

* Notes

- (1) Changes in material subsidiaries during the first half of fiscal year ending March 2021: N.A.
 (Changes in special subsidiaries accompanying with a change in the scope of consolidation)
 Inclusion —(Company name:) Exclusion —(Company name:)
- (2) Application of accounting process which is peculiar to the compilation of consolidated quarterly financial statements: N.A.
- (3) 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

(4) 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 first half

First Half of FY Ending March 2021	78,270,142	FY Ended March 2020	78,270,142
First Half of FY Ending March 2021	7,759,802	FY Ended March 2020	7,759,209
First Half of FY Ending March 2021	70,510,971	First Half of FY Ended March 2020	68,237,987

*Summary of Consolidated Financial Results for the First Half of Fiscal Year Ending March 2021 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 determined to be rational at the time of the release of this report, and it is not intended that the Company undertake to achieve such results. Actual results may differ significantly from the projections above, due to a variety of factors.

Please refer to Explanation of Projections of Consolidated Operating Results on page 4 of this report (the attached document) for the suppositions on which the performance projections are based and points that have to be borne in mind for the use of such projections.

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1. Qualitative Information on Financial Results for the First Half of Fiscal Year Ending March 2021

(1) Explanation of Management Results

The prescription pharmaceuticals market during the second quarter of the fiscal year under review continued to face a severe environment. This was partly a result of negative effects of voluntary restraints on marketing activities in line with the spread of the novel coronavirus infections and limited clinic visits by patients who were alert to the risks of infections, in addition to the adverse effects brought about by both the NHI drug price revision in April 2020 and ongoing measures to curtail medical expenses such as promoting the use of generic drugs.

Under these circumstances, as a business group involved in medical care, health, and nursing care, the Group strived for activities that placed the utmost priority on providing a stable supply of pharmaceuticals and other medical products to maintain healthcare delivery systems, under the Group's social mission of "stably supplying pharmaceuticals and other medical products, even during times of emergency." Furthermore, the Company implemented measures to prevent the spread of infection and ensure the safety of employees, such as by providing all of the Group's employees, including part-time workers and temporary staff, with surgical masks to be necessary for the first half of this fiscal year.

This September, the integrated logistics center "TBC DynaBASE" in Ota-ku, Tokyo started operations inside Keihin Truck Terminal, which is the wide-area transportation base in case of disaster designated by the Tokyo Metropolitan Government. TBC DynaBASE has an advanced delivery system promoting "no-inspection system" that contributes to customers' and our group's operational efficiency by employing advanced robot technology aiming for full automation of the logistic system to secure almost 100% shipping accuracy. In addition, TBC DynaBASE, which is Tokyo's only ethical pharmaceutical logistics center that acts as a distribution base for disaster medical supplies, obtained approval from the Tokyo Metropolitan Government as Japan's first joint logistics and distribution center for pharmaceutical wholesalers to share a common pharmaceutical storage area. Thanks to the evaluation of our advanced logistics system, emergency response, and past record, we have been entrusted with the distribution of Treakisym®, an antineoplastic drug by SymBio Pharmaceuticals Limited.

The Company's operating results for the consolidated first half of the fiscal year ending March 2021 recorded 595,997 million yen for net sales (a decrease of 6.0% on a year-on-year basis), 1,279 million yen for operating income (a decrease of 83.8% on a year-on-year basis), 4,225 million yen for ordinary income (a decrease of 61.4% on a year-on-year basis), and 1,820 million yen for profit attributable to owners of parent (a decrease of 74.4% on a year-on-year basis).

The outline of business segment operating results are as follows. For your reference, KYOSOMIRAI PHARMA CO., LTD. has become a consolidated subsidiary from this fiscal year onward. Accordingly, the pharmaceutical manufacturing and sales business has been added as a new segment.

