Pharmarise HDS | 2796

TSE Standard

Initiation

Riding the Wave of Industry Consolidation With a Stable Business Model Expectation for Next Measures to Return to the Prime Market

Summary

Japan's elderly population is projected to continue to grow through 2040, and Pharmarise HDS will benefit from the corresponding increase in the number of prescriptions. However, there are expected to be revisions to government-set drug prices, one measure to restrain medical spending, and revisions to dispensing fees, which are made once every two years. Among the industry, the company is keen on preparing to counter downward pressure on prices by focusing on capturing technical fees, including community support system premiums and family pharmacist guidance fees. In November 2023, the company concluded a capital and business alliance with Suzuken Co., Ltd., which will expand the breadth of its business starting in 2024. The company also announced the acquisition of GOOD AID and the establishment of share buyback framework (12.07% of its issued shares).

Y mn, %	Sales	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net profit	YoY	EPS	DPS
FY2020/5 C	51,030	*(1.3%)*	1,034	*61.6%*	1,023	*73.3%*	577	*24X*	61.1	14.0
FY2021/5 C	52,324	*2.5%*	1,246	*20.4%*	1,288	*25.9%*	426	*(26.2%)*	45.8	14.0
FY2022/5 C	51,608	*(1.4%)*	1,520	*22.0%*	1,517	*17.7%*	447	*5.0%*	48.0	14.0
FY2023/5 C	52,030	*0.8%*	1,438	*(5.4%)*	1,431	*(5.7%)*	333	*(25.6%)*	35.5	14.0
FY2024/5 CE	**53,546**	***2.9%***	**1,477**	***2.7%***	**1,423**	***(0.6%)***	**449**	***34.9%***	**42.0**	**20.0**

Source: Complied by SIR from the company TANSHIN report.

Corporate Profile

Established as Tokyo Bussan in 1984, Pharmarise HDS launched its dispensing pharmacy business with the opening of its first dispensing pharmacy in Yushima, Tokyo in 1987. As of November 2023, the company possessed a chain of 310 dispensing pharmacies (360 stores including non-dispensing stores), which it achieved through new store developments and M&As. The company's business is centered on its dispensing pharmacy business, which accounts for 80% of net sales, and the goods sales business is accounting for remaining sales.

The company's chain of dispensing pharmacies has grown as the company continues to open new ones, primarily through its core subsidiary Pharmarise Co., Ltd., and acquires and merges multiple chain stores, such as Kusuri No Higuchi. However, over the past several years, because of the COVID-19 pandemic and relatively small number of acquired stores, the company has struggled to expand the number of prescriptions it fills. Even under these conditions, the company is preparing for consolidation in the dispensing pharmacy industry that is likely to come.

In particular, the company can capture additional technical fees for prescriptions by actively accepting family pharmacist consent forms, which independently-managed dispensing pharmacies and small-scale dispensing pharmacy chains struggle to do, and meeting the requirements for the community support system premium (which is discussed below). Because of its more than 300 dispensing pharmacies, the company may see a decline in basic dispensing fees in FY24/5, but the company is laying the groundwork to further expand its chain by overcoming this hurdle.

Pharmarise HOLDINGS

Focus Point

Pharmarise HDS, one of the major dispensing pharmacy chain operators, is preparing for future industry consolidation. It can be argued that the company's November 2023 capital and business alliance with Suzuken will increase the possibility of future expansion.

Key Indicators	
Share price (1/24)	684
52W H (24/1/12)	722
52W L (23/3/20)	605
10YH (20/9/29)	851
10YL (16/7/14)	456
Shrs out. (mn shrs)	12.06
Mkt cap (¥ bn)	8.25
Equity ratio (23/5)	29.4%
FY23/5 P/B (act)	1.0x
FY24/5 P/E (CE)	16.1x
FY23/5 ROE (act)	4.9%
FY24/5 DY (CE)	3.0%

Stock Price Chart 52 Weeks



Source: Trading view

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Company Profile

One of the major dispensing pharmacy companies

According to the Ministry of Health, Labour and Welfare (MHLW), there are 60,951 pharmacies in Japan (as of December 2022), of which the ten major dispensing pharmacy companies account for 6,030 stores, only about 10% of the total. Therefore, small and medium-sized pharmacies account for the majority of pharmacies, which means there is substantial room for future consolidation of the industry. Until now M&As were primarily conducted by major dispensing pharmacy companies, and industry consolidation will likely accelerate as activity at medical institutions normalizes following the COVID-19 pandemic.

On the other hand, dispensing-related medical expenses in Japan totaled ¥7,833.2 bn (MHLW). In FY23/5, Pharmarise HDS recorded annual net sales of about ¥42.3 bn for its dispensing pharmacy business, which translates into a market share of only slightly more than 0.5%. However, in terms of the number of stores, the amount of sales , and business areas, the company is one of the major dispensing pharmacy chain companies with more than 300 stores (including drugstores) in Japan, and there appears to be substantial room for the company to grow its chain through new store developments and M&As.

In terms of the stock market, the company was listed on the Tokyo Stock Exchange's Prime Market through October 2023 but chose to move to the Standard Market because it failed to meet requirements related to market capitalization of the tradable shares and average daily trading volume. (As of May 2023, the company had a market capitalization of the tradable shares of ¥2.17 bn, and average daily trading volume of ¥5 mn). However, thanks to its capital and business alliance with Suzuken (9987) launched in November 2023, the company will have a dramatically greater chance of expanding its business in the future, in our view.

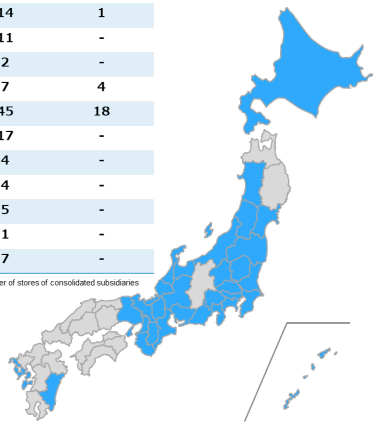
In January 2024, the company also announced the establishment of a share buyback framework (12.07% of its issued shares), which can be viewed as a sign of the company's willingness to increase its capital efficiency.

	Number of dispensing stores	Number of non-dispensing stores
Hokkaido	42	1
Miyagi	10	-
Akita	2	-
Yamagata	1	-
Fukushima	12	1
Ibaraki	4	-
Tochigi	2	-
Gunma	7	-
Saitama	7	-
Chiba	6	3
Tokyo	36	15
Kanagawa	11	5
Niigata	20	-
Yamanashi	1	-
Toyama	4	-
Ishikawa	6	1
Fukui	7	-

	Number of dispensing stores	Number of non-dispensing stores
Gifu	2	-
Shizuoka	13	1
Aichi	14	1
Mie	11	-
Shiga	2	-
Kyoto	7	4
Osaka	45	18
Hyogo	17	-
Nara	4	-
Wakayama	4	-
Nagasaki	5	-
Miyazaki	1	-
Okinawa	7	-

* Total number of stores of consolidated subsidiaries

Store Networks by prefecture



Source: Excerpt from the company IR material.

