Consolidated Financial Results for the First Nine Months of the Fiscal Year Ending May 31, 2024 (Japan GAAP)

March 25, 2024

Company name: Pharmarise Holdings Corporation
Listed on: Tokyo Stock Exchange, Prime Market
Code number: 2796
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Scheduled date to file quarterly securities report: April 10, 2024
Scheduled date to commence dividend payments: —
Preparation of supplementary material on quarterly financial results: No
Holding of quarterly financial results briefing: Yes (for analysts and institutional investors)

(Amounts of less than one million yen are rounded down.)

1. Consolidated financial results for the first nine months of the fiscal year ending May 31, 2024 (from June 1, 2023 to February 29, 2024)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Nine months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
February 29, 2024	40,674	5.0	863	(3.7)	799	(10.2)	177	(15.2)
February 28, 2023	38,730	0.4	896	(10.4)	890	(12.2)	208	(35.2)

(Note) Comprehensive income Nine months ended February 29, 2024: 187 million yen [-14.1%]
Nine months ended February 28, 2023: 217 million yen [-32.7%]

	Earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
February 29, 2024	17.22	16.48
February 28, 2023	22.24	16.89

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
February 29, 2024	26,425	7,954	29.0
May 31, 2023	23,421	6,987	28.5

(Reference) Equity As of February 29, 2024: 7,664 million yen As of May 31, 2023: 6,673 million yen

2. Cash dividends

	Dividend per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended May 31, 2023	–	0.00	–	14.00	14.00
Fiscal year ending May 31, 2024	–	0.00	–		
Fiscal year ending May 31, 2024 (forecast)				20.00	20.00

(Notes) 1 Revision to the dividend forecast announced most recently: None
2 Breakdown of fiscal year-end dividend for the year ending March 31, 2024 (Forecast): ordinary dividend of 14 yen and commemorative dividend of 6 yen (40th anniversary commemorative dividend)

3. Consolidated earnings forecasts for the fiscal year ending May 31, 2024 (from June 1, 2023 to May 31, 2024)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	54,086	4.0	1,056	(26.5)	978	(31.6)	168	(49.4)	16.01

(Note) Revision to the financial results forecast announced most recently: Yes

* Notes

(1) Changes in significant subsidiaries during the first nine months of the fiscal year under review (changes in specified subsidiaries accompanying changes in the scope of consolidation): No

New: — (company name) Exception: — (company name)

(2) Application of accounting procedures specific to preparation of the consolidated quarterly financial statements: Yes

Note: Please see "2. Consolidated Financial Statements and Notes on Important Matters, (3) Notes on quarterly consolidated financial statements" on page 10 of the Accompanying Materials for more details.

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

(i)	Changes in accounting policies due to the revision of accounting standards:	No
(ii)	Changes in accounting policies other than (i):	No
(iii)	Changes in accounting estimates:	No
(iv)	Retrospective restatement:	No

(4) Number of issued shares (common shares)

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

As of February 29, 2024	12,060,381 shares	As of May 31, 2023	9,746,645 shares

(ii) Total number of treasury shares at the end of the period:

As of February 29, 2024	817,166 shares	As of May 31, 2023	321,100 shares

(iii) Average number of shares issued and outstanding in each period (cumulative from the beginning of the fiscal year):

Nine months ended February 29, 2024	10,282,536 shares	Nine months ended February 28, 2023	9,392,184 shares

* These quarterly financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation regarding appropriate use of business forecasts and other special instructions

The forward-looking statements such as the forecasts of financial results stated in this document are based on the information currently available to the Company and certain assumptions that the Company judges as rational. These statements are not guarantees of future performance. Actual results may differ materially, depending on a range of factors. For assumed conditions underlying the earnings forecast and cautionary statements in using the earnings forecast, please refer to "Explanation about the future outlook, including forecast for consolidated earnings" on page 5.

The Company issued 109,870 shares of its common stock as new shares to be provided as restricted stock remuneration on September 29, 2023. On November 13, 2023, it also issued 2,203,866 shares of its common stock as new shares in response to the conversion of convertible-bond-type bonds with share acquisition rights by the AG No. 2 investment business limited partnership. In the consolidated financial forecast, the average number of shares outstanding during the fiscal year, which is the denominator in the calculation of earnings per share, is calculated by incorporating the increase in the number of said outstanding shares.

Accompanying Materials – Contents

1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation regarding operating results

During the first nine months of the consolidated fiscal year under review (June 1, 2023 through February 29, 2024), the Japanese economy was expected to continue its gradual recovery, given signs of improvement in employment and income conditions and the effects of various government policies. However, there is a risk that overseas economies may deteriorate due to factors such as global monetary tightening and the uncertainty of the Chinese economy, depressing the Japanese economy. Moreover, close attention needs to be paid to the effects of rising prices, the situation in the Middle East and fluctuations in the financial markets, among other developments. The economic impact of the 2024 Noto Peninsula Earthquake that occurred in January 2024 should also be considered.

