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November 11, 2022

Consolidated Financial Results for the Six Months Ended September 30, 2022 (Under Japanese GAAP)

Company name: TOHO HOLDINGS CO., LTD.
 Listing: Tokyo Stock Exchange
 Securities code: 8129
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Scheduled date to file quarterly securities report:

November 14, 2022

Scheduled date to commence dividend payments:

December 9, 2022

Preparation of supplementary material on quarterly financial results: Yes

Holding of quarterly 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 six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2022	679,719	9.5	4,084	119.2	7,392	53.9	3,598	10.0
September 30, 2021	620,845	4.2	1,863	45.6	4,802	13.6	3,271	79.7

Note: Comprehensive income For the six months ended September 30, 2022: ¥5,656 million [37.3%]
 For the six months ended September 30, 2021: ¥4,119 million [-52.7%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2022	51.01	46.88
September 30, 2021	46.39	42.62

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
September 30, 2022	740,650	245,642	33.1
March 31, 2022	702,376	241,281	34.3

Reference: Equity As of September 30, 2022: ¥245,408 million
 As of March 31, 2022: ¥240,931 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	—	15.00	—	15.00	30.00
Fiscal year ending March 31, 2023	—	16.00			
Fiscal year ending March 31, 2023 (Forecast)			—	16.00	32.00

Note: Revision to the forecast of cash dividends most recently announced: None

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
Full year	1,269,000	0.2	12,300	-1.8	17,600	-3.2	11,300	-15.5	160.19

Note: Revision of consolidated projected results of operations most recently announced: None

* Notes

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

Newly included: —

Excluded: —

- (2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None

- (3) 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

- (4) Number of issued shares (common shares)

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

As of September 30, 2022	78,270,142 shares
As of March 31, 2022	78,270,142 shares

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

As of September 30, 2022	7,729,753 shares
As of March 31, 2022	7,729,376 shares

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2022	70,540,556 shares
Six months ended September 30, 2021	70,518,318 shares

* Quarterly financial results reports are exempt from quarterly review 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 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 for Fiscal Year ending March 31, 2023 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 Six Months Ended September 30, 2022

(1) Explanation of Management Results

The prescription pharmaceuticals market in the second quarter of the fiscal year under review continued to be affected by measures to curtail medical expenses, such as the lowering of NHI drug prices by 6.69% on a drug cost basis in the revision of medical treatment fees implemented in April 2022. However, it showed positive growth due to growth in new drugs such as cancer drugs and specialty drugs and sales expansion of COVID-19-related products, including therapeutic agents and test kits under the circumstances of further spread of the infections as the resurgence of the seventh wave. The Group continued to make utmost efforts to prevent infections to protect its employees, their families, customers, patients, etc., and to focus on delivering COVID-19-related products, such as vaccines, needles and syringes, and therapeutics in order to contribute to the maintenance of the medical care system.

As for customer support systems, the Group improved in the features of the online medical examination/dosing guidance system “KAITOS” and released a user-friendly application. Furthermore, hospitals and clinics often upgrade their website at the same time while responding to the needs for medical appointment reservation and online medical examination during the COVID-19 pandemic, resulting in high demands in “Byouin-Navi Homepage Service (website creation service)”. The Initial Examination Reservation Service continues to expand steadily increasing with more than 76,000 patients using the service per month, contributing to increased profitability.

In the logistics division, in response to many requests of manufacturer logistics as well as wholesale logistics expressed by manufacturers who evaluate its location and functions of TBC DynaBASE, the Group promotes logistics for manufacturers by using TBC DynaBASE. Moreover, for the supply of quality control reagents requiring a high level of refrigerated transportation, the Group has started to establish a system with Sysmex Corporation that makes the transportation process dry ice-free by using a constant-temperature transportation device “SALM”.

We conducted an extensive review of our organization including the consolidation of sales offices, with the aim of improving productivity by optimizing Group management and streamlining the organization in July 2022. We have also implemented personnel changes in accordance with their individual ability and aptitude, together with recruitment, transfer to other work and active promotion of female employees to management positions, and have improved our employee training system.

