383 million yen</b>
<b>1. Integrated Distribution Center in "DynaBASE" (Building, System): 6,544 million yen</b>
<b>2. Pharmaceutical sales office (New construction, relocation of sales office and others): 191 million yen</b>
<b>3. Others: 648 million yen</b>

## <Depreciation>

<b>FY ending March 2020 (forecast)</b>
<b>5,817 million yen</b>

<b>1st half of FY ending March 2020</b>
<b>2,711 million yen</b>





Total commitment to good health



[Front office in charge of IR]  
Public and Investor Relations Department  
E-mail: [info@so.tohoyk.co.jp](mailto:info@so.tohoyk.co.jp)  
<http://www.tohohd.co.jp/>