

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

May 13, 2022

**Consolidated Financial Results
for the Fiscal Year Ended March 31, 2022
(Under Japanese GAAP)**

Company name: TOHO HOLDINGS CO., LTD.
 Listing: Tokyo Stock Exchange
 Securities code: 8129
 URL: <https://www.tohohd.co.jp/en/>
 Representative: Atsushi Udoh / President and Representative Director
 Inquiries: Makoto Kawamura / Director and General Manager, Corporate Planning and Investor Relations Department
 Telephone: +81-3-6838-2803
 Scheduled date of annual general meeting of shareholders: June 29, 2022
 Scheduled date to commence dividend payments: June 9, 2022
 Scheduled date to file annual securities report: June 29, 2022
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes (for Institutional Investors and Analysts)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the fiscal year ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

(1) Consolidated operating results (Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2022	1,266,171	4.6	12,527	191.1	18,182	76.7	13,379	168.1
March 31, 2021	1,210,274	-4.2	4,303	-75.5	10,289	-56.6	4,989	-69.3

Note: Comprehensive income For the fiscal year ended March 31, 2022: ¥5,701 million [-29.0%]

For the fiscal year ended March 31, 2021: ¥8,027 million [-44.3%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
Fiscal year ended	Yen	Yen	%	%	%
March 31, 2022	189.70	174.48	5.6	2.6	1.0
March 31, 2021	70.77	64.97	2.1	1.5	0.4

Reference: Share of profit (loss) of entities accounted for using equity method

For the fiscal year ended March 31, 2022: ¥24 million

For the fiscal year ended March 31, 2021: ¥23 million

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
March 31, 2022	702,376	241,281	34.3	3,415.50
March 31, 2021	683,181	237,405	34.7	3,364.65

Reference: Equity

As of March 31, 2022: ¥240,931 million

As of March 31, 2021: ¥237,243 million

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2022	16,341	-11,032	-4,473	90,014
March 31, 2021	8,768	680	-680	88,882

2. Cash dividends

	Annual dividends per share					Total cash dividends (Total)	Payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended March 31, 2021	—	15.00	—	15.00	30.00	2,115	42.4	0.9
Fiscal year ended March 31, 2022	—	15.00	—	15.00	30.00	2,116	15.8	0.9
Fiscal year ending March 31, 2023 (Forecast)	—	16.00	—	16.00	32.00		20.0	

3. Consolidated projected results of operations during fiscal year ending March 31, 2023 (from April 1, 2022 to March 31, 2023)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First Half	630,000	1.5	5,700	205.9	8,400	74.9	5,600	71.2	79.39
Full year	1,269,000	0.2	12,300	-1.8	17,600	-3.2	11,300	-15.5	160.19

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

Newly included: — companies

Excluded: — companies

(2) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(3) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of March 31, 2022	78,270,142 shares
As of March 31, 2021	78,270,142 shares

(ii) Number of treasury shares at the end of the period

As of March 31, 2022	7,729,376 shares
As of March 31, 2021	7,759,749 shares

(iii) Average number of shares outstanding during the period

Fiscal year ended March 31, 2022	70,529,419 shares
Fiscal year ended March 31, 2021	70,510,695 shares

[Reference] Overview of non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

(1) Non-consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2022	7,308	-35.8	459	-90.7	2,080	-69.6	4,014	-60.8
March 31, 2021	11,382	-15.7	4,918	-24.3	6,840	-19.8	10,245	5.4

	Basic earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
March 31, 2022	56.91	52.22
March 31, 2021	145.29	133.57

(2) Non-consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
March 31, 2022	254,760	154,787	60.7	2,191.82
March 31, 2021	260,028	160,617	61.7	2,275.25

Reference: Equity

As of March 31, 2022: ¥154,637 million

As of March 31, 2021: ¥160,455 million

* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

- 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 (4) Projections for the Next Fiscal Year” on Page 5 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 18, 2022. 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.

Contents of Attached Document

1. Summary of Management Results	2
(1) Summary of Management Results for the Current Fiscal Year	2
(2) Summary of Financial Position for the Current Fiscal Year	4
(3) Summary of Cash Flows for the Current Fiscal Year	5
(4) Projections for the Next Fiscal Year	5
2. State of the Corporate Group	6
3. Business Management Policy	6
4. Basic Idea for Selection of Accounting Standards	7
5. Consolidated Financial Statements and Main Note	8
(1) Consolidated Balance Sheets	8
(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income	10
(3) Consolidated Statement of Changes in Equity	13
(4) Consolidated Statement of Cash Flows	15
(5) Notes to Consolidated Financial Statements	17
(Notes Concerning Premise of a Going Business)	17
(Change in Scope of Consolidation or Application of Equity Method)	17
(Change in the Accounting Policies)	17
(Change in Presentation of Consolidated Financial Statements)	18
(Additional Information)	18
(Segment Information)	18
(Amounts per Share)	21
(Significant Subsequent Events)	21
6. Unconsolidated Financial Statements	22
(1) Balance Sheets	22
(2) Statements of Income	24
(3) Statements of Changes in Equity	26

1. Summary of Management Results

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

In the consolidated fiscal year ended March 31, 2022, the prescription pharmaceuticals market continued to be affected by measures to curtail medical expenses, such as the interim-period NHI drug price revisions implemented for the first time in April 2021. We were also forced to recall and adjust shipments of products resulting from GMP violations by some generic drug manufacturers. Regarding COVID-19 infections, there is still no prospect of containing the pandemic, such as the issuance of a state of emergency and a quasi-state of emergency due to the outbreak of a new variant of the virus. The environment surrounding medical institutions remains severe, but the trend of limited clinic visits by patients is improving compared to the previous fiscal year.

The Group works on the following three priority measures: (1) development and proposal of customer support systems, including the Initial Examination Reservation Service and the centralized administration system for pharmacy operations “Mizar,” in order to solve the problems regarding patients, medical institutions and specialists who are engaged in home medical and nursing care, and increase convenience; (2) enhancement of logistics functions in order to fulfil the Group’s social mission of stably supplying pharmaceuticals and other medical products even in times of disaster; (3) stable supply of high-quality generic drugs ensured by our own verification system in the age of a generic drug share of 80%.

As for customer support systems, the Group worked on proposals for systems that contribute to reducing contact opportunities, increasing convenience for patients, and improving the business efficiency of our customers, such as remote detailing services, the online medical examination/dosing guidance system “KAITOS,” the Initial Examination Reservation Service, the centralized administration system for pharmacy operations “Mizar,” and the drug ordering and information terminal “Future ENIF,” such that monthly charging income from customers increased steadily and contributed to improvement of profitability.