In the pharmaceutical wholesaling business, we made voluntary restraints on our marketing activities under the declaration of the state of emergency and engaged in activities that gave the utmost priority to a stable supply of pharmaceuticals, while we gradually resumed marketing activities after the declaration was lifted, responding to the request from medical institutions. We also promoted delivery business models that contribute to both customers' and our group's operational efficiency. For example, we strived for the optimization of delivery frequency by utilizing the centralized administration system for pharmacy operations, "Mizar", and promoted "no-inspection" in which products are not to be inspected at the time of delivery. Furthermore, we strived to strengthen relationships with customers by introducing customer support systems, including remote detailing services in collaboration with a capital alliance partner enTouch KK, Initial Examination Reservation Service, and Future ENIF, as well as to reduce costs through various measures, including changes in work styles and a review of business processes.

In accordance with Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs for Manufacturers, Wholesalers, and Medical Institutions/Pharmacies, we strived to make unit price-based negotiations reflecting the value of individual drugs. However, owing to the adverse effects of limited clinic visits by patients who were alert to the risks of novel coronavirus infections, in addition to the intensity of price competition among pharmaceutical wholesalers, the pharmaceutical wholesaling business posted net sales of 572,708 million yen (a decrease of 6.1% on a year-on-year basis) and segment income (operating income) of 1,844 million yen (a decrease of 77.3% on a year-on-year basis) for the second quarter of the fiscal year under review.

In the dispensing pharmacy business, while responding to the dispensing fee revision, we strived to improve profitability by increasing management efficiency through the standardization of store operations with the adoption of our customer support systems. And yet, due to the decreased demand for prescription pharmaceuticals as a result of limited clinic visits by patients, the dispensing pharmacy business posted net sales of 45,077 million yen (a decrease of 5.5% on a year-on-year basis) and segment income (operating income) of 763 million yen (a decrease of 43.8% on a year-on-year basis).

In the pharmaceutical manufacturing and sales business, we endeavored to supply stable, high-quality, and high-value-added generic drugs, as well as to expand the product line-up, which included the launch of one ingredient and three products of generic drugs in July this year and obtaining approval of manufacturing and marketing of two ingredients and seven products in August. As of the end of September 2020, we dealt with 81 ingredients and 195 generic products. As a result, the pharmaceutical manufacturing and sales business posted net sales of 3,970 million yen and segment income (operating income) of 429 million yen.

In the SMO operations, net sales amounted to 90 million yen (a decrease of 30.4% on a year-on-year basis) and segment loss (operating loss) was 170 million yen. In the information equipment sales operations, net sales for the first half of the current fiscal year totaled 532 million yen (a decrease of 0.7% on a year-on-year basis), with segment loss (operating loss) of 72 million yen.

(Note) Segment sales include inter-segment transactions.

(2) Explanation of Financial Position

(Assets)

Current assets increased 0.0% from the end of the previous consolidated fiscal year to 478,015 million yen, due to an increase in cash and deposits of 6,284 million yen and in merchandise and finished goods of 3,556 million yen, and a decrease in notes and accounts receivable-trade of 11,141 million yen.

Noncurrent assets increased 7.1% from the end of the previous consolidated fiscal year to 206,490 million yen, due mainly to an increase in property, plant and equipment of 4,060 million yen, and in investment securities of 9,221 million yen.

As a result, consolidated net assets increased 2.0% from the end of the previous consolidated fiscal year, to 684,506 million yen.

(Liabilities)

Current liabilities increased 0.4% from the end of the previous consolidated fiscal year to 379,548 million yen with an increase in short-term loans payable of 2,256 million yen.

Noncurrent liabilities increased 6.5% from the end of the previous consolidated fiscal year to 65,821 million yen with an increase in deferred tax liabilities of 3,561 million yen.

As a result, total liabilities increased 1.3% from the end of the previous consolidated fiscal year, to 445,369 million yen.