Dividend and capital measures

Pharmarise HDS has paid an annual dividend of ¥14 per share for many years. The company plans to pay a total dividend of ¥20 per share for FY25/5, which includes a commemorative dividend of ¥6 for the 40th anniversary of its founding. Considering its policy on stable dividends and the possibility of additional M&As, the company appears likely to return to paying a dividend of ¥14 per share in FY26/5.

Although it has not announced any other capital-related measures, the company is working to improve its measurement of Enterprise Value by comparing its ROIC and WACC. The company has clearly indicated a target ROIC of 6.8% in its medium-term management plan, too. It is SIR's opinion that the company could win greater understanding from investors by more actively disclosing its ROE target and thoughts on payout ratio.

Business Model

Summary for individual businesses

An examination of the composition of Pharmarise HDS's businesses based on its FY23/5 financial results reveals that the company's dispensing pharmacy business accounts for 81.4% of net sales followed by the goods sales business (Drug/Convenience Store), which accounts for 14.9%. The company has other businesses such as its storage and management of medical documents business and medical mall business.

In terms of segment profit, the dispensing pharmacy business accounts for the lion's share of company-wide profit, while the goods sales business is still unprofitable. Envisioning a time when prescriptions are issued through remote doctor visits, without patients having to visit a hospital, and then sent electronically to pharmacies, the company aims to open stores in locations and with store designs that offer customers easier access. Therefore, for its goods sales business, the company is moving forward with opening new stores in collaboration with such convenience stores as FamilyMart, which has the feel of an upfront investment.

The dispensing pharmacy business has a profit margin of 3%–4%. While the company continues to work to raise its prescription points above that of small and medium-sized dispensing pharmacies by earning family pharmacist guidance fees and community support system premiums, it appears that the company's profit margin will be flat for such reasons as upfront investments so that it can handle digital prescriptions (Pocket Pharmacy). As for areas with room for margin improvement, the company is actively working to provide "dispensing at facilities" services, which entails going to elderly care facilities and dispensing medications, which is expected to expand the company's business scale.

Net Sales by Segment

¥mn	FY2022/5 Act	FY2023/5 Revised plan	FY2023/5 Act
Net sales Total	51,608	51,794	52,030
Dispensing Pharmacy	42,002	41,882	42,327
Percentage	*81.4%*		*81.4%*
Drug/Convenience Store	7,598	7,845	7,771
Percentage	*14.7%*		*14.9%*
Storage and Management of Medical Documents	699	668	646
Percentage	*1.4%*		*1.2%*
Medical Mall	503	502	505
Percentage	*1.0%*		*1.0%*
Other	804	895	779
Percentage	*1.6%*		*1.5%*

Segment Profit

¥mn	FY2022/5 Act	FY2023/5 Revised plan	FY2023/5 Act
Segment profit Total	1,520	1,411	1,438
Dispensing Pharmacy	1,711	1,592	1,685
Drug/Convenience Store	(150)	(130)	(199)
Storage and Management of Medical Documents	107	70	81
Medical Mall	67	94	90
Other	79	87	36
Adjustments	(294)	(303)	255

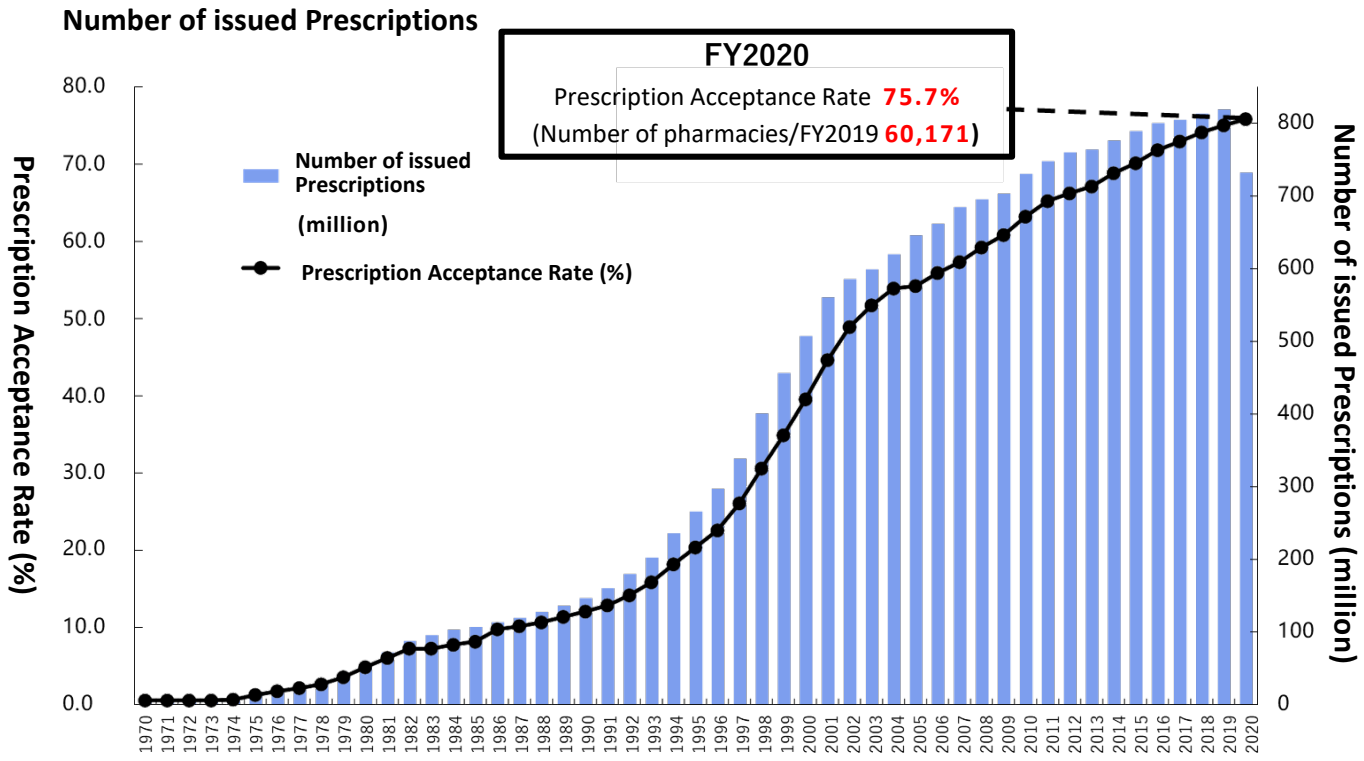
Source: Complied by SIR from the company IR material.

The number of prescriptions accepted is important

The number of prescriptions accepted is an important factor for understanding Pharmarise HDS's dispensing pharmacy business. The number of Japanese 65 or older is expected to continue to increase into 2040. Therefore, the number of issued prescriptions will probably continue to gradually grow in except for such unexpected events as the COVID-19 pandemic.