In the logistics division, the operation of the integrated logistics center “TBC DynaBASE” (Ota-ku, Tokyo) opened in September 2020, is now on track, and it has further promoted efficient distribution systems, including no inspection at the time of delivery and direct delivery from the center. At the same time, the introduction of the world’s highest level of automation technology has made it possible to operate with a small number of people, improving productivity. Construction of “TBC Hokuriku” (Kanazawa City, Ishikawa Prefecture), a key logistics facility in the Hokuriku area, was completed, and the center began full operation in May 2022.

Regarding measures to improve profitability over the medium term, we are building a new revenue model by investing business resources in growth areas such as regenerative medical products, biomedical products, gene therapy products, and biosimilars. As part of these investments, we have invested in companies, including Morimoto-Pharma Group, which has an innovative freeze-drying technology, CellGenTech, Inc., which is developing cell-based medicines for gene therapy using adipocytes, and Cellusion Inc., which is developing a cell therapy product using an iPS-derived corneal endothelial cell substitute for the treatment of bullous keratopathy. The Group will continue to invest in pharmaceutical and venture companies with advanced technologies to support their business development for social implementation as well as offer our full cooperation in distribution issues such as raw materials transportation, clinical trial logistics, manufacturer logistics, and wholesale logistics. In March 2022, the Company also acquired a part of shares of AYM HD KK, which owns all shares of AYUMI Pharmaceutical Corporation, which is a rheumatism and orthopedics specialty pharma company and develops/introduces biologics and biosimilars.

Regarding our response to COVID-19 infections, in order to help prevent the spread of infections and sustain the medical care system, we focused on delivering and providing COVID-19-related products, such as therapeutics, vaccines, needles and syringes, and test reagents and kits, while devoting company-wide efforts to infection-prevention measures. We implemented the third work-site vaccination for Group employees and their family members.

In order to conduct sound corporate management, we revised the composition of the Board of Directors drastically in June 2021 and raised the ratio of independent outside directors to one-third or more. The Company has also strengthened its governance by newly establishing a Nomination and Compensation Committee.

The Company’s consolidated operating results for fiscal year ended March 31, 2022 recorded 1,266,171 million yen for net sales (an increase of 4.6% on a year-on-year basis), 12,527 million yen for operating profit (an increase of 191.1% on a year-on-year basis), 18,182 million yen for ordinary profit (an increase of 76.7% on a year-on-year basis), and 13,379 million yen for profit attributable to owners of parent (an increase of 168.1% on a year-on-year basis).

On March 30, 2022, TOHO PHARMACEUTICAL CO., LTD., our consolidated subsidiary, received a cease and desist order and a surcharge payment order from the Japan Fair Trade Commission for violations of the Antimonopoly Act in connection with bidding on the supply of ethical pharmaceuticals to the Japan Community Health care Organization (JCHO).

In this case, TOHO PHARMACEUTICAL CO., LTD. and our employee were sentenced by the Tokyo District Court to a fine and suspended sentence, respectively, on June 30, 2021. In addition, Kyushu Toho Co., Ltd., our

consolidated subsidiary, received an onsite inspection by the Japan Fair Trade Commission for suspected violation of the Antimonopoly Act regarding its bidding by the Headquarters of the National Hospital Organization for ethical pharmaceuticals in the Kyushu area on November 9, 2021. The Group has taken these incidents seriously and is making every effort to ensure thorough compliance. The entire Group will promote sound and transparent business activities to restore trust.

The outline of business segment operating results are as follows. From the current consolidated fiscal year, the method of classifying business segments has been revised and three companies, Nextit Research Institute, Inc., eKenkoshop Corporation and K.K.eHealthcare, have been included in the scope of consolidation. In addition to the existing “SMO operations” and “information equipment sales operations,” the above three companies have been newly added to set up the “other peripheral businesses” with 4 reportable segments: “pharmaceutical wholesaling,” “dispensing pharmacy,” “pharmaceutical manufacturing and sales,” and “other peripheral businesses.”

In the pharmaceutical wholesaling business, despite the impact of the suspension from designated bidder lists due to violations of the Antimonopoly Act, the Group’s logistics functions and price management system were evaluated by pharmaceutical manufacturers, resulting in steady sales expansion of limited-handling products for selected wholesalers, such as specialty pharmaceuticals, and sales of COVID-19-related products, including therapeutic agents and test kits, also increased, contributing significantly to the business performance. In addition, we focused on delivering COVID-19 vaccines and drugs, as well as needles and syringes, and coordinating the collection and shipment of generic drugs. In price negotiations with medical institutions, we worked to reach an agreement at an appropriate price commensurate with product value and distribution costs, and continued to actively work on proposals for customer support systems. As a result, the pharmaceutical wholesaling business posted net sales of 1,216,019 million yen (an increase of 4.6% on a year-on-year basis) and segment profit (operating profit) of 9,967 million yen (an increase of 151.1% on a year-on-year basis) for the consolidated fiscal year under review.

In the dispensing pharmacy business, there was an improvement in the number of prescriptions required due to the easing of limited clinic visits by patients. Further, in order to provide safe and high-quality medical services, we strengthened the online medical dosing guidance system and actively worked to train family pharmacists and expand sales of OTC drugs and other products. In addition to responding to the revision of dispensing fees, we worked to improve profitability by optimizing inventories through the use of customer support systems, standardizing and streamlining store operations, and overhauling expenses. Furthermore, in order to contain COVID-19 as soon as possible, while we implemented thorough measures against infectious diseases at our stores, we also sold antigen test kits and conducted free PCR and antigen tests in response to the government’s project to make PCR and other tests free. As a result, the dispensing pharmacy business posted net sales of 91,801 million yen (an increase of 0.8% on a year-on-year basis) and segment profit (operating profit) of 2,963 million yen (an increase of 10.2% on a year-on-year basis).

In the pharmaceutical manufacturing and sales business, the Group has been engaged in stable supply of high-quality and high value-added pharmaceuticals by strictly monitoring the quality of products based on its own verification system. In addition, we continued to expand our product lineup by launching 8 ingredients and 15 products of new generic drugs during the consolidated fiscal year under review. As of the end of March 2022, the product lineup was composed of 88 ingredients and 209 products. As a result, the pharmaceutical manufacturing and sales business posted net sales of 9,093 million yen (an increase of 12.4% on a year-on-year basis) and segment profit (operating profit) of 884 million yen (an increase of 21.3% on a year-on-year basis).

In the other peripheral businesses, net sales amounted to 5,717 million yen and segment profit (operating profit) was 395 million yen.

(Note) Segment sales include inter-segment transactions.

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

(i) Assets

Consolidated current assets as of the end of March 2022 increased 5.4% from the end of the previous consolidated fiscal year to 513,107 million yen, due mainly to an increase accounts receivable-trade of 15,828 million yen, an increase in merchandise and finished goods of 3,960 million yen, and new component of return assets of 4,807 million yen in other.