The Company’s consolidated operating results for the six months ended September 30, 2022 recorded 679,719 million yen for net sales (an increase of 9.5% on a year-on-year basis), 4,084 million yen for operating profit (an increase of 119.2% on a year-on-year basis), 7,392 million yen for ordinary profit (an increase of 53.9% on a year-on-year basis), and 3,598 million yen for profit attributable to owners of parent (an increase of 10.0% on a year-on-year basis).

In addition, Kyushu Toho Co., Ltd., a consolidated subsidiary, received an onsite inspection by the Japan Fair Trade Commission for suspected violation of the Antimonopoly Act regarding its bidding by the National Hospital Organization or Japan Organization of Occupational Health and Safety for ethical pharmaceuticals in the Kyushu area on November 9, 2021. The Company estimates the amount of the related loss could total 1,400 million yen and recorded it as an extraordinary loss.

The outline of business segment operating results are as follows.

In the pharmaceutical wholesaling business, sales of limited-handling products for selected wholesalers, such as specialty pharmaceuticals, steadily expanded and the demand for COVID-19 therapeutic agents and test kits also increased due to the resurgence of the infections, contributing significantly to total sales. In terms of customer support systems, we have focused on promotion of the centralized administration system for pharmacy operations “Mizar”, which contributes to streamlining the number of orders and deliveries as well as optimizing inventories at a pharmacy store through the automatic ordering function based on the demand forecast. Furthermore, we have strived to offer an appropriate price commensurate with each product value and distribution costs amid the situation that we cannot dedicate enough time to price negotiations with medical institutions owing to dealing with supply suspension of generic drugs and shipment coordination. As a result, the pharmaceutical wholesaling business posted net sales of 654,820 million yen (an increase of 9.7% on a year-on-year basis) and segment profit (operating profit) of 3,331 million yen (an increase of 194.7% on a year-on-year basis) for the six months ended September 30, 2022 under review.

In the dispensing pharmacy business, we implemented opening of new stores and closure on the basis of profitability while responding to the revision of medical treatment fees. We have also continued to rationalize and improve the efficiency of operations through the use of customer support systems and ensure compliance. One of the Group’s dispensing pharmacies, Kyoso Mirai Akiho pharmacy located in Sakata city, Yamagata, has participated in “electronic prescriptions model program” started since October 2022 and tried to gather cases applying electronic prescriptions and issues in order to improve operational efficiency through the use of ICT and services for patients. As the dispensing pharmacy business results for the six months ended September 30, 2022 under review were affected by the revisions of NHI drug price and dispensing fees implemented in April 2022, net

sales were 45,089 million yen (a decrease of 0.8% year on year) and segment profit (operating profit) was 878 million yen (a decrease of 33.3% year on year).

In the pharmaceutical manufacturing and sales business, the Group has been engaged in the stable supply of high-quality and high value-added pharmaceuticals by strictly monitoring the quality of products based on its own verification system and establishing a planned production system. In addition, we expanded our product lineup by obtaining approval for the manufacture and marketing of one ingredient and three products in August this year. As of the end of September 2022, the product lineup was composed of 88 ingredients and 206 generic products. As a result, the pharmaceutical manufacturing and sales business posted net sales of 4,838 million yen (an increase of 20.1% on a year-on-year basis.) and segment profit (operating profit) of 478 million yen (an increase of 53.3% on a year-on-year basis.).

In the other peripheral businesses, net sales amounted to 3,309 million yen (an increase of 23.9% on a year-on-year basis.) and segment profit (operating profit) was 246 million yen (an increase of 145.2% on a year-on-year basis.).

(Note) Segment sales include inter-segment transactions.

(2) Explanation of Financial Position

(Assets)

Current assets increased 7.5% from the end of the previous consolidated fiscal year to 551,459 million yen with an increase in cash and deposits of 7,868 million yen, an increase in notes and accounts receivable-trade of 24,329 million yen, and an increase in merchandise and finished goods of 2,050 million yen.

Non-current assets decreased 0.0% from the end of the previous consolidated fiscal year to 189,190 million yen with an increase in investment securities of 2,977 million yen, and a decrease in property, plant and equipment of 2,567 million yen.

As a result, consolidated net assets increased 5.4% from the end of the previous consolidated fiscal year, to 740,650 million yen.