(Net assets)

Total net assets increased 3.5% from the end of the previous consolidated fiscal year to 239,136 million yen, due to an increase in valuation difference on available-for-sale securities of 6,879 million yen.

(Analysis of the Cash Flow Position)

Cash and cash equivalents (hereinafter referred to as “cash”) during this consolidated first half increased 6,276 million yen from the end of the previous consolidated fiscal year. As a result, the balance at the end of this first half was 86,289 million yen (an increase of 29,096 million yen on a year-on-year basis). The following describes the three categories of consolidated cash positions during this consolidated first half, as well as the factors responsible.

(Cash Flows from Operating Activities)

Cash flow from operating activities was an inflow of 8,073 million yen (an increase of 16,400 million yen on a year-on-year basis). Although the inflow was secured by some positive factors such as income before income taxes of 4,064 million yen, depreciation and amortization of 2,799 million yen and a decrease in notes and accounts receivables-trade of 11,459 million yen, these were somewhat offset by negative factors including an increase in inventories of 1,946, a decrease in accrued consumption taxes of 2,523 million yen and income taxes paid of 4,299 million yen.

(Cash Flows from Investing Activities)

Cash flow from investing activities was an outflow of 2,869 million yen (an increase of 5,023 million yen on a year-on-year basis), which is mainly attributable to purchase of property, plant and equipment of 1,055 million yen and purchase of intangible assets of 1,223 million yen.

(Cash Flows from Financing Activities)

Cash flow from financing activities was an inflow of 970 million yen (an increase of 2,940 million yen on a year-on-year basis). Although the inflow was secured by some positive factors such as net increase in short-term loans payable of 3,245 million yen, these were somewhat offset by negative factors including repayments of finance lease obligations of 746 million yen and cash dividends paid of 1,410 million yen.

(3) Explanation of Projections of Consolidated Operating Results for Fiscal Year Ending March 2021

(i) Projections of Consolidated Operating Results for Fiscal Year Ending March 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.

(ii) Interim Dividend and Year-End Dividend Forecast for Fiscal Year Ending March 2021

The company positions the return of its profits to the stockholders as one of the important tasks of management and recognizes that it is our responsibility to improve the profit per share. With reference to profit allocation, we have made the stable dividend as a basic part of our dividend policy, making efforts to build up the internal reserves to prepare for enhancements of the future revenue base, and for variations in market conditions.

Although we previously announced that the dividend forecast was undetermined, in line with this policy and in view of the business performance in the first half of the fiscal year ending March 2021, we would like to announce that dividends from surplus as of September 30, 2020 and the dividend forecast for the end of March 2021 are as follows:

Details of Interim Dividend

	Resolved amount	Latest estimate for the dividend	Previous interim dividend
Reference date	September 30, 2020	September 30, 2020	September 30, 2019
Dividend per Share	15.00 yen	Indeterminate	20.00 yen (Ordinary dividend:15.00 yen) (Commemorative dividend:5.00 yen)
Total Dividends	1,057 million yen	—	1,405 million yen
Effective Date	December 4, 2020	—	December 6, 2019
Dividend resource	Retained earnings	—	Retained earnings

Details of Dividend Forecast

	Annual Cash Dividend per Share		
	End of First Half	Year-end	Annual
Previous forecast	—	Indeterminate	Indeterminate
Current forecast	—	15.00 yen	30.00 yen
Dividend adopted	15.00 yen	—	—
Fiscal Year Ended March 2020	20.00 yen (Ordinary dividend:15.00 yen) (Commemorative dividend:5.00 yen)	20.00 yen (Ordinary dividend:15.00 yen) (Commemorative dividend:5.00 yen)	40.00 yen (Ordinary dividend:30.00 yen) (Commemorative dividend:10.00 yen)

2. Quarterly Consolidated Financial Statements and Main Notes
(1) Quarterly Consolidated Balance Sheets

(Unit: million yen)