Non-current assets as of the end of March 2022 decreased 3.6% from the end of the previous year to 189,268 million yen, due mainly to a decrease in property, plant and equipment of 3,184 million yen, and a decrease in investments securities of 3,807 million yen.

As a result, consolidated total assets as of the end of March 2022 increased 2.8% from the end of the previous consolidated fiscal year to 702,376 million yen.

(ii) Liabilities

Current liabilities increased 6.9 % from the end of the previous consolidated fiscal year to 402,819 million yen, owing to an increase in notes and accounts payable-trade of 13,043 million yen, an increase in current portion of long-term borrowings of 3,631 million yen, an increase in income taxes payable of 3,380 million yen, and new component of refund liability of 5,025 million yen in other.

Non-current liabilities decreased 15.6 % from the end of the previous consolidated fiscal year to 58,275 million yen with a decrease in long-term borrowings of 6,411 million yen, and a decrease in deferred tax assets of 3,669 million yen.

As a result, total liabilities increased 3.4% year-on-year to 461,095 million yen.

(iii) Net Assets

Total net assets increased 1.6% from the end of the previous consolidated fiscal year to 241,281 million yen, with an increase in retained earnings of 11,381 million yen, and a decrease in valuation difference on available-for-sale securities of 7,714 million yen.

(3) Summary of Cash Flows for the Current Fiscal Year

Cash and cash equivalents (hereinafter referred to as “cash”) during this consolidated fiscal year increased by 1,131 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 90,014 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 16,341 million yen (an increase of 7,572 million yen on a year-on-year basis). Although inflow was secured by some positive factors such as net profit before income taxes of 20,110 million yen, depreciation of 6,634 million yen, and an increase in trade payables of 13,040 million yen, these were somewhat offset by negative factors including an increase in trade receivables of 16,045 million yen, an increase in inventories of 3,859 million yen, and income taxes paid of 3,205 million yen.

(ii) Cash Flows from Investing Activities

Cash flow from investing activities was an outflow of 11,032 million yen (a decrease of 11,712 million yen from the previous fiscal year). Although inflow was secured by some positive factors such as proceeds from sale and redemption of investment securities of 5,243 million yen, these were somewhat offset by negative factors including purchases of property, plant and equipment of 3,621 million yen, and purchase of shares of subsidiaries and associates of 11,095 million yen.

(iii) Cash Flows from Financing Activities

Cash flow from financing activities was an outflow of 4,473 million yen (a decrease of 3,792 million yen from the previous fiscal year) which is mainly attributable to repayments of long-term borrowings of 2,780 million yen and dividends paid of 2,116 million yen.

(Reference) Trends in key indicators of cash flows

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Shareholder's Equity Ratio (%)	32.1	32.2	34.4	34.7	34.3
Shareholder's Equity Ratio at Market Value (%)	26.6	28.4	23.8	21.0	18.6
Ratio of cash flows to interest-bearing debts (%)	42.1	254.9	394.5	523.2	259.4
Interest Coverage Ratio (times)	423.3	179.6	198.2	107.1	209.5

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.

(4) Projections for the Next Fiscal Year

In the prescription pharmaceuticals market to which the Company belongs, NHI drug prices were revised in April 2022, and the revision of actual prices resulted in a 6.69% reduction in drug prices on a drug cost basis. There is still no prospect of containing COVID-19 infections, and the outlook for the business environment continues to be uncertain due to concerns in the industry about the impact of various factors, including the deterioration in the management of medical institutions and the continued trend of limited clinic visits by patients who are alert to the risks of infection.

Accordingly, for the next fiscal year ending March 31, 2023, the Company forecasts net sales of 1,269,000 million yen (up 0.2% on a year-on-year basis), operating profit of 12,300 million yen (down 1.8%), ordinary profit of 17,600 million yen (down 3.2%), and profit attributable to owners of parent of 11,300 million yen (down 15.5%).

2. State of the 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,” 65 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.

From the current consolidated fiscal year, three companies, Nextit Research Institute, Inc., eKenkoshop Corporation and K.K.eHealthcare, which were non-consolidated subsidiaries of the Company in the previous consolidated fiscal year, have been included in the scope of consolidation as their importance has increased. In addition to the existing “SMO operations” and “information equipment sales operations,” the above three companies have been newly added to set up the “other peripheral businesses” with 4 reportable segments: “pharmaceutical wholesaling,” “dispensing pharmacy,” “pharmaceutical manufacturing and sales,” and “other peripheral businesses.”

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., and KOYO Co., Ltd.), 6 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 5 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 5 affiliates are primarily engaged in health insurance dispensing pharmacies business.

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

(3) Pharmaceutical Manufacturing and Sales Business

The Company’s 1 consolidated subsidiary (KYOSOMIRAI PHARMA) and 3 affiliates (AYM HD, AYUMI Pharmaceutical Holdings, AYUMI Pharmaceutical Corporation) manufacture and sell pharmaceuticals. KYOSOMIRAI PHARMA (a consolidated subsidiary) manufactures and sells generic drugs and produces injection drugs on consignment. Generic drugs are mainly supplied to TOHO PHARMACEUTICAL CO., LTD. (our consolidated subsidiary)

Since the Company acquired a part of shares of AYM HD KK during the consolidated fiscal year under review, AYM HD KK, AYUMI Pharmaceutical Holdings, and AYUMI Pharmaceutical Corporation are included in the scope of application of the equity method from the end of the consolidated fiscal year under review.

(4) Other Peripheral Businesses

The Company’s 5 consolidated subsidiaries (Tokyo Research Center of Clinical Pharmacology Co., Ltd., ALF.Inc, Nextit Research Institute, Inc., eKenkoshop Corporation and K.K.eHealthcare), 12 unconsolidated subsidiaries and 3 affiliates are engaged in peripheral businesses related to the above businesses.

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 various measures to curtail medical expenses such as introducing the once-yearly NHI drug price revision, 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 addition, with the enforcement of the amended Pharmaceutical and Medical Devices Act in a phased manner, the Guidelines for the Improvement of Commercial Transaction Practices of Ethical Drugs for Manufacturers,

Wholesalers, and Medical Institutions / Pharmacies were revised in January 2022, and we are required to take action corresponding to the effects of these guidelines and system reforms.

The spread of COVID-19 has transformed people's lifestyles, and rebuilding a healthcare delivery system corresponding to "new routines" is an urgent issue.

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.

As a measure to improve profitability over the medium term, in the pharmaceutical wholesaling business, the Company will make further efforts with an eye on a digital society in order to develop and propose customer support systems that improve convenience for patients, medical institutions and specialists who are engaged in home medical and nursing care. In addition, we will strengthen cooperation with the Kyoso Mirai Group in Pharmacy, in which more than 22,000 dispensing pharmacies participate, and promote logistics for clinical trials and manufacturers based on TBC DynaBASE, as well as take on challenges in promising business areas such as biomedical products, gene therapy products, regenerative medical products, and biosimilars.