(Liabilities)

Current liabilities increased 12.4% from the end of the previous consolidated fiscal year to 452,792 million yen with an increase in notes and accounts payable-trade of 36,990 million yen, an increase in current portion of bonds payable of 20,013 million yen, a decrease in short-term borrowings of 3,668 million yen, and a decrease in income taxes payable of 2,684 million yen.

Non-current liabilities decreased 27.6% from the end of the previous consolidated fiscal year to 42,215 million yen with an increase in long-term borrowings of 2,162 million yen, and a decrease in bonds payable of 20,023 million yen.

As a result, total liabilities increased 7.4% from the end of the previous consolidated fiscal year, to 495,007 million yen.

(Net assets)

Total net assets increased 1.8% from the end of the previous consolidated fiscal year to 245,642 million yen with an increase in retained earnings of 2,515 million yen, and an increase in valuation difference on available-for-sale securities of 2,045 million yen.

(Analysis of the Cash Flow Position)

Cash and cash equivalents (hereinafter referred to as “cash”) during this consolidated first half increased 7,841 million yen from the end of the previous consolidated fiscal year. As a result, the balance at the end of this first half was 97,855 million yen (an increase of 731 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 10,693 million yen (a decrease of 900 million yen on a year-on-year basis). Although inflow was secured by some positive factors such as income before income taxes of 6,012 million yen, depreciation of 2,919 million yen, and an increase in notes and accounts payable-trade of 36,716 million yen, these were somewhat offset by negative factors including an increase in notes and accounts receivable-trade of 24,070 million yen, an increase in inventories of 1,891 million yen, a decrease in accrued consumption taxes of 1,384 million yen, and income taxes paid of 6,348 million yen.

(Cash Flows from Investing Activities)

Cash flow from investing activities was an outflow of 407 million yen (an increase of 1,037 million yen from the previous fiscal year). Although inflow was secured by some positive factors such as proceeds from sales of property, plant and equipment of 679 million yen, these were somewhat offset by negative factors including in purchase of property, plant and equipment of 502 million yen, purchase of intangible assets of 431 million yen and purchase of stocks of subsidiaries and affiliates of 254 million yen.

(Cash Flows from Financing Activities)

Cash flow from financing activities was an outflow of 2,960 million yen (a decrease of 758 million yen on a year-on-year basis). Although inflow was secured by some positive factors such as proceeds from long-term borrowings of 3,610 million yen, these were somewhat offset by negative factors including in repayment of long-term loans borrowings of 5,044 million yen, and cash dividends paid of 1,058 million yen.

(3) Explanation of Projections of Consolidated Operating Results for Fiscal Year ending March 31, 2023

There are no changes in the projected consolidated results of the full-term of the fiscal year ending March 31, 2023 published on May 13, 2022.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: million yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	94,256	102,124
Notes and accounts receivable-trade	301,601	325,931
Merchandise and finished goods	80,169	82,219
Raw materials and supplies	194	184
Other	37,175	41,295
Allowance for doubtful accounts	-290	-296
Total current assets	513,107	551,459
Non-current assets		
Property, plant and equipment	94,653	92,085
Intangible assets		
Goodwill	733	668
Other	4,443	4,525
Total intangible assets	5,117	5,193
Investments and other assets		
Investment securities	78,742	81,720
Other	12,547	11,938
Allowance for doubtful accounts	-1,851	-1,746
Total investments and other assets	89,438	91,911
Total non-current assets	189,268	189,190
Total assets	702,376	740,650

(Unit: million yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable-trade	370,012	407,002
Short-term borrowings	6,545	2,876
Current portion of bonds payable	—	20,013
Income taxes payable	5,416	2,731
Provision for bonuses	3,252	3,373
Provision for bonuses for directors	53	21
Asset retirement obligations	4	—
Other	17,535	16,773
Total current liabilities	402,819	452,792
Non-current liabilities		
Bonds payable	20,023	—
Long-term borrowings	12,596	14,759
Retirement benefit liability	2,423	2,451
Asset retirement obligations	2,741	2,753
Provision for loss on Antimonopoly Act	3,639	5,039
Other	16,850	17,213
Total non-current liabilities	58,275	42,215
Total liabilities	461,095	495,007
Net assets		
Shareholders' equity		
Share capital	10,649	10,649
Capital surplus	49,228	49,145
Retained earnings	180,254	182,769
Treasury shares	-15,719	-15,719
Total shareholders' equity	224,413	226,846
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	20,792	22,838
Revaluation reserve for land	-4,273	-4,276
Total accumulated other comprehensive income	16,518	18,561
Share acquisition rights	149	148
Non-controlling interests	199	85
Total net assets	241,281	245,642
Total liabilities and net assets	702,376	740,650