	Previous consolidated fiscal year (As of March 31, 2020)	End of this consolidated first half (As of September 30, 2020)
Assets		
Current assets		
Cash and deposits	84,219	90,504
Notes and accounts receivable-trade	285,548	274,406
Securities	10	10
Merchandise and finished goods	75,679	79,235
Raw materials and supplies	—	243
Other	32,838	34,107
Allowance for doubtful accounts	-337	-492
Total current assets	477,958	478,015
Noncurrent assets		
Property, plant and equipment	96,399	100,459
Intangible assets		
Goodwill	760	550
Other	3,843	4,782
Total intangible assets	4,604	5,333
Investments and other assets		
Investment securities	80,351	89,573
Other	13,930	13,583
Allowance for doubtful accounts	-2,416	-2,459
Total investments and other assets	91,865	100,697
Total noncurrent assets	192,869	206,490
Total assets	670,827	684,506

(Unit: million yen)

	Previous consolidated fiscal year (As of March 31, 2020)	End of this consolidated first half (As of September 30, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	355,140	356,948
Short-term loans payable	2,666	4,922
Income taxes payable	5,267	1,772
Provision for bonuses	3,392	3,251
Provision for directors' bonuses	82	41
Provision for sales returns	287	235
Asset retirement obligations	20	37
Other	11,144	12,339
Total current liabilities	378,000	379,548
Noncurrent liabilities		
Bonds payable	20,063	20,053
Long-term loans payable	19,223	17,964
Net defined benefit liability	2,042	2,245
Asset retirement obligations	1,142	2,774
Other	19,345	22,783
Total noncurrent liabilities	61,817	65,821
Total liabilities	439,818	445,369
Net assets		
Shareholders' equity		
Capital stock	10,649	10,649
Capital surplus	49,271	49,378
Retained earnings	165,745	166,887
Treasury stock	-15,785	-15,784
Total shareholders' equity	209,881	211,132
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	25,469	32,348
Revaluation reserve for land	-4,507	-4,507
Total accumulated other comprehensive income	20,961	27,840
Subscription rights to shares	166	163
Total net assets	231,009	239,136
Total liabilities and net assets	670,827	684,506

(2) Quarterly Consolidated Profit and Loss Statement and Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Profit and Loss Statement
[Period for the consolidated first half]

(Unit: million yen)

	Period for previous consolidated first half (from April 1, 2019 to September 30, 2019)	Period for this consolidated first half (from April 1, 2020 to September 30, 2020)
Net sales	634,050	595,997
Cost of sales	577,290	546,925
Gross profit	56,760	49,071
Selling, general and administrative expenses		
Directors' compensations, salaries and allowances	20,992	20,265
Provision for bonuses	3,514	2,896
Provision for directors' bonuses	35	41
Retirement benefit expenses	119	122
Welfare expenses	4,038	3,887
Vehicle expenses	554	458
Provision of allowance for doubtful accounts	-10	201
Depreciation	2,711	2,569
Amortization of goodwill	328	209
Rent expenses	3,749	4,145
Taxes and dues	1,145	950
Expense before deduction of temporary consumption tax payment	2,606	3,101
Other	9,052	8,940
Total selling, general and administrative expenses	48,839	47,791
Operating income	7,920	1,279
Non-operating income		
Interest income	40	38
Dividend income	760	796
Commission fee	1,636	1,541
Amortization of negative goodwill	4	—
Equity in earnings of affiliates	29	—
Other	735	913
Total non-operating income	3,207	3,289
Non-operating expenses		
Interest expenses	15	40
Share of loss of entities accounted for using equity method	—	4
Expenses of real estate rent	131	126
Other	30	172
Total non-operating expenses	177	343
Ordinary income	10,951	4,225

(Unit: million yen)