In this sense, it can be argued that for the company's core business, "**revenue = number of prescriptions accepted x price per prescription**." However, even if the number of prescriptions is stable, drug costs and dispensing technical fees (dispensing pharmacy's service fee), which make up the per-prescription price, could change. For example, per-prescription price can differ ¥300–¥500 depending on such factors as whether family pharmacist consent (this allows the pharmacy to earn a guidance fee) is obtained, whether generic drugs are proactively used, and whether there are systems that make it possible to earn the community support system premium.

As for dispensing fee points, set by MHLW, the number of additional points pharmacies earn depends on each company's know-how, and some of these additional points are probably difficult for small and medium-sized dispensing pharmacies to capture. Thus, Pharmarise HDS moved forward with investing in DX and building a system to earn premiums over the COVID-19 pandemic period. When conducting M&As, these efforts will probably be important for making it possible to increase the efficiency of acquired companies in addition to expanding size.



Source: Complied by SIR using MHLW's "Summary of FY2022 Dispensing Fee Revisions"

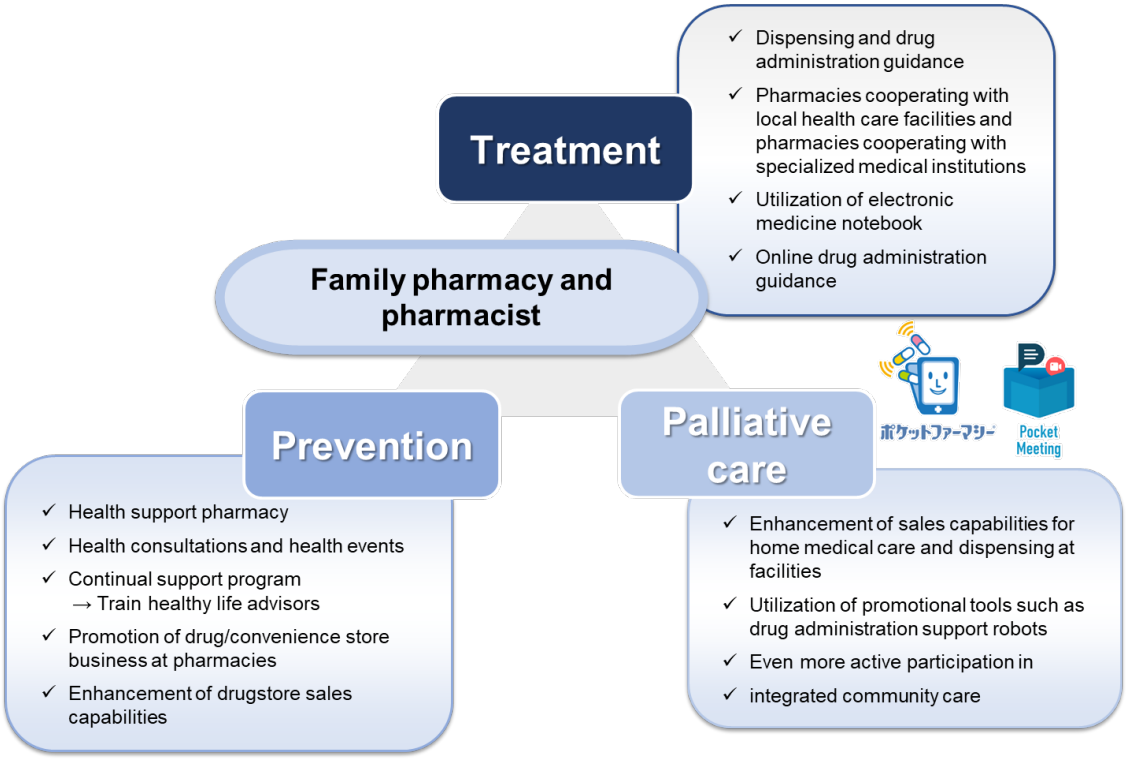
Medium-term Management Plan

Leading to Sustainable Growth 2024

Pharmarise HDS is currently implementing its "Medium-term Management Plan LSG (Leading to Sustainable Growth) 2024," which was announced in December 2021. The company aims to create a business model that can withstand future changes in the environment in order to "lay the foundations for sustainable growth, in preparation for 2030, when one third of Japan's population will be 65 or older".

Increased contribution to community health care, targeting elderly

Strengthen contributions to community medical the targets elderly



Source: Complied by SIR from the company IR material.

Pharmarise HDS revised its management indicator numerical targets for the final year of the medium-term management plan (FY25/5) because of measures that will lower its prescription points (impact of revisions to dispensing fees and government-set drug prices) as a result of its growth in size, which is discussed below.

	Initial Target	Sep.2023 Revised
Net Sales	¥58.4bn	¥57.06bn
Operating Profit	¥2.5bn	¥1.88bn
Net Profit	¥1.1bn	¥0.88bn
ROIC	7.90%	6.80%

Source: Complied by SIR from the company IR material.



Source: Complied by SIR from the company IR material.

Pharmarise HDS revised downward figures appearing in its medium-term management plan, which were affected by being lowered dispensing fees "for dispensing pharmacies that are part of a group with more than 300 stores" included in the FY2022 Dispensing Fee Revisions by MHLW. Because this is exact when the company is trying to grow its network of dispensing pharmacies to more than 300, it is clear that the new revisions will have a negative impact on the company's earnings in FY25/5.

The company forecasts net profit of ¥449 mn in FY24/5, and it may be able to capture a greater number of prescriptions than its expectation as visits to doctors at medical institutions return to normal following the COVID-19 pandemic. Even if the company's forecast of FY24/5 net profit of ¥449 mn is conservative, its target of FY25/5 net profit of ¥880 mn is premised on a dramatic increase in earnings for the final year of the medium-term management plan.

Although things are recovering following the COVID-19 pandemic, the current pace of new pharmacy openings is insufficient to achieve the growth expected for next fiscal year. It is assumed that the company may actively take steps in the future to increase sales. SIR believes that the recent capital and business alliance with Suzuken may have been done because of the possibility of future changes, although Pharmarise HDS has yet to clearly state this.

In November 2023, Suzuken acquired 19% of outstanding shares of Pharmarise HDS from an investment fund and concluded a capital and business alliance with the company, and increased to 20% as of January 2024. Suzuken's core business is wholesale drug sales, and it also possesses a chain of 572 dispensing pharmacies (as of September 2023), and thus, collaboration between Suzuken and the company is expected to have a positive impact on its FY25/5 earnings. In January 2024, the company transformed GOOD AID, which has its head office in Nagoya, into a wholly-owned subsidiary. This made it possible for Pharmarise HDS to increase its network of pharmacies by 39 stores, its visiting nursing offices by 3, and nursing facilities by 1. The acquisition was one of the largest that the company has conducted.