(2) Quarterly Consolidated Profit and Loss Statement and Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Profit and Loss Statement
[Six months ended September 30, 2022]

(Unit: million yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Net sales	620,845	679,719
Cost of sales	570,278	626,812
Gross profit	50,566	52,907
Selling, general and administrative expenses		
Remuneration, salaries and allowances for directors	20,208	20,136
Provision for bonuses	3,340	3,314
Provision for bonuses for directors	26	21
Retirement benefit expenses	132	143
Welfare expenses	3,882	3,871
Vehicle expenses	523	562
Provision of allowance for doubtful accounts	303	-83
Depreciation	3,028	2,746
Amortization of goodwill	173	149
Rent expenses	4,013	3,997
Taxes and dues	1,044	1,039
Non-deductible temporary paid consumption tax expense	3,134	3,153
Other	8,890	9,770
Total selling, general and administrative expenses	48,703	48,823
Operating profit	1,863	4,084
Non-operating income		
Interest income	32	29
Dividend income	822	745
Commission income	1,566	1,642
Share of profit of entities accounted for using equity method	—	71
Other	774	1,077
Total non-operating income	3,195	3,566
Non-operating expenses		
Interest expenses	38	39
Share of loss of entities accounted for using equity method	6	—
Real estate lease expenses	99	111
Other	112	106
Total non-operating expenses	257	257
Ordinary profit	4,802	7,392

(Unit: million yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Extraordinary income		
Gain on sales of non-current assets	64	109
Other	511	40
Total extraordinary income	575	149
Extraordinary losses		
Loss on disposal of non-current assets	59	74
Impairment losses	12	26
Provision for loss on Antimonopoly Act	—	1,400
Other	235	28
Total extraordinary losses	306	1,529
Profit before income taxes	5,071	6,012
Income taxes-current	2,383	2,801
Income taxes-deferred	-599	-399
Total income taxes	1,783	2,401
Net profit	3,288	3,611
Profit attributable to non-controlling interests	16	12
Profit attributable to owners of parent	3,271	3,598

Quarterly Consolidated Statements of Comprehensive Income
[Six months ended September 30, 2022]

(Unit: million yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Net profit	3,288	3,611
Other comprehensive income		
Valuation difference on available-for-sale securities	809	2,005
Share of other comprehensive income of entities accounted for using equity method	21	40
Total other comprehensive income	830	2,045
Comprehensive income	4,119	5,656
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	4,102	5,643
Comprehensive income attributable to non-controlling interests	16	12

(3) Quarterly Consolidated Statements of Cash Flows

(Unit: million yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Cash flows from operating activities		
Profit before income taxes	5,071	6,012
Depreciation	3,262	2,919
Impairment losses	12	26
Amortization of goodwill	173	149
Increase (decrease) in retirement benefit liability	39	27
Increase (decrease) in provision for sales returns	-227	—
Increase (decrease) in provision for bonuses	223	121
Increase (decrease) in provision for bonuses for directors (and other officers)	-55	-32
Increase (decrease) in allowance for doubtful accounts	299	-98
Interest and dividend income	-854	-774
Interest expense	38	39
Loss (gain) on sale and retirement of non-current assets	-5	-35
Loss (gain) on sales and valuation of investment securities	-281	-7
Decrease (increase) in trade receivables	-3,456	-24,070
Decrease (increase) in inventories	796	-1,891
Decrease (increase) in other assets	-4,294	-3,220
Increase (decrease) in trade payables	4,890	36,716
Increase (decrease) in other liabilities	5,482	2,248
Increase (decrease) in accrued consumption taxes	1,062	-1,384
Other loss (gain)	-2,184	-2,605
Subtotal	9,991	14,140
Interest and dividends received	848	777
Interest paid	-38	-36
Income taxes paid	-1,441	-6,348
Other	2,232	2,160
Net cash provided by (used in) operating activities	11,593	10,693