In the dispensing pharmacy business, we will secure revenue by expanding the number of stores and responding to the revision of dispensing fees. Furthermore, the Company aims to improve the efficiency of pharmacist operations and the convenience of patients while promoting DX and will strengthen its function as a health support pharmacy by strengthening the online medical dosing guidance system, using SNS to support patient adherence, and expanding product sales. We will also maximize added value in our dispensing pharmacy business, by providing services coherently linked to community medical care, and by training pharmacists with advanced knowledge of pharmaceutical management, in order to achieve our missions of being pharmacies focused on community-based services as well as pharmacies operating in closer coordination with specialized medical institutions.

In the pharmaceutical manufacturing and sales business, the Company will continue to expand its product lineup, including the launch of new products under its own brand, and respond to the trust of patients and medical institutions by stably providing generic drugs that guarantee quality through independent verification.

In addition, with the aim of achieving stable and long-term corporate growth and a sustainable society, the Group identifies issues in the areas of the environment, society, governance, and compliance, and promotes initiatives to resolve them. As a company responsible for distribution of pharmaceuticals and other products, we regard coping with both environmental conservation and business activities as our most important issue, and we are working to improve delivery efficiency through such means as direct delivery from distribution centers to customers, optimization of delivery frequency, and joint distribution. We will also foster a free and vigorous corporate culture by utilizing a wide range of human resources regardless of gender, nationality, age, etc., and by respecting the human rights and character of each and every employee. We will promote ESG management by further strengthening governance in order to conduct sound business activities in compliance with relevant laws and regulations. In addition, in recognition of its public nature as a medical and health-related company and its mission as a social infrastructure, the Company will continue to invest in measures against earthquakes and pandemics, and other measures necessary for the stable supply of pharmaceuticals, based on the trust and sympathy of each stakeholder, in order to sustain the medical care system even in an emergency.

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 and Main Note

(1) Consolidated Balance Sheets

(Unit: million yen)

	Previous fiscal year (As of March 31, 2021)	Current fiscal year (As of March 31, 2022)
Assets		
Current assets		
Cash and deposits	93,086	94,256
Notes and accounts receivable - trade	285,579	—
Notes receivable - trade	—	2,212
Accounts receivable - trade	—	299,389
Merchandise and finished goods	76,208	80,169
Raw materials and supplies	180	194
Purchase rebates receivable	12,795	12,733
Other	19,526	24,442
Allowance for doubtful accounts	-464	-290
Total current assets	486,911	513,107
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	37,236	35,951
Machinery, equipment and vehicles, net	326	315
Furniture and fixtures, net	14,442	11,965
Land	44,101	43,168
Leased assets, net	1,310	914
Construction in progress	419	2,337
Total property, plant and equipment	97,837	94,653
Intangible assets		
Goodwill	388	733
Other	4,722	4,443
Total intangible assets	5,110	5,177
Investments and other assets		
Investment securities	82,550	78,742
Long-term loans receivable	2,530	2,772
Deferred tax assets	1,627	1,960
Other	8,513	7,814
Allowance for doubtful accounts	-1,899	-1,851
Total investments and other assets	93,321	89,438
Total non-current assets	196,269	189,268
Total assets	683,181	702,376

(Unit: million yen)

	Previous fiscal year (As of March 31, 2021)	Current fiscal year (As of March 31, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	356,968	370,012
Short-term borrowings	210	247
Current portion of long-term borrowings	2,666	6,298
Lease liabilities	756	596
Income taxes payable	2,035	5,416
Contract liabilities	—	206
Accrued expenses	2,365	2,297
Provision for bonuses	3,136	3,252
Provision for bonuses for directors	82	53
Provision for sales returns	227	—
Asset retirement obligations	51	4
Other	8,217	14,435
Total current liabilities	376,717	402,819
Non-current liabilities		
Bonds payable	20,043	20,023
Long-term borrowings	19,007	12,596
Lease liabilities	1,219	977
Deferred tax liabilities	17,906	14,236
Deferred tax liabilities for land revaluation	757	757
Retirement benefit liability	2,294	2,423
Asset retirement obligations	2,711	2,741
Provision for loss on Antimonopoly Act	4,213	3,639
Other	904	879
Total non-current liabilities	69,058	58,275
Total liabilities	445,775	461,095
Net assets		
Shareholders' equity		
Share capital	10,649	10,649
Capital surplus	49,378	49,228
Retained earnings	168,872	180,254
Treasury shares	-15,784	-15,719
Total shareholders' equity	213,117	224,413
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	28,506	20,792
Revaluation reserve for land	-4,380	-4,273
Total accumulated other comprehensive income	24,125	16,518
Share acquisition rights	162	149
Non-controlling interests	—	199
Total net assets	237,405	241,281
Total liabilities and net assets	683,181	702,376

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

(Unit: million yen)

	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
Net sales	1,210,274	1,266,171
Cost of sales	1,110,961	1,157,484
Gross profit	99,312	108,687
Provision for sales returns	-60	—
Gross profit-net	99,372	108,687
Selling, general and administrative expenses		
Remuneration, salaries and allowances for directors	42,992	43,413
Provision for bonuses	2,820	3,216
Provision for bonuses for directors	82	53
Retirement benefit expenses	229	274
Welfare expenses	7,784	7,754
Vehicle expenses	923	1,065
Provision of allowance for doubtful accounts	77	-147
Depreciation	5,964	6,087
Amortization of goodwill	372	323
Rent expenses	8,289	8,042
Taxes and dues	1,857	2,088
Non-deductible temporary paid consumption tax expense	6,098	6,228
Other	17,574	17,757
Total selling, general and administrative expenses	95,069	96,159
Operating profit	4,303	12,527
Non-operating income		
Interest income	75	64
Dividend income	1,407	1,405
Commission income	3,097	3,154
Rental income from real estate	838	832
Share of profit of entities accounted for using equity method	23	24
Other	1,521	724
Total non-operating income	6,963	6,205
Non-operating expenses		
Interest expense	79	76
Commitment fees	13	13
Real estate lease expenses	249	197
Provision of allowance for doubtful accounts	240	—
Loss on investments in investment partnerships	—	66
Other	393	197
Total non-operating expenses	977	551
Ordinary profit	10,289	18,182

(Unit: million yen)

	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
Extraordinary income		
Gain on sales of non-current assets	84	185
Gain on sale of investment securities	4,836	2,720
Reversal of provision for loss on Antimonopoly Act	—	162
Other	3	23
Total extraordinary income	4,923	3,092
Extraordinary losses		
Loss on disposal of non-current assets	165	113
Impairment losses	197	579
Loss on valuation of investment securities	249	413
Provision for loss on Antimonopoly Act	4,213	—
Other	113	56
Total extraordinary losses	4,939	1,163
Profit before income taxes	10,273	20,110
Income taxes - current	4,732	7,180
Income taxes - deferred	551	-484
Total income taxes	5,283	6,695
Net profit	4,989	13,415
Profit attributable to non-controlling interests	—	35
Profit attributable to owners of parent	4,989	13,379