In this environment, Pharmarise Holdings Corporation ("the Company") and its consolidated subsidiaries ("the Group") announced the Medium-term Management Plan LSG (Leading to Sustainable Growth) 2024 on December 24, 2021. Under Medium-term Management Plan LSG 2024, the Group will endeavor to strengthen competitiveness and achieve growth to enhance shareholder value by (i) increasing efforts to become the corporate group preferred by investors, (ii) developing business, primarily the dispensing business, to enhance revenue, and (iii) enhancing the profit structure by strengthening the management infrastructure.

As part of these efforts, the Company entered into a capital and business alliance with Suzuken Co., Ltd. in November 2023 to combine the management resources and know-how of the two companies. It has begun working together with Suzuken to create new added value that will address social issues by integrating the strengths and functions of both companies.

In addition, the Company welcomed GOOD AID Co., Ltd. as a member of the Group at the end of January 2024. Through the mutual use of the management resources of both companies and joint ventures, it is expected that the companies will achieve synergies, including the strengthening, expansion and development of their businesses.

During the first nine months of the consolidated fiscal year under review, net sales totaled 40,674 million yen (up 5.0% year on year), with operating profit of 863 million yen (down 3.7%) and ordinary profit of 799 million yen (down 10.2%). Profit attributable to owners of parent came to 177 million yen (down 15.2%).

Net sales increased year on year due to a recovery in sales in the drugstore and convenience store sections and a rise in dispensing pharmacy sales associated with a recovery in the number of on-demand prescriptions.

On the profit front, operating profit, ordinary profit and profit attributable to owners of parent were all lower than the same period of the previous fiscal year, mainly due to an increase in SG&A expenses reflecting active M&A in the Dispensing Pharmacy Business, although the profit and loss of the Drug/Convenience Store Business improved significantly.

Segment performance was as follows.

Dispensing Pharmacy Business

During the first nine months of the fiscal year under review, net sales in the Dispensing Pharmacy Business rose to 33,074 million yen (up 4.9% year on year) mainly due to an increase in the number of prescriptions handled, attributable to factors such as the relaxation of restrictions on medical visits due to the impact of COVID-19 infections and efforts to expand on-demand prescriptions, although the revision of drug prices also had an impact. Segment profit decreased to 1,036 million yen (down 8.2% year on year), reflecting factors such as an increase in SG&A expenses caused by M&A activities and new pharmacies opening during the period under review, changes in the procurement environment, and the impact of drug price revisions, which offset smooth progress in the calculation of technical fees.

In the first nine months of the fiscal year under review, 57 pharmacies were opened, and five pharmacies were closed. The number of pharmacies operated by the Group was 352. The increase in the number of pharmacies is due to pharmacies that were acquired through the transfer of shares from the GOOD AID Group, Mit Inc., Sankyo Pharmaceutical Co., Ltd. and Sasanami Pharmacy Co., Ltd., in addition to the new pharmacies that were opened.

In operating pharmacies, the Group endeavors to (i) pursue its mission of promoting medical care, nursing care and health care to meet the needs of a super-aged society and contributing to community healthcare as family pharmacies, (ii) provide support for campaigns to maintain and improve the health of the Japanese people on the theme "physical, mental and social wellness" through its healthy life advisors accredited and qualified based on the Company's unique system, (iii) promote online medication guidance through the establishment of centers for greater operational efficiency and digital transformation, and (iv) expand the number of users who send prescriptions by e-mail by linking Pocket Pharmacy, an electronic medicine notebook, to LINE.

The number of health support pharmacies was 77 at the end of the first nine months of the fiscal year under review (decreasing 5 from the end of the previous fiscal year), and the number of the Group's pharmacies cooperating with local health care facilities increased to 116 (decreasing 1 from the end of the previous fiscal year). Moreover, two pharmacies acquired certification as pharmacy cooperating with specialized medical institutions.

Drug/Convenience Store Business

In the first nine months of the fiscal year under review, sales for the Drug/Convenience Store Business increased 7.1% year on year, to 6,171 million yen, and the segment loss was 45 million yen (increased 124 million yen from a year ago). The sales increase mainly

reflected the larger number of customers visiting stores due to the higher frequency of outings against the backdrop of the diminishing impact of COVID-19 in the drugstore and convenience store sections. Increased sales of cosmetics and OTC pharmaceuticals also contributed to progress in profits.
In the future, the Group will also promote DX and e-commerce initiatives in this section.
The number of the Group’s stores without any pharmacy section decreased one from the end of the previous fiscal year to 45 during the period (57 including 12 stores with pharmacy section).

Storage and Management of Medical Documents Business
In the first nine months of the fiscal year under review, sales for the Storage and Management of Medical Documents Business decreased 6.0% year on year, to 456 million yen, and the segment profit decreased 41.0%, to 33 million yen, mainly affected by cost-cutting efforts at medical institutions to shorten the storage period of paper medical records, etc. However, given the continuing need for the out-of-hospital storage and management of medical documents against the backdrop of aging hospitals across the country and active rebuilding and relocation to improve operational efficiency, we are aggressively developing sales activities to meet these needs and provide new services.