	Period for previous consolidated first half (from April 1, 2019 to September 30, 2019)	Period for this consolidated first half (from April 1, 2020 to September 30, 2020)
Extraordinary income		
Gain on sales of noncurrent assets	12	2
Gain on sales of investment securities	63	—
Gain on sales of businesses	13	3
Other	1	0
Total extraordinary income	89	5
Extraordinary loss		
Loss on disposal of noncurrent assets	42	10
Impairment loss	107	38
Loss on valuation of investment securities	15	72
Loss on valuation of stocks of subsidiaries and affiliates	53	35
Other	13	9
Total extraordinary loss	232	166
Income before income taxes	10,808	4,064
Income taxes-current	3,943	1,712
Income taxes-deferred	-256	531
Total income taxes	3,686	2,244
Current net income	7,121	1,820
Profit attributable to owners of parent	7,121	1,820

Quarterly Consolidated Statements of Comprehensive Income
 [Period for the consolidated first half]

(Unit: million yen)

	Period for previous consolidated first half (from April 1, 2019 to September 30, 2019)	Period for this consolidated first half (from April 1, 2020 to September 30, 20)
Current net income	7,121	1,820
Other comprehensive income		
Valuation difference on available-for-sale securities	-2,458	6,849
Share of other comprehensive income of associates accounted for using equity method	-12	29
Total other comprehensive income	-2,471	6,879
Comprehensive income	4,650	8,699
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	4,650	8,699
Comprehensive income attributable to non-controlling interests	—	—

(3) Quarterly Consolidated Statements of Cash Flows

(Unit: million yen)

	Period for previous consolidated first half (from April 1, 2019 to September 30, 2019)	Period for this consolidated first half (from April 1, 2020 to September 30, 2020)
Net cash provided by (used in) operating activities		
Income before income taxes	10,808	4,064
Depreciation and amortization	2,711	2,799
Impairment loss	107	38
Amortization of goodwill	328	209
Amortization of negative goodwill	-4	—
Increase (decrease) in net defined benefit liability	25	22
Increase (decrease) in provision for sales returns	8	-52
Increase (decrease) in provision for bonuses	106	-233
Increase (decrease) in provision for directors' bonuses	-35	-40
Increase (decrease) in allowance for doubtful accounts	-40	197
Interest and dividend income	-800	-834
Interest expense	15	40
Loss (gain) on sales and retirement of noncurrent assets	30	8
Loss (gain) on sales and valuation of investment securities	-47	80
Decrease (increase) in notes and accounts receivable-trade	-11,644	11,459
Decrease (increase) in inventories	6,247	-1,946
Decrease (increase) in other assets	1,493	-2,040
Increase(decrease) in notes and accounts payable-trade	-16,602	725
Increase (decrease) in other liabilities	-1,129	-259
Increase (decrease) in accrued consumption taxes	1,454	-2,523
Other loss (gain)	-2,013	-2,276
Subtotal	-8,980	9,439
Interest and dividends income received	790	826
Interest expenses paid	-29	-42
Income taxes paid	-2,272	-4,299
Other	2,164	2,149
Net cash provided by (used in) operating activities	-8,326	8,073

(Unit: million yen)

	Period for previous consolidated first half (from April 1, 2019 to September 30, 2019)	Period for this consolidated first half (from April 1, 2020 to September 30, 2020)
Net cash provided by (used in) investment activities		
Payments into time deposits	-696	-692
Proceeds from withdrawal of time deposits	733	684
Purchase of property, plant and equipment	-7,810	-1,055
Proceeds from sales of property, plant and equipment	184	31
Purchase of intangible assets	-285	-1,223
Proceeds from sales of intangible assets	—	0
Purchase of investment securities	-157	-292
Proceeds from sales and redemption of investment securities	213	50
Purchase of stocks of subsidiaries and affiliates	-5	-410
Proceeds from sales of stocks of subsidiaries and affiliates	46	—
Payments for asset retirement obligations	-2	-2
Payments of loans receivable	-188	-230
Collection of loans receivable	60	220
Other	16	52
Net cash provided by (used in) investment activities	-7,892	-2,869
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	36	3,245
Repayment of long-term loans payable	-172	-115
Purchase of treasury stock	-1	-1
Repayments of finance lease obligations	-810	-746
Cash dividends paid	-1,022	-1,410
Net cash provided by (used in) financing activities	-1,969	970
Net increase (decrease) in cash and cash equivalents	-18,189	6,175
Cash and cash equivalents at beginning of year	75,382	80,013
Increase in cash and cash equivalents resulting from merger	—	101
Cash and cash equivalents at the end of first half	57,192	86,289