Consolidated Statement of Comprehensive Income

(Unit: million yen)

	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
Net profit	4,989	13,415
Other comprehensive income		
Valuation difference on available-for-sale securities	3,019	-7,692
Share of other comprehensive income of entities accounted for using equity method	17	-22
Total other comprehensive income	3,037	-7,714
Comprehensive income	8,027	5,701
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	8,027	5,665
Comprehensive income attributable to non-controlling interests	—	35

(3) Consolidated Statement of Changes in Equity
Previous fiscal year (From April 1, 2020 to March 31, 2021)

(Unit: million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	10,649	49,271	165,745	-15,785	209,881
Cumulative effects of changes in accounting policies			—		—
Restated balance	10,649	49,271	165,745	-15,785	209,881
Changes during period					
Dividends of surplus			-2,468		-2,468
Profit attributable to owners of parent			4,989		4,989
Purchase of treasury shares				-2	-2
Disposal of treasury shares		-0		3	3
Change in scope of consolidation		108	731		840
Reversal of revaluation reserve for land			-126		-126
Net changes in items other than shareholders' equity					
Total changes during period	—	107	3,126	1	3,236
Balance at end of period	10,649	49,378	168,872	-15,784	213,117

	Accumulated other comprehensive income			Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total accumulated other comprehensive income			
Balance at beginning of the period	25,469	-4,507	20,961	166	—	231,009
Cumulative effects of changes in accounting policies						—
Restated balance	25,469	-4,507	20,961	166	—	231,009
Changes during period						
Dividends of surplus						-2,468
Profit attributable to owners of parent						4,989
Purchase of treasury shares						-2
Disposal of treasury shares						3
Change in scope of consolidation						840
Reversal of revaluation reserve for land						-126
Net changes in items other than shareholders' equity	3,037	126	3,163	-3	—	3,160
Total changes during period	3,037	126	3,163	-3	—	6,396
Balance at end of period	28,506	-4,380	24,125	162	—	237,405

Current fiscal year (From April 1, 2021 to March 31, 2022)

(Unit: million yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	10,649	49,378	168,872	-15,784	213,117
Cumulative effects of changes in accounting policies			-19		-19
Restated balance	10,649	49,378	168,852	-15,784	213,097
Changes during period					
Dividends of surplus			-2,116		-2,116
Profit attributable to owners of parent			13,379		13,379
Purchase of treasury shares				-0	-0
Disposal of treasury shares		-4		65	61
Change in scope of consolidation		-146	245		99
Reversal of revaluation reserve for land			-107		-107
Net changes in items other than shareholders' equity					
Total changes during period	—	-150	11,401	64	11,315
Balance at end of period	10,649	49,228	180,254	-15,719	224,413

	Accumulated other comprehensive income			Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total accumulated other comprehensive income			
Balance at beginning of period	28,506	-4,380	24,125	162	—	237,405
Cumulative effects of changes in accounting policies						-19
Restated balance	28,506	-4,380	24,125	162	—	237,385
Changes during period						
Dividends of surplus						-2,116
Profit attributable to owners of parent						13,379
Purchase of treasury shares						-0
Disposal of treasury shares						61
Change in scope of consolidation						99
Reversal of revaluation reserve for land						-107
Net changes in items other than shareholders' equity	-7,714	107	-7,606	-13	199	-7,420
Total changes during period	-7,714	107	-7,606	-13	199	3,895
Balance at end of period	20,792	-4,273	16,518	149	199	241,281

(4) Consolidated Statement of Cash Flows

(Unit: million yen)

	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
Cash flows from operating activities		
Profit before income taxes	10,273	20,110
Depreciation	6,424	6,634
Impairment losses	197	579
Amortization of goodwill	372	323
Increase (decrease) in retirement benefit liability	71	80
Increase (decrease) in provision for sales returns	-60	-227
Increase (decrease) in provision for bonuses	-348	65
Increase (decrease) in provision for bonuses for directors	0	-28
Increase (decrease) in allowance for doubtful accounts	-389	-222
Interest and dividend income	-1,482	-1,470
Interest expense	79	76
Loss (gain) on sales and retirement of non-current assets	81	-72
Loss (gain) on sales and valuation of investment securities	-4,578	-2,299
Decrease (increase) in trade receivables	1,023	-16,045
Decrease (increase) in inventories	1,143	-3,859
Decrease (increase) in other assets	-626	-5,063
Increase (decrease) in trade payables	739	13,040
Increase (decrease) in other liabilities	3,969	4,850
Increase (decrease) in accrued consumption taxes	-2,479	1,798
Other, net	-5,082	-4,447
Subtotal	9,330	13,823
Interest and dividend received	1,467	1,454
Interest paid	-81	-78
Income taxes paid	-6,731	-3,205
Others, net	4,783	4,347
Net cash provided by operating activities	8,768	16,341

(Unit: million yen)

	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
Cash flows from investing activities		
Payments into time deposits	-1,022	-1,142
Proceeds from withdrawal of time deposits	1,025	1,165
Purchases of property, plant and equipment	-4,141	-3,621
Proceeds from sales of property, plant and equipment	740	1,009
Purchases of intangible assets	-1,583	-581
Proceeds from sales of intangible assets	0	—
Purchases of investment securities	-628	-1,063
Proceeds from sales and redemption of investment securities	7,424	5,243
Purchase of shares of subsidiaries and associates	-1,344	-11,095
Proceeds from sales of shares of subsidiaries and associates	—	146
Payments for acquisition of businesses	—	-532
Payments for asset retirement obligations	-47	-56
Loan advances	-525	-918
Proceeds from collection of loans receivable	501	364
Other, net	283	50
Net cash provided by (used in) investing activities	680	-11,032
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	1,792	1,037
Proceeds from long-term borrowings	2,800	—
Repayments of long-term borrowings	-1,724	-2,780
Purchases of treasury shares	-2	-0
Repayments of finance lease liabilities	-1,078	-614
Dividends paid	-2,468	-2,116
Net cash provided by (used in) financing activities	-680	-4,473
Net increase(decrease) in cash and cash equivalents	8,768	835
Cash and cash equivalents at beginning of period	80,013	88,882
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	101	296
Cash and cash equivalents at end of period	88,882	90,014

(5) Notes to Consolidated Financial Statements
(Notes Concerning Premise of a Going Business)
This disclosure is not applicable.

(Change in Scope of Consolidation or Application of Equity Method)

The scope of consolidation includes the non-consolidated subsidiaries in the previous fiscal year, such as Nextit Research Institute, Inc. eKenkoshop Corporation, and K.K. eHealthcare from the current fiscal year due to their increased importance.