It seems that during the period of the current medium-term management plan up until this announcement, doctor visits at medical institutions and number of prescriptions did not increase and the size of M&As remained small because of the COVID-19 pandemic, but there are some expectations that that company will grow more dynamically as the flow of people and economic activity returns to normal after the pandemic.

Systems that impact the company

Dispensing fees system summary

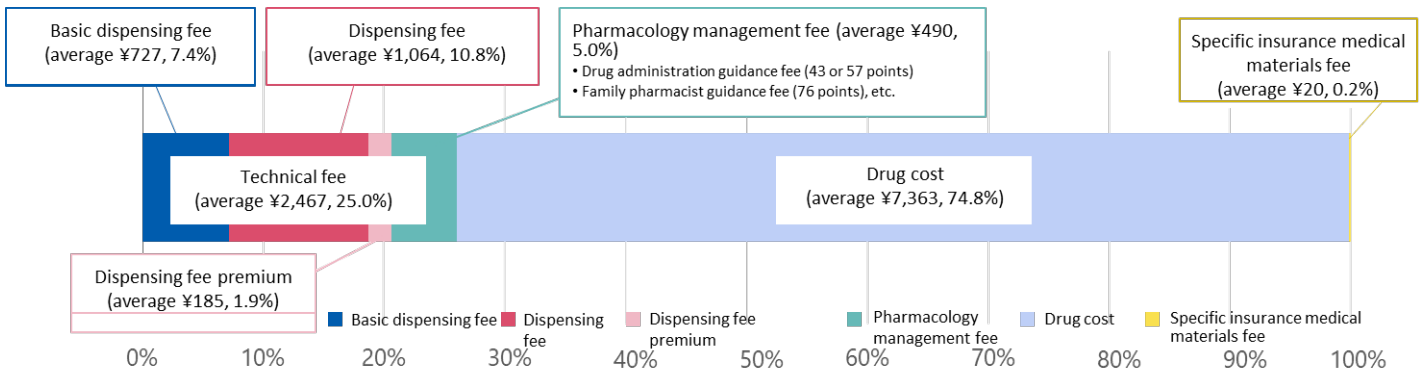
Once a year revisions are made to government-set drugs prices, while once every two years, revisions are made to dispensing fees. The last time revisions were made in April 2022, and the next dispensing fee revisions are expected in June 2024.

According to 2020 MHLW's materials used for the previous revisions, dispensing-related medical expenses totaled about ¥7.9 tn, about 3/4 of which drug cost (price of drugs) accounts and about 1/4 of which were technical fees (basic dispensing fee, etc.). That means that roughly speaking 1/4 of the cost of a prescription is dispensing revenue, and 3/4 is the cost of the drugs.

Restating this in per-prescription terms, for the average prescription in FY2020, which costed ¥9,849, technical fee was ¥2,467, and the drug cost was ¥7,363. Dispensing pharmacies can increase their revenue by decreasing the purchase price of drugs, the source of drug price margin, and earning more of the various types of technical fee premiums. The one that Pharmarise HDS is focusing on is the family pharmacist guidance fee, which can be earned by obtaining the consent to serve as a customer's family pharmacist. About 10% of the prescriptions that Pharmarise HDS handles, it does so as a family pharmacist, which pays an additional fee. For small and medium-sized dispensing pharmacies, that percentage is about 1%-3%, which is one point that differentiates Pharmarise HDS. It is expected that the company can earn an additional ¥170–¥310 per prescription by further increasing the number of its customers that it serves as their family pharmacist.

The community support system premium is also important for Pharmarise HDS. The premium is paid to recognize pharmacies that contribute to community health care, and the amount rises as the number of various requirements are met. These requirements include dispensing pharmacies handling customers on holidays and at nights, serving as a family pharmacist, and offering pharmacist home visit service. There is room for Pharmarise HDS to capture greater dispensing fees by expanding its systems to earn these premiums. Creating these types of system will become more difficult for small and medium-sized dispensing pharmacies to do but will be an advantage for Pharmarise HDS during the coming industry consolidation.

Breakdown of Per-Prescription Dispensing Fee (Average of ¥9,849 in FY2020)



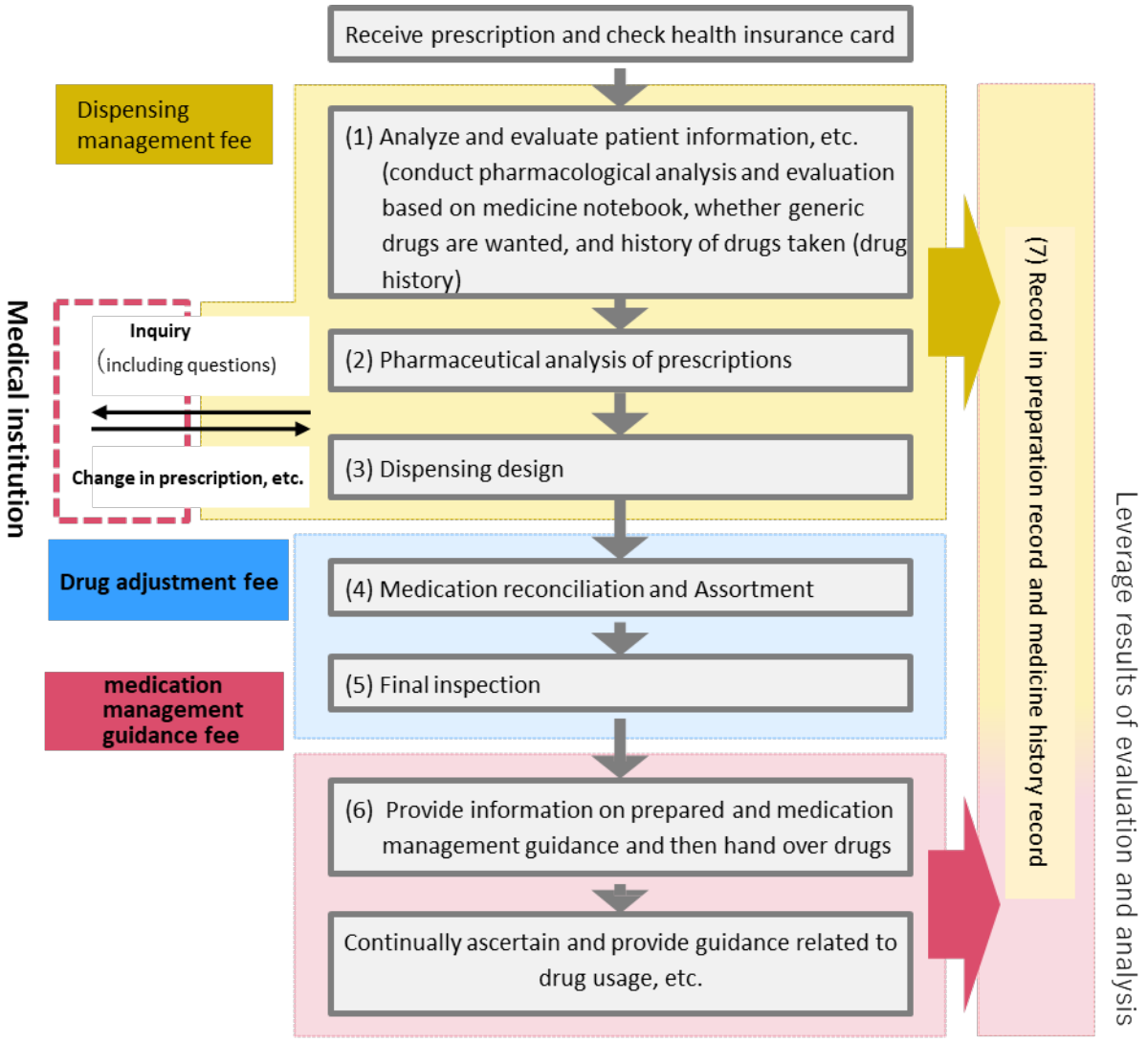
Source: Complied by SIR using MHLW's "Summary of FY2022 Dispensing Fee Revisions"