(4) Notes Concerning Quarterly Consolidated Financial Statements

(Notes Concerning Quarterly Consolidated Balance Sheets)

Contingent liability

TOHO PHARMACEUTICAL CO., LTD., our consolidated subsidiary, received an onsite inspection by the Japan Fair Trade Commission on November 27, 2019 for suspected violation of the Antimonopoly Act regarding its bidding to supply ethical pharmaceuticals to Japan Community Health care Organization (JCHO). In addition to that, it was searched by the Special Investigation Office of Tokyo District Public Prosecutors Office and the Japan Fair Trade Commission on October 13, 2020.

While our consolidated business performance may eventually be adversely impacted by the outcome of the above investigations, it is impossible to reasonably estimate the financial impact at this time.

(Notes Concerning Premise of a Going Business)

Not applicable.

(Notes concerning Material Changes in Shareholders' Equity)

Period for this consolidated first half (from April 1, 2020 to September 30, 2020)

Not applicable.

(Segmental Information)

I Period for previous consolidated first half (from April 1, 2019 to September 30, 2019)

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

	Reportable segments					Adjustments (million yen) (Note 1)	Amount on the quarterly consolidated profit and loss statement (million yen) (Note 2)
	Pharmaceutical Wholesaling (million yen)	Dispensing Pharmacy (million yen)	SMO (million yen)	Information equipment sales (million yen)	Total (million yen)		
Net Sales							
(1) Net sales to external customers	585,968	47,567	129	385	634,050	—	634,050
(2) Inter-segment internal net sales or transfers	23,986	146	—	150	24,283	-24,283	—
Total	609,955	47,714	129	535	658,334	-24,283	634,050
Segment profit	8,115	1,358	19	-77	9,415	-1,494	7,920

(Note) 1. The amount of the adjustments for segment profits shows the elimination of internal transactions and unrealized profit and corporate expenses not attributable to any reportable segment.

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

2. Information about impairment losses on noncurrent assets or goodwill by each business segment
Not applicable.

II Period for this consolidated first half (from April 1, 2020 to September 30, 2020)

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

	Reportable segments						Adjustments (million yen) (Note 1)	Amount on the quarterly consolidated profit and loss statement (million yen) (Note 2)
	Pharmaceutical Wholesaling (million yen)	Dispensing Pharmacy (million yen)	Pharmaceutical manufacturing and sales (million yen)	SMO (million yen)	Information equipment sales (million yen)	Total (million yen)		
Net Sales								
(1) Net sales to external customers	549,273	45,074	1,104	90	454	595,997	—	595,997
(2) Inter-segment internal net sales or transfers	23,434	2	2,866	—	77	26,380	-26,380	—
Total	572,708	45,077	3,970	90	532	622,378	-26,380	595,997
Segment profit	1,844	763	429	-170	-72	2,794	-1,514	1,279

(Note) 1. The amount of the adjustments for segment profits shows the elimination of internal transactions and unrealized profit and corporate expenses not attributable to any reportable segment.

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

2. Information about impairment losses on noncurrent assets or goodwill by each business segment
Not applicable.

3. Matters concerning changes of reportable segments

KYOSOMIRAI PHARMA CO., LTD. has become a consolidated subsidiary from this fiscal year onward. Accordingly, the pharmaceutical manufacturing and sales business has been added as a new segment.