Since the Company acquired a part of shares of AYM HD KK, from the current fiscal year AYM HD KK, AYUMI Pharmaceutical Holdings, and AYUMI Pharmaceutical Corporation are included in the scope of application of the equity method. As AYM HD KK assumes the deemed acquisition date as the end of the consolidated fiscal year under review, the consolidated statements of income for the fiscal year under review do not include the results of AYM HD KK, AYUMI Pharmaceutical Holdings, and AYUMI Pharmaceutical Corporation. AYM HD KK merged with AYUMI Pharmaceutical Holdings on April 1, 2022 and changed its name to AYUMI Pharmaceutical Holdings.

(Change in the Accounting Policies)

(Application of Accounting Standards for Revenue Recognition)

Applying the Accounting Standards for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, hereinafter referred to as “Revenue Recognition Accounting Standards”) from the beginning of this consolidated fiscal year under review, when the control of the promised goods or services is transferred to the customer, revenue is recognized at the amount expected to be received in exchange for the goods or services. Previously, the Company had recorded provision for sales returns based on the amount equivalent to gross profit regarding sales with a right of return. The Company has since changed the recognition method for goods or services that are expected to be returned in accordance with the rule regarding variable consideration, so as not to recognize revenue at the time of sales but recognize refund liabilities at the amount it received or is expected to receive for the said goods or services. Regarding a part of transactions related to pharmaceutical wholesaling business, the Company previously had recognized the gross amount as revenue. However, the Company has shifted to the method by which it recognizes revenue at the net amount by determining a role in which the Company acts as a principal or an agent in providing goods or services to a customer.

As the Revenue Recognition Accounting Standards are applied in accordance with the transitional treatment provided by the provisory clause of Article 84 of the Accounting standards, in the case of retroactive application of the new accounting policy prior to the beginning of this consolidated fiscal year under review, the cumulative effect is added to or deducted from retained earnings at the beginning of this consolidated fiscal year under review, and the new accounting policy is applied from the adjusted balance at the beginning of this consolidated fiscal year under review. However, the Company does not retroactively apply the new accounting policy to contracts for which the method prescribed in Article 86 of the Revenue Recognition Accounting Standards was applied and for which almost the entire revenue amount was recognized in accordance with prior treatment before the beginning of this consolidated fiscal year under review. In addition, applying the method prescribed in additional words (1) of Article 86 of the Revenue Recognition Accounting Standards above, regarding contract changes made prior to the beginning of this consolidated fiscal year under review, the Group performed accounting processing under contract terms that reflect all such contract changes, and adjusted retained earnings reflecting the cumulative effect of the reviewed processing at the beginning of this consolidated fiscal year under review.

In the consolidated balance sheets, “Notes and accounts receivable - trade,” which was presented under “Current assets” for the previous fiscal year, is separately presented under “Notes receivable - trade” and “Accounts receivable - trade,” and “Other,” which was presented under “Current liabilities” for the previous fiscal year, is separately presented under “Contract liabilities” and “Other” from the consolidated fiscal year under review. However, in accordance with the transitional treatment provided for in Article 89-2 of the Revenue Recognition Accounting Standards, the Company has not reclassified financial statements for the previous fiscal year by using the new presentation method.

As a result, compared with before the adoption of the Revenue Recognition Accounting Standards, the consolidated balance sheet for the fiscal year under review showed an increase of 14 million yen in accounts receivable - trade, 4,891 million yen in other current assets, 19 million yen in notes and accounts payable - trade, 105 million yen in contract liabilities, 5,026 million yen in other current liabilities, and a decrease of 218 million yen in provision for sales returns. In the consolidated statements of income for the fiscal year under review, net sales and cost of sales decreased by 1,589 million yen and 1,592 million yen, respectively, and gross profit, operating profit, ordinary profit, and profit before income taxes increased by 2 million yen, respectively.

As a result of the cumulative effect reflected in net assets at the beginning of the fiscal year under review, retained earnings in the consolidated statement of changes in equity decreased by 19 million yen at the beginning of the fiscal year under review.

The impact on amounts per-share is minimal.

(Application of Accounting Standards for Fair Value Measurement)

The Group decided that, applying the “Accounting Standards for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, hereinafter referred to as “Fair Value Measurement Accounting Standards”) from the

beginning of the first quarter under review, in accordance with the transitional treatment prescribed in Article 19 of the Fair Value Measurement Accounting Standards and in Article 44-2 of the “Accounting Standards for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the new accounting policy prescribed by the Market Value Accounting Standards will be applied from now on. There is no impact on the consolidated financial statements.

(Change in Presentation of Consolidated Financial Statements)

(Consolidated statement of income)

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 valuation 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, 249 million yen in others under extraordinary loss has been reclassified in loss on valuation of investment securities on the consolidated financial statements for the prior fiscal year.

(Additional Information)

Contingent liability

On November 9, 2021, Kyushu Toho Co., Ltd., a consolidated subsidiary of the Company, underwent an on-site inspection by the Fair Trade Commission on suspicion of violation of the Antimonopoly Act with respect to a bid for prescription pharmaceuticals in the Kyushu region ordered by the National Hospital Organization (NHO), and the investigation is still ongoing.

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.

(Segment Information)

1. Outline of reportable segments

(1) Method for determining reportable segment

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 pharmaceutical manufacturing and sales business, other peripheral 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 Pharmaceutical Wholesaling, Dispensing Pharmacy, Pharmaceutical Manufacturing and Sales, and Other Peripheral Businesses.

(2) Types of products and services belonging to each reportable segment

The pharmaceutical wholesaling business sells pharmaceuticals, narcotics, reagents, etc., and medical devices. The dispensing pharmacy business operates health insurance pharmacy, support home medical care services, and sells pharmaceuticals. The pharmaceutical manufacturing and sales business manufactures and sells generic drugs, and manufactures injection drugs on consignment. The other peripheral businesses are peripheral businesses related to the above businesses.

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

The accounting method used for the reportable segments is generally the same as that used in the preparation of the consolidated financial statements.

Reportable segment profit is based on operating profit. 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, 2020 to March 31, 2021)

	Reportable segments					Adjustments (million yen) (Note 1)	Consolidated total (million yen) (Note 2)
	Pharmaceutical Wholesaling (million yen)	Dispensing Pharmacy (million yen)	Pharmaceutical Manufacturing and Sales (million yen)	Other Peripheral Businesses (million yen)	Total (million yen)		
Net sales							
(1) Sales to external customers	1,116,229	91,089	2,250	704	1,210,274	—	1,210,274
(2) Inter-segment sales	46,027	8	5,840	321	52,197	-52,197	—
Total	1,162,256	91,098	8,090	1,026	1,262,472	-52,197	1,210,274
Segment profit	3,970	2,688	729	-681	6,707	-2,403	4,303
Segment assets	511,291	53,169	5,357	2,136	571,954	111,227	683,181
Other items							
Depreciation	3,591	802	8	16	4,419	1,544	5,964
Amortization of goodwill	83	288	—	—	372	—	372
Impairment losses	138	59	—	—	197	—	197
Investment in an affiliate accounted for by the equity method	1,642	—	—	—	1,642	—	1,642
Unamortized balance of goodwill	55	332	—	—	388	—	388
Capital expenditures	3,977	1,914	132	4	6,029	-28	6,000

(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 164,908 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 profit in the Consolidated Statements of Income.