Medical Mall Management Business
Business performance of the Medical Mall Management Business remained stable, with sales increasing 0.1% year on year, to 378 million yen and the segment profit rising 18.5%, to 83 million yen due to a decrease in depreciation in the first nine month of the consolidated fiscal year under review.

Other
In the first nine months of the fiscal year under review, sales for the businesses in the Other segment increased 3.4% year on year, to 593 million yen, mainly due to higher profits in system integration business and medical IT solutions business. However, segment profit decreased 84.2% year on year, to 5 million yen, due to a decline in profit in the paid employment placement business as a reaction to the strong performance in the first nine months of the previous fiscal year.

(2) Explanation regarding financial position

(Assets)
Assets at the end of the first nine months of the fiscal year under review totaled 26,425 million yen, an increase of 3,004 million yen from the end of the previous fiscal year. This increase was attributable to an increase of 1,031 million yen in merchandise and finished goods from the end of the previous fiscal year, to 3,256 million yen and an increase of 2,699 million yen in investment securities, to 2,781 million yen, which were partly offset by a decrease in accounts receivable – other of 1,143 million yen from the end of the previous fiscal year, to 2,268 million yen.

(Liabilities)
Liabilities at the end of the first nine months of the fiscal year under review amounted to 18,470 million yen, an increase of 2,037 million yen from the end of the previous fiscal year. This was chiefly due to an increase in long-term borrowings of 3,083 million yen from the end of the previous fiscal year, to 8,300 million yen and an increase in accounts payable-trade of 664 million yen, to 4,917 million yen, which were partly offset by a decrease in others (current liabilities) of 701 million yen from the end of the previous fiscal year, to 990 million yen and a decrease of 1,482 million yen resulting from the redemption and conversion of total amount of current portion of bonds payable.

(Net assets)
Net assets amounted to 7,954 million yen, an increase of 966 million yen from the end of the previous fiscal year. This was mainly attributable to an increase in share capital of 662 million yen from the end of the previous fiscal year, as well as 1,961 million yen due to the conversion of current portion of bonds payable and an increase of 624 million yen in capital surplus, to 2,177 million yen.

(3) Explanation about the future outlook, including forecast for consolidated earnings

As announced in the “Notice of Revisions to Consolidated Earnings Forecasts for the Fiscal Year Ending May 31, 2024” released on March 25, 2024, the Group has revised its consolidated earnings forecasts for the fiscal year ending May 31, 2024 announced on December 25, 2023, based on recent business performance trends and other factors.

2. Consolidated Financial Statements and Notes on Important Matters

(1) Quarterly consolidated balance sheet

(Million yen)

	As of May 31, 2023	As of February 29, 2024
Assets		
Current assets		
Cash and deposits	4,742	5,164
Accounts receivable	611	642
Merchandise and finished goods	2,225	3,256
Raw materials and supplies	65	73
Accounts receivable - other	3,412	2,268
Other	320	361
Allowance for doubtful accounts	(6)	(6)
Total current assets	11,372	11,761
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	2,902	2,963
Land	2,587	2,609
Other, net	519	504
Total property, plant and equipment	6,010	6,077
Intangible assets		
Goodwill	2,748	2,509
Other	502	538
Total intangible assets	3,250	3,047
Investments and other assets		
Investment securities	82	2,781
Other	2,858	2,949
Allowance for doubtful accounts	(152)	(192)
Total investments and other assets	2,787	5,538
Total non-current assets	12,048	14,663
Deferred assets	0	–
Total assets	23,421	26,425

(Million yen)

	As of May 31, 2023	As of February 29, 2024
Liabilities		
Current liabilities		
Accounts payable - trade	4,252	4,917
Current portion of bonds payable	1,482	–
Current portion of long-term borrowings	2,008	2,263
Income taxes payable	333	231
Provision for bonuses	45	279
Provision for loss on store closings	21	42
Other	1,691	990
Total current liabilities	9,835	8,724
Non-current liabilities		
Long-term borrowings	5,216	8,300
Retirement benefit liability	791	898
Asset retirement obligations	111	120
Other	478	426
Total non-current liabilities	6,598	9,746
Total liabilities	16,433	18,470
Net assets		
Shareholders' equity		
Share capital	1,298	1,961
Capital surplus	1,553	2,177
Retained earnings	4,014	4,059
Treasury shares	(210)	(550)
Total shareholders' equity	6,655	7,647
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(0)	–
Remeasurements of defined benefit plans	18	17
Total accumulated other comprehensive income	17	17
Share acquisition rights	208	208
Non-controlling interests	105	81
Total net assets	6,987	7,954
Total liabilities and net assets	23,421	26,425

(2) Quarterly consolidated statements of income and quarterly comprehensive income