(Unit: million yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Cash flows from investing activities		
Payments into time deposits	-673	-668
Proceeds from withdrawal of time deposits	688	641
Purchase of property, plant and equipment	-1,304	-502
Proceeds from sales of property, plant and equipment	234	679
Purchase of intangible assets	-545	-431
Purchase of investment securities	-701	-189
Proceeds from sales and redemption of investment securities	857	52
Purchase of shares of subsidiaries and associates	—	-254
Proceeds from sale of shares of subsidiaries and associates	—	10
Payments for acquisition of businesses	—	-105
Payments for asset retirement obligations	-56	-4
Loan advances	-161	-
Proceeds from collection of loans receivable	160	205
Other	55	159
Cash flows from investing activities	-1,445	-407
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	509	-242
Proceeds from long-term borrowings	—	3,610
Repayments of long-term borrowings	-1,333	-5,044
Purchase of treasury shares	-0	-0
Repayments of finance lease liabilities	-320	-226
Dividends paid	-1,057	-1,058
Cash flows from financing activities	-2,202	-2,960
Net increase (decrease) in cash and cash equivalents	7,945	7,324
Cash and cash equivalents at beginning of period	88,882	90,014
Increase in cash and cash equivalents resulting from merger	—	83
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	296	432
Cash and cash equivalents at the end of period	97,124	97,855

(4) Notes Concerning Quarterly Consolidated Financial Statements

(Notes Concerning Premise of a Going Business)

Not applicable.

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

Strelitzia has been included in the scope of consolidation from the first quarter of the fiscal year under review as their importance increased.

(Notes Concerning Material Changes in Shareholders' Equity)

Six months ended September 30, 2022

Not applicable.

(Changes in the Accounting Policies)

The Group decided to adopt the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021, hereinafter referred to as "Implementation Guidance on Accounting Standard for Fair Value Measurement") at the beginning of the consolidated fiscal year under review, and in accordance with the transitional treatment set forth in Paragraph 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement, the new accounting policies set forth in the Implementation Guidance on Accounting Standard for Fair Value Measurement shall be applied into the future. There is no impact on the quarterly consolidated financial statements.

(Segmental Information)

I Six months ended September 30, 2021

1. Information about sales and profit by reportable segment

	Reportable segments					Adjustments (million yen) (Note 1)	Amount on the quarterly consolidated profit and loss statement (million yen) (Note2)
	Pharmaceutical Wholesaling (million yen)	Dispensing Pharmacy (million yen)	Pharmaceutical Manufacturing and Sales (million yen)	Other Peripheral Businesses (million yen)	Total (million yen)		
Net Sales							
(1) Sales to external customers	572,576	45,444	819	2,004	620,845	—	620,845
(2) Inter-segment sales	24,407	5	3,209	667	28,288	-28,288	—
Total	596,983	45,450	4,028	2,672	649,134	-28,288	620,845
Segment profit	1,130	1,317	312	100	2,860	-996	1,863

(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 profit in the reportable segments were subsequently adjusted with the amount of operating profit 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 Six months ended September 30, 2022

1. Information about sales and profit by reportable segment

	Reportable segments					Adjustments (million yen) (Note 1)	Amount on the quarterly consolidated profit and loss statement (million yen) (Note2)
	Pharmaceutical Wholesaling (million yen)	Dispensing Pharmacy (million yen)	Pharmaceutical Manufacturing and Sales (million yen)	Other Peripheral Businesses (million yen)	Total (million yen)		
Net Sales							
(1) Sales to external customers	631,009	45,085	1,097	2,527	679,719	—	679,719
(2) Inter-segment sales	23,810	3	3,741	782	28,338	-28,338	—
Total	654,820	45,089	4,838	3,309	708,058	-28,338	679,719
Segment profit	3,331	878	478	246	4,934	-850	4,084

(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 profit in the reportable segments were subsequently adjusted with the amount of operating profit on the quarterly consolidated profit and loss statement.

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

Not applicable.