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.

Current fiscal year (from April 1, 2021 to March 31, 2022)

	Reportable segments					Adjustments (million yen) (Note 1)	Consolidated total (million yen) (Note 2)
	Pharmaceutical Wholesaling (million yen)	Dispensing Pharmacy (million yen)	Pharmaceutical Manufacturing and Sales (million yen)	Other Peripheral Businesses (million yen)	Total (million yen)		
Net sales							
(1) Sales to external customers	1,168,155	91,786	1,899	4,329	1,266,171	—	1,266,171
(2) Inter-segment sales	47,864	14	7,193	1,388	56,460	-56,460	—
Total	1,216,019	91,801	9,093	5,717	1,322,632	-56,460	1,266,171
Segment profit	9,967	2,963	884	395	14,211	-1,684	12,527
Segment assets	535,156	54,230	17,796	5,580	612,763	89,612	702,376
Other items							
Depreciation	3,562	902	180	406	5,052	1,581	6,634
Amortization of goodwill	84	110	—	129	323	—	323
Impairment losses	439	140	—	—	579	—	579
Investment in an affiliate accounted for by the equity method	1,640	—	11,090	—	12,730	—	12,730
Unamortized balance of goodwill	221	222	—	290	733	—	733
Capital expenditures	3,719	444	126	199	4,489	-9	4,480

(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 151,421 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 profit in the Consolidated Statements of Income.

3. Matters concerning changes of reportable segments

The method of classifying business segments has been revised because of change in scope of consolidation from the first quarter of the current consolidated fiscal year. In addition to the existing “SMO operations” and “information equipment sales operations,” the three companies, Nextit Research Institute, Inc., eKenkoshop Corporation and K.K.eHealthcare, have been newly added to set up the “other peripheral businesses” with 4 reportable segments: “pharmaceutical wholesaling,” “dispensing pharmacy,” “pharmaceutical manufacturing and sales,” and “other peripheral businesses.”

The segment information for the previous consolidated fiscal year has been prepared based on the classification after the change.

As described in the changes in accounting policies, the Company has applied the Revenue Recognition Accounting Standards from the beginning of fiscal year ended March 31, 2022 under review and changed the accounting method regarding revenue recognition, and it has changed the calculation method for profit or loss of business segments accordingly. As a result of these changes, net sales of the “Pharmaceutical Wholesaling Business” decreased by 1,576 million yen and segment profit increased by 2 million yen, and net sales of the “Pharmaceutical Manufacturing and Sales businesses” decreased by 13 million yen in the fiscal year under review, compared with before the reclassification.

(Amounts per Share)

	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
Net asset per share	3,364.65 yen	3,415.50 yen
Basic earnings per share	70.77 yen	189.70 yen
Diluted earnings per share	64.97 yen	174.48 yen

(Note) 1. The basis of the calculation of basic earnings per share and diluted earnings per share after adjustments on potential shares is as follows:

	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
Basic earnings per share		
Profit attributable to owners of parent (million yen)	4,989	13,379
Amount not attributed to shareholders of common share (million yen)	—	—
Profit attributable to owners of parent from common share (million yen)	4,989	13,379
Average number of shares of common share outstanding during the period	70,510,695	70,529,419
Diluted earnings per share		
Adjustment for profit attributable to owners of parent (million yen)	-13	-13
(Including interest income (after deducting the portion equivalent to tax) (million yen))	(-13)	(-13)
Increase in number of shares of common share	6,079,850	6,074,182
(Including share acquisition rights)	(79,250)	(73,582)
(Including bonds with share acquisition rights)	(6,000,600)	(6,000,600)
Outline of potential shares not included in calculation of diluted earnings 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, 2021)	Current fiscal year (As of March 31, 2022)
Total net asset on the Consolidated Balance Sheets (million yen)	237,405	241,281
Amounts deducted from total net assets (million yen)	162	349
(Including: share acquisition rights) (million yen)	(162)	(149)
(Including: non-controlling interests) (million yen)	—	(199)
Net assets available to owners of parent of common share (million yen)	237,243	240,931
Number of shares of common share for computation of net asset per share	70,510,393	70,540,766

(Significant Subsequent Events)

Not applicable.

6. Unconsolidated Financial Statements

(1) Balance Sheets

(Unit: million yen)

	Previous fiscal year (As of March 31, 2021)	Current fiscal year (As of March 31, 2022)
Assets		
Current assets		
Cash and deposits	81,094	83,363
Prepaid expenses	75	63
Other accounts receivable	3,547	605
Short-term loans receivable	21,353	18,786
Other	34	12
Allowance for doubtful accounts	—	-4
Total current assets	106,104	102,826
Non-current assets		
Property, plant and equipment		
Buildings, net	23,104	21,963
Structures, net	515	450
Furniture and fixtures, net	48	32
Land	20,111	19,717
Leased assets, net	333	160
Construction in progress	49	1,849
Total property, plant and equipment	44,163	44,173
Intangible assets		
Leasehold interests in land	12	12
Software	324	165
Other	3	51
Total intangible assets	340	228
Investments and other assets		
Investment securities	69,219	56,244
Shares of subsidiaries and affiliates	33,134	44,271
Investments in capital of subsidiaries and associates	1,670	1,585
Long-term loans receivable	912	911
Long-term loans receivable from subsidiaries and associates	1,824	1,732
Distressed receivables	3,480	3,350
Long-term prepaid expenses	122	111
Other	1,639	1,582
Allowance for doubtful accounts	-2,583	-2,258
Total investments and other assets	109,419	107,531
Total non-current assets	153,923	151,933
Total assets	260,028	254,760

(Unit: million yen)