Types of dispensing fees (technical fee portion)

As noted above, dispensing pharmacies do not merely preserve drugs and supply them to customers. As shown in the following diagram, these pharmacies undertake various operations, including making confirmations, providing information, recording information, and providing guidance. These are reflected as dispensing fees, and broadly categorized as (1) dispensing management fee, (2) drug adjustment fee, and (3) medication management guidance fee. These are insurance points paid for prescriptions, but it is necessary to keep in mind that insurance points are not the same for all dispensing pharmacies. In other words, when a pharmacist who has obtained the consent of a customer to serve as their family pharmacist provides guidance, a medication management guidance fee, which pays higher points, is included. Furthermore, dispensing pharmacies that use a large percentage of generics are paid a generic drug dispensing system premium.

The FY2022 Dispensing Fee System Revisions extol a shift "from 'pharmacies located near medical institutions' to 'family pharmacies' and then 'community pharmacies'" as its "Vision of Pharmacies for Patients," and demands that dispensing pharmacies not only prepare and provide drugs but also provide personal service that includes guidance for customers and follow up and contribute to community health care.

Dispensing Workflow at Pharmacies (FY2022 Revisions)



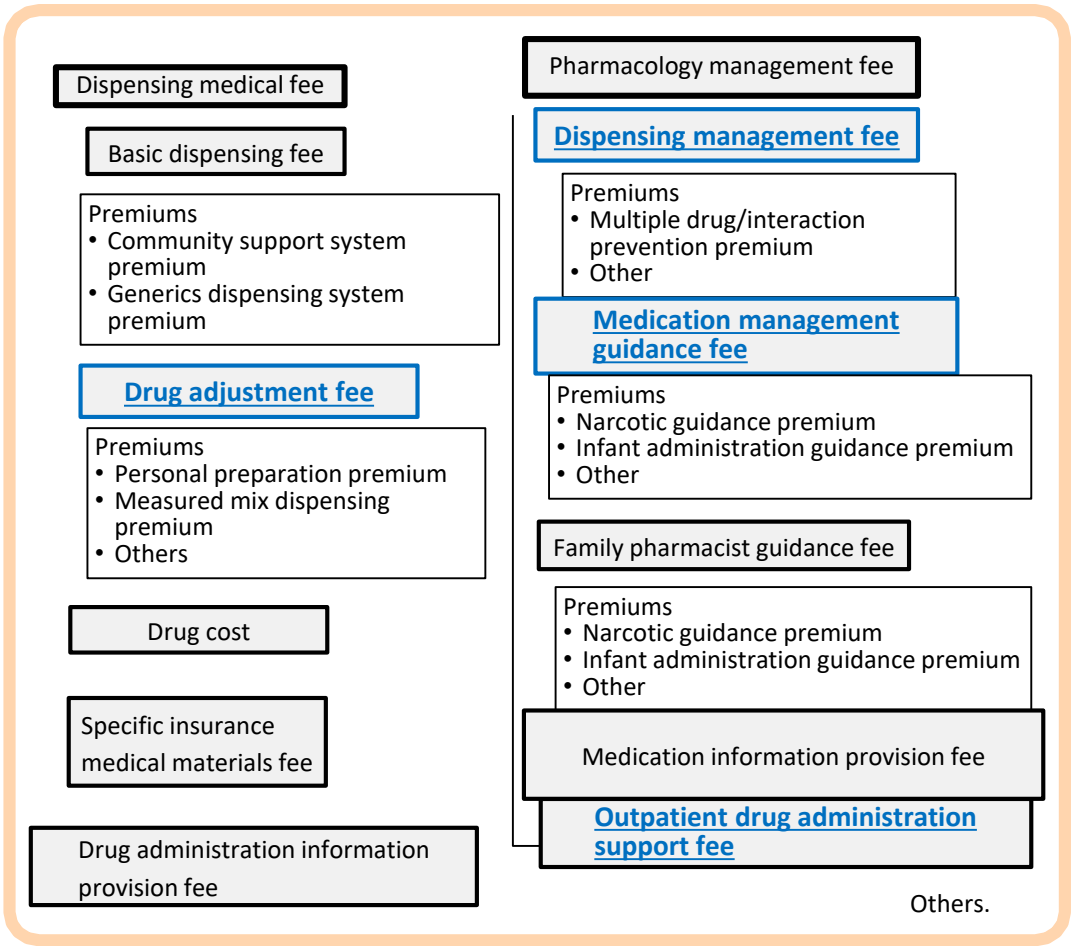
System of dispensing fee premiums

Fiscal 2022 Dispensing Fee System revisions include an important policy that is expected to be seismic shift in the dispensing pharmacy industry. In addition to extoling a shift "from 'pharmacies located near medical institutions' to 'family pharmacies' and then 'community pharmacies'," the MHLW "Vision of Pharmacies for Patients" outlines such changes as an increase in technical fee if consent to serve as family pharmacist is obtained and payment of a premium based on creating a community support system. Within the dispensing pharmacy industry, this will make it difficult for small and medium-sized chains to differentiate themselves and earn insurance points by only serving as a pharmacy near a medical institution.

In other words, dispensing pharmacies that are keen on contributing to local health care will benefit by earning various insurance points, although upfront investments are required. It will also likely make it possible for dispensing chains that are larger and can earn premiums by establishing systems different from the current dispensing system to differentiate themselves.

It can be argued that Pharmarise HDS, one of the major chains, possesses a system through which it actively earns additional points. One can also say that the company is steadily making progress with preparations necessary to add small and medium-size pharmacies into its network as industry consolidation approaches.

Revision to Pharmacy/Pharmacist Operations Evaluation System



Source: Complied by SIR using MHLW's "Summary of FY2022 Dispensing Fee Revisions"
Note：Items in blue border are new items

Classifying as a Large Group, once the number of stores exceeds 300

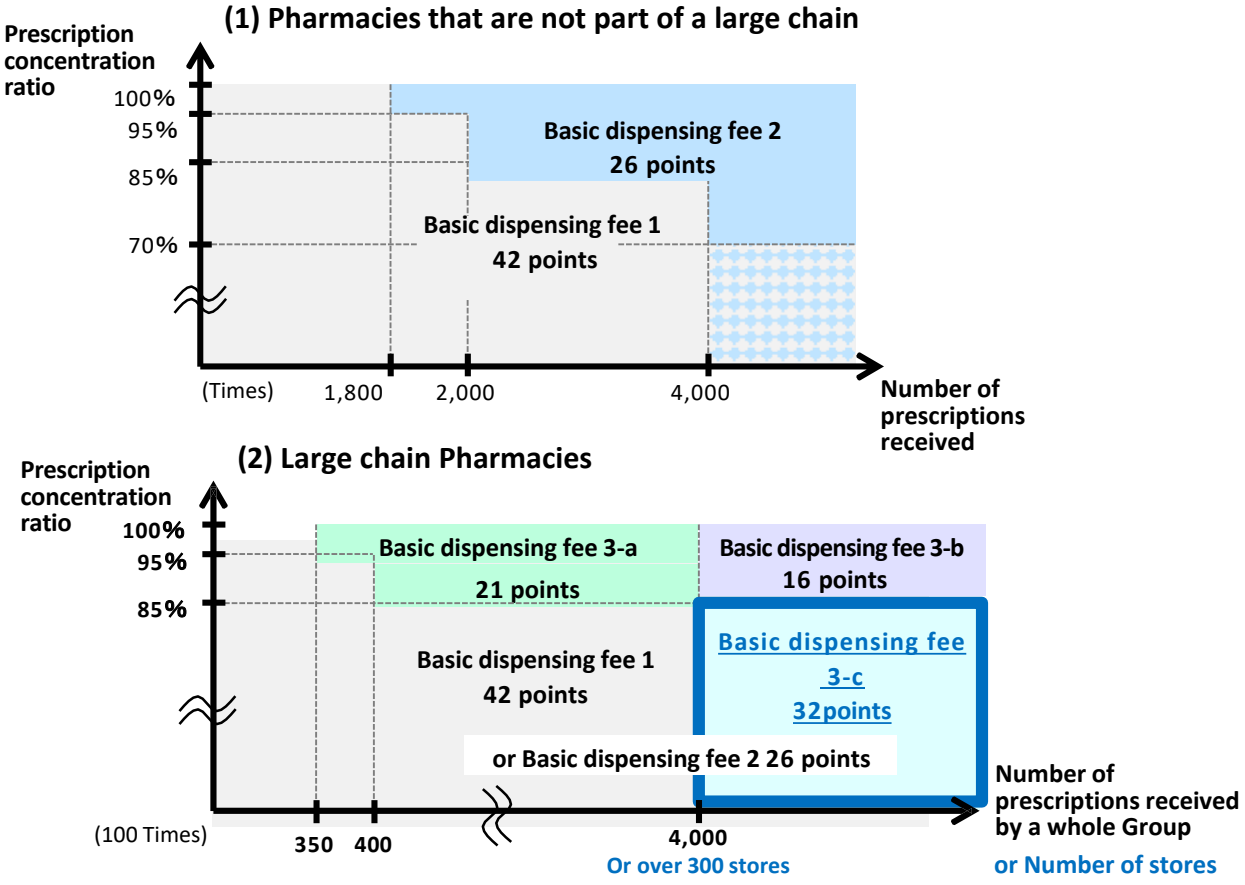
Fiscal 2022 revisions to the payment system for medical services lowered the number of basic dispensing fee points provided to large chains with more than 300 pharmacies. As a result, except for ones serving areas with few medical care resources, large dispensing pharmacy chains with more than 300 pharmacies are not paid basic dispensing fee 1 and 2 but earn 32 points and 16 points (see the following diagram). Furthermore, some of the ones that previously earned 42 points will earn 32 points.

These changes appear to reflect aspects that can be done more efficiently as dispensing pharmacy chains grow in size, but because Pharmarise HDS is trying to achieve the target of more than 300 stores in FY24/5, the revisions will temporarily have a negative impact on its FY25/5 earnings.

That target is an important milestone toward the company's goal of additional growth as a large chain, and the negative impact will probably be temporary. However, the current medium-term management plan, which covers the period through FY25/5, must include measures to compensate for the negative impact in the final year, in our view.

SIR considers the capital and business alliance with Suzuken, which Pharmarise HDS announced in November 2023, a key element that will determine the company's future direction. Through its pharmacy business, Suzuken has a large chain with more than 572 stores (as of September 2023), and because it is also actively implementing a DX, focus is on future joint initiatives between Suzuken and Pharmarise HDS.

Revision to Basic Dispensing Fee for Large Group Pharmacies



Source: Complied by SIR using MHLW's "Summary of FY2022 Dispensing Fee Revisions"

Current Financial Performance

Quarterly earnings

Pharmarise HDS's recent earnings reflect the recovery from the COVID-19 pandemic. Sales bottomed out in the Jun.–Aug. 2022 quarter (1Q FY23/5), and have trended upward. The company has been able to post stable net profit after it hit bottom in the Sept.–Nov. 2022 quarter (2Q FY23/5).

While its quarterly earnings tend to have a seasonality, the recovery since the COVID-19 pandemic has boosted sales, and profits are rising. For the most recent quarter (2Q FY 24/5), the company posted a slight quarter-on-quarter increase in sales and firm net profit of ¥150 mn. The slight QoQ decline in the company's EPS for the same quarter was due to an increase in issued shares.

One could say that the company is making steady progress toward net profit target of ¥449 mn in FY24/5. The April 2024 introduction of changes to dispensing fees has been pushed backed to June, which will delay the decline in insurance points for large chains, and this is positive news for Pharmarise HDS's earnings this fiscal year, in our view. However, it appears that the net profit target of ¥880 mn for FY25/5 in its medium-term management plan will require additional sales and measures.

Quarterly Financial Results

Y mn, %		Sales	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net profit	YoY	EPS
FY23/05	1Q	12,861	(1.5%)	348	9.8%	341	1.8%	111	76.2%	11.9
	2Q	12,884	0.3%	225	(52.2%)	225	(53.0%)	(39)	TR	(4.1)
	3Q	12,985	2.4%	323	52.4%	324	62.0%	136	88.9%	14.4
	4Q	13,300	2.1%	542	4.2%	541	7.6%	125	0.%	13.3
FY24/05	1Q	13,471	4.7%	331	(4.9%)	331	(2.9%)	123	10.8%	13.1
	2Q	**13,477**	**4.6%**	**379**	**68.4%**	**370**	**64.4%**	**150**	**TB**	**12.4**

Source: Complied by SIR from the company IR material.
TR= Turn Red. TB=Turn Black.

Share Price Insite

Dispensing pharmacy industry during a historic transition period

The dispensing pharmacy industry is probably in a transition period moving gradually toward massive chains. This has similar implications as when small food product retailers were rapidly replaced by convenience stores.

However, in the case of dispensing pharmacies, the fact that dispensing fees (technical fees) depend on the size of pharmacies and the existence of pharmacies located near medical institutions would be probably the reasons that the shift toward chains in the pharmacy industry is progressing at a slow pace. Even so, Pharmarise HDS believes that the shift towards chains will accelerate. This is because that the MHLW's policy extols a shift "from 'pharmacies located near medical institutions' to 'family pharmacies' and then 'community pharmacies'," and for Japan, which is facing a more aged society, dispensing pharmacies that contribute to community health care will grow in importance, and this is not difficult to envision considering their favorable treatment in terms of insurance points.

Compared to other companies in the same industry, Pharmarise Holdings has a PBR of less than 1, but the PBR of larger competitors are trending upward. Although this is partially because of economies of scales, it also factors in investors' expectations of further expansion.

In this sense, Pharmarise HDS has prepared for scale expansion over the last several years. The company can probably create room for an increase in its share price by working to expand its chain of dispensing pharmacies and increase the insurance points it earns in order to achieve an investment efficiency that exceeds its ROIC. In addition, when this occurs, the company may have an opportunity to return to the TSE Prime Market.

Valuation comparison of peers

TSE Code	Company Name	Mkt Cap. (¥mn)	PER (X)	PBR (X)	EV/EBITDA (X)	OPM (%)	ROE (%)	ROIC (%)	Payout ratio (Act.) (%)	DY (Act.) (%)
2796	**Pharmarise Holdings**	**7,972**	**14.53**	**0.93**	**3.48**	**2.96**	**7.16**	**5.30**	**39.34**	**2.29**
9627	AIN HOLDINGS	164,529	15.27	1.26	4.23	4.71	8.53	7.76	22.82	1.06
3341	NIHON CHOUZAI	46,181	9.37	0.75	4.35	2.50	8.22	3.96	16.78	2.16
3034	Qol Holdings	68,663	12.69	1.31	5.23	5.13	10.78	7.39	20.97	2.76
4350	MEDICAL SYSTEM NETWORK	20,561	10.28	1.34	5.35	3.35	13.71	5.54	22.48	3.00
3353	Medical Ikkou Group	8,930	9.93	0.66	5.85	3.12	6.87	2.08	19.74	1.54
7129	Miahelsa Holdings	2,530	11.45	0.77	6.55	0.94	6.91	0.88	35.71	2.96

Source: Compiled by SIR from SPEEDA data.

Income Statement

¥mn, %	FY2018/05 Full year	FY2019/05 Full year	FY2020/05 Full year	FY2021/05 Full year	FY2022/05 Full year	FY2023/05 Full year	FY2024/05 CE
Total Revenue	**54,562**	**51,728**	**51,030**	**52,324**	**51,608**	**52,030**	**53,546**
Total Cost of Sales	46,612	44,386	43,593	44,257	43,491	43,896	
Cost of Sales	46,612	44,386	43,592	44,256	43,491	43,896	
Gross Profit	7,950	7,342	7,437	8,067	8,117	8,134	
Gross Margin	14.6	14.2	14.6	15.4	15.7	15.6	
Selling, General and Administrative Expenses	6,771	6,702	6,402	6,821	6,596	6,695	
Operating Profit	**1,179**	**640**	**1,034**	**1,246**	**1,520**	**1,438**	**1,477**
Operating Profit Margin	2.2	1.2	2.0	2.4	2.9	2.8	2.8
Non-Operating Income	109	132	122	448	153	76	
Interest and Dividends Income	6	3	2	2	2	2	
Non-Operating Expenses	195	181	133	405	156	82	
Interest Expenses	106	82	74	75	65	55	
Income from Equity Method - Non-Operating	(39)	(14)	(17)				
Ordinary Profit	**1,092**	**590**	**1,023**	**1,288**	**1,517**	**1,431**	**1,423**
Ordinary Profit Margin	2.0	1.1	2.0	2.5	2.9	2.8	2.7
Extraordinary Gains/Losses	(678)	(190)	(204)	(86)	(195)	(381)	
Extraordinary Gain	1	7	63	26	23	137	
Extraordinary Loss	679	197	267	112	218	518	
Pretax Profit	414	400	819	1,202	1,322	1,049	
Pretax Profit Margin	0.8	0.8	1.6	2.3	2.6	2.0	
Income Taxes	622	409	238	782	863	702	
Income Taxes - Current	609	391	469	764	816	749	
Income Taxes - Deferred	13	18	(231)	18	47	(47)	
Net Profit Attribute to parent company shareholders	(28)	23	577	426	447	333	**449**
Net Profit	(208)	(10)	580	419	458	347	
Net Profit Attribute to non-controlling shareholders	(179)	(33)	3	(6)	10	14	
Net Profit Margin (Attribute to parent company shareholders)	(0.1)	0.0	1.1	0.8	0.9	0.6	0.8
Other Comprehensive Income	29	(12)	0	(5)	(5)	24	
Net Gain on Revaluation of Available-for-sale Financial Assets(CI)	0	(1)	0	0	0	0	
Unfunded Retirement Benefit Obligation with Respect to Foreign Consolidated Companies	29	(11)	0	(4)	(4)	24	
Comprehensive Income	(178)	(22)	580	414	453	372	
Comprehensive Income Attributable to Owners of the Parent	0	10	576	421	442	357	

Source: Compiled by SIR from SPEEDA data.

Balance Sheet

¥mn, %	FY2018/05 Full year	FY2019/05 Full year	FY2020/05 Full year	FY2021/05 Full year	FY2022/05 Full year	FY2023/05 Full year
Total Assets	**24,265**	**24,217**	**25,206**	**24,724**	**23,746**	**23,421**
Current Assets	9,122	9,601	10,676	10,546	10,878	11,372
Cash Cash Equivalents And Short-term Investments	3,653	4,403	4,472	4,604	3,991	4,742
Cash & Cash Equivalents	3,653	4,403	4,472	4,604	3,991	4,742
Accounts Receivables	728	784	967	936	484	611
Accounts Receivable - Other and Accrued Income	2,193	2,070	2,366	2,159	3,786	3,412
Inventories	2,106	2,115	2,644	2,587	2,302	2,290
Finished Goods and Merchandise	2,050	2,059	2,577	2,512	2,237	2,225
Other Inventories	56	56	67	75	65	65
Deferred Tax Assets - Current	179					
Allowance for Doubtful Accounts - Assets	(57)	(4)	(10)	(10)	(5)	(6)
Non-Current Assets	15,135	14,608	14,524	14,175	12,866	12,048
Property, Plant & Equipment (PPE)	6,503	6,290	6,332	6,434	6,355	6,010
Lands	2,620	2,547	2,567	2,607	2,616	2,587
Construction In Progress	178	62	130	180	115	30
Intangible Assets	5,642	5,175	5,285	4,464	3,629	3,250
Goodwill	5,345	4,874	4,697	4,025	3,220	2,748
Investments and Other Assets	2,990	3,141	2,906	3,276	2,881	2,787
Investment Securities (inc. Subsidiaries and Affiliates)	448	444	68	61	60	82
Investment Securities	448	444	68	61	60	82
Long-Term Loans	31	27	10	2	1	1
Deferred Tax Assets - Non-Current	381	549	802	786	741	778
Allowance for Doubtful Accounts - Fixed	(130)	(130)	(193)	(164)	(164)	(152)
Deferred Assets	7	8	4	2	1	0
Total Liabilities	**18,640**	**18,597**	**19,259**	**18,392**	**17,047**	**16,433**
Current Liabilities	10,769	9,347	10,036	9,392	8,477	9,835
Trade Payables	5,456	5,023	5,192	4,609	4,109	4,252
Accounts Payable - Other and Accrued Expenses	580	537	514	652	662	760
Short-Term Debt	3,603	2,943	3,096	2,819	2,490	3,677
Short-Term Borrowings	0	0	20	0	0	0
Current Portion of Long-term Debt	3,603	2,943	3,076	2,819	2,490	3,677
Current Portion of Long-Term Borrowings	3,449	2,789	2,948	2,792	2,490	2,195
Current Portion of Straight Bonds	154	154	128	27		1,482
Non-Current Liabilities	7,870	9,250	9,223	9,000	8,570	6,598
Long-Term Debt	6,947	8,195	8,133	7,878	7,422	5,461
Long-Term Borrowings	6,638	6,558	6,624	6,396	5,940	5,461
Straight Bonds	309	1,637	1,509	1,482	1,482	
Deferred Tax Liabilities - Non-Current	2	2				
Provision for Retirement Benefits	521	605	676	708	781	791
Asset Retirement Obligations - Non-Current	83	100	103	108	111	111
Total Net Assets	5,624	5,619	5,946	6,331	6,699	6,987
Total Shareholders' Equity	5,437	5,466	5,909	6,221	6,608	6,882
Shareholders' Equity	5,279	5,287	5,693	6,013	6,405	6,655
Capital Stock	1,174	1,229	1,229	1,251	1,274	1,298
Capital Surplus	1,252	1,307	1,437	1,476	1,529	1,553
Retained Earnings	2,852	2,749	3,197	3,494	3,811	4,014
Treasury Stock			(172)	(208)	(210)	(210)
Accumulated Other Comprehensive Income	17	4	3	(1)	(6)	17
Valuation Difference On Available-for-sale Securities	2	0	0	0	0	0
Share Warrants	140	173	211	208	208	208
Non-controlling interest	187	153	37	110	91	105
Loans to Affiliates and Other						20

Source: Compiled by SIR from SPEEDA data.

Statements of Cash Flows

¥mn, %	FY2018/05 Full year	FY2019/05 Full year	FY2020/05 Full year	FY2021/05 Full year	FY2022/05 Full year	FY2023/05 Full year
Cash Flows from Operating Activities	**1,330**	**895**	**1,572**	**1,945**	**713**	**2,520**
Depreciation and Amortization - CF	1,326	1,223	1,228	1,344	1,308	1,224
Depreciation - CF	626	531	522	606	608	589
Amortization of Goodwill - CF	700	692	706	738	700	635
Gain/Loss on Valuation of Securities and Investment Securities			1	5		
Gain/Loss on Sale of Securities and Investment Securities	(1)			(1)		
Gain/Loss on Sale of Investment Securities	(1)			(1)		
Gain/Loss on Sale of PPE	2	54	(58)	(1)	16	62
Interest and Dividends Received - Operating CF	4	2	0	1	2	1
Interest Paid - Operating CF	(108)	(86)	(73)	(75)	(66)	(55)
Cash Flows from Investing Activities	**(527)**	**(501)**	**(734)**	**(1,076)**	**(292)**	**(703)**
Payments for Purchases of Securities and Investment Securities	(5)	(10)				
Payments for Purchases of Investment Securities	(5)	(10)				
Proceeds from Sales of Securities and Investment Securities	6			2		
Proceeds from Sales of Investment Securities	6			2		
Purchases/Sales of PPE	(403)	(248)	(327)	(467)	(377)	(348)
Payments for Purchases of PPE	(403)	(400)	(349)	(508)	(379)	(380)
Proceeds from Sales of PPE	0	152	22	41	2	32
Purchases/Sales of Intangible Assets	(2)	(58)	10	(44)	(87)	(162)
Payments for Purchases of Intangible Assets	(2)	(58)	(108)	(44)	(87)	(162)
Proceeds from Sales of Intangible Assets			118			
Cash Flows from Financial Activities	**(894)**	**354**	**(766)**	**(728)**	**(1,034)**	**(1,072)**
Repayments of Short-Term Borrowings		(13)		(20)		
Increase in Long-Term Debt	2,600	3,728	2,600	2,500	2,000	1,700
Proceeds from Long-Term Borrowings	2,600	2,250	2,600	2,500	2,000	1,700
Proceeds from Issuance of Bonds		1,478				
Repayments of Long-Term Debt	(3,153)	(3,114)	(2,829)	(2,857)	(2,636)	(2,419)
Repayments of Long-Term Borrowings	(2,999)	(2,960)	(2,675)	(2,729)	(2,609)	(2,419)
Redemption of Bonds	(154)	(154)	(154)	(128)	(27)	
Proceeds from Issuance of Stock		103				
Redemption/Retirement of Stock			(173)	(36)	(2)	
Cash Dividends Paid	(126)	(125)	(129)	(129)	(131)	(131)
Changes in Cash & Cash Equivalent	(91)	749	71	140	(613)	743
Cash & Cash Equivalent - Beginning	3,734	3,643	4,393	4,464	4,604	3,991
Cash & Cash Equivalent - Ending	3,643	4,393	4,464	4,604	3,991	4,734
Free Cash Flow (FCF)	**803**	**394**	**838**	**869**	**421**	**1,817**

Source: Compiled by SIR from SPEEDA data.

Net sales and segment profit by segment

Net Sales by Segment

¥mn, %	FY2018/05 Full year	FY2019/05 Full year	FY2020/05 Full year	FY2021/05 Full year	FY2022/05 Full year	FY2023/05 Full year
Dispensing Pharmacy	43,202	40,613	40,417	42,530	42,038	42,327
Drug/Convenience Store	9,490	9,244	8,816	7,963	7,602	7,771
Medical Mall	511	511	505	491	503	505
Storage and Management of Medical Documents	760	702	667	622	699	646

Segment Profit

¥mn, %	FY2018/05 Full year	FY2019/05 Full year	FY2020/05 Full year	FY2021/05 Full year	FY2022/05 Full year	FY2023/05 Full year
Dispensing Pharmacy	1,529	945	1,323	1,444	1,745	1,685
Drug/Convenience Store	(235)	(153)	(136)	(42)	(146)	(199)
Medical Mall	112	89	73	60	67	90
Storage and Management of Medical Documents	151	94	72	64	107	81

Source: Complied by SIR from the company IR material.

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