	Previous fiscal year (As of March 31, 2021)	Current fiscal year (As of March 31, 2022)
Liabilities		
Current liabilities		
Current portion of long-term borrowings	2,304	2,304
Lease liabilities	199	82
Accounts payable-other	98	111
Accrued expenses	116	67
Income taxes payable	521	387
Accrued consumption taxes	—	297
Deposits received	44,928	51,424
Provision for bonuses	74	75
Provision for bonuses for directors	46	32
Other	0	—
Total current liabilities	48,289	54,783
Non-current liabilities		
Bonds payable	20,043	20,023
Long-term borrowings	11,544	9,240
Lease liabilities	143	69
Deferred tax liabilities	16,601	13,058
Deferred tax liabilities for land	757	757
Provision for retirement benefits	11	11
Asset retirement obligations	1,919	1,931
Other	100	99
Total non-current liabilities	51,120	45,189
Total liabilities	99,410	99,972
Net assets		
Shareholders' equity		
Share capital	10,649	10,649
Capital surplus		
Legal capital surplus	46,177	46,177
Other capital surplus	3,937	3,933
Total Capital surplus	50,114	50,110
Retained earnings		
Legal retained earnings	664	664
Other retained earnings		
Reserve for tax purpose reduction entry of land	1,513	1,404
General reserve	6,336	6,336
Retained earnings brought forward	78,113	80,013
Total retained earnings	86,627	88,418
Treasury shares	-15,823	-15,759
Total shareholders' equity	131,568	133,420
Valuation and translation adjustments		
Valuation difference on available-for-sale	33,244	25,468
Revaluation reserve for land	-4,357	-4,250
Total valuation and translation adjustments	28,886	21,217
Share acquisition rights	162	149
Total net assets	160,617	154,787
Total liabilities and net assets	260,028	254,760

(2) Statements of Income

(Unit: million yen)

	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
Operating revenue		
Consulting fee income	1,214	1,162
Real estate lease revenue	2,478	3,947
Dividend income	7,406	1,908
Other	283	289
Total operating revenue	11,382	7,308
Operating expenses		
Real estate related expenses	1,887	3,099
General and administrative expenses		
Remuneration, salaries and allowances for directors	1,533	1,478
Provision for bonuses	61	75
Provision for bonuses for directors	46	32
Provision for retirement benefits	-0	0
Welfare expenses	195	190
Vehicle expenses	1	1
Provision of allowance for doubtful accounts	34	-320
Depreciation	412	378
Rent expenses	769	329
Taxes and dues	412	430
Other	1,110	1,152
Total operating expenses	6,464	6,848
Operating profit	4,918	459
Non-operating income		
Interest income	253	235
Dividend income	1,349	1,358
Commission income	213	224
Rental income from real estate	13	11
Other	411	218
Total non-operating income	2,240	2,048
Non-operating expenses		
Interest expense	287	316
Commitment fees	1	1
Loss on investments in investment partnerships	—	66
Other	30	44
Total non-operating expenses	318	427
Ordinary profit	6,840	2,080

	(Unit: million yen)	
	Previous fiscal year (From April 1, 2020 to March 31, 2021)	Current fiscal year (From April 1, 2021 to March 31, 2022)
Extraordinary income		
Gain on sales of non-current assets	57	113
Gain on sales of investment securities	5,516	2,867
Total extraordinary income	5,573	2,981
Extraordinary loss		
Loss on disposal of non-current assets	120	3
Impairment losses	20	—
Loss on valuation of investment securities	249	341
Other	8	44
Total extraordinary loss	399	389
Profit before income taxes	12,014	4,671
Income taxes-currents	1,375	739
Income taxes-deferred	393	-81
Total income taxes	1,768	657
Net profit	10,245	4,014

(3) Statement of Changes in Equity

Previous fiscal year (From April 1, 2020 to March 31, 2021)

(Unit: million yen)

	Shareholders' equity			
	Share capital	Capital surplus		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balance at beginning of period	10,649	46,177	3,938	50,115
Changes during period				
Dividends of surplus				
Profit				
Reversal of reserve for tax purpose reduction entry of land				
Purchase of treasury shares				
Disposal of treasury shares			-0	-0
Reversal of revaluation reserve for land				
Net changes in items other than shareholders' equity				
Total changes during period	—	—	-0	-0
Balance at end of period	10,649	46,177	3,937	50,114

	Shareholders' equity						
	Retained earnings					Treasury shares	Total shareholder's equity
	Other retained earnings	Other retained earnings			Total retained earnings		
		Reserve for tax purpose reduction entry of land	General reserve	Retained earnings brought forward			
Balance at beginning of period	664	1,523	6,336	70,453	78,977	-15,825	123,916
Changes during period							
Dividends of surplus				-2,468	-2,468		-2,468
Profit				10,245	10,245		10,245
Reversal of reserve for tax purpose reduction entry of land		-9		9	—		—
Purchase of treasury shares						-2	-2
Disposal of treasury shares						3	3
Reversal of revaluation reserve for land				-126	-126		-126
Net changes in items other than shareholders' equity							
Total changes during period	—	-9	—	7,659	7,650	1	7,651
Balance at end of period	664	1,513	6,336	78,113	86,627	-15,823	131,568

(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 beginning of period	30,751	-4,484	26,266	166	150,349
Changes during period					
Dividends of surplus					-2,468
Profit					10,245
Reversal of reserve for tax purpose reduction entry of land					—
Purchase of treasury shares					-2
Disposal of treasury shares					3
Reversal of revaluation reserve for land					-126
Net changes in items other than shareholders' equity	2,492	126	2,619	-3	2,616
Total changes during period	2,492	126	2,619	-3	10,268
Balance at end of period	33,244	-4,357	28,886	162	160,617

Current fiscal year (From April 1, 2021 to March 31, 2022)

(Unit: million yen)

	Shareholders' equity			
	Share capital	Capital surplus		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balance at beginning of period	10,649	46,177	3,937	50,114
Changes during period				
Dividends of surplus				
Profit				
Reversal of reserve for tax purpose reduction entry of land				
Purchase of treasury shares				
Disposal of treasury shares			-4	-4
Reversal of revaluation reserve for land				
Net changes in items other than shareholders' equity				
Total changes during period	—	—	-4	-4
Balance at the end of period	10,649	46,177	3,933	50,110

	Shareholders' equity						
	Retained earnings					Treasury shares	Total shareholders' 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 beginning of period	664	1,513	6,336	78,113	86,627	-15,823	131,568
Changes during period							
Dividends of surplus				-2,116	-2,116		-2,116
Profit				4,014	4,014		4,014
Reversal of reserve for tax purpose reduction entry of land		-109		109	—		—
Purchase of treasury shares						-0	-0
Disposal of treasury shares						65	61
Reversal of revaluation reserve for land				-107	-107		-107
Net changes in items other than shareholders' equity							
Total changes during period	—	-109	—	1,900	1,791	64	1,851
Balance at end of period	664	1,404	6,336	80,013	88,418	-15,759	133,420

(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 beginning of period	33,244	-4,357	28,886	162	160,617
Changes during period					
Dividends of surplus					-2,116
Profit					4,014
Reversal of reserve for tax purpose reduction entry of land					—
Purchase of treasury shares					-0
Disposal of treasury shares					61
Reversal of revaluation reserve for land					-107
Net changes in items other than shareholders' equity	-7,776	107	-7,668	-13	-7,682
Total changes during period	-7,776	107	-7,668	-13	-5,830
Balance at end of period	25,468	-4,250	21,217	149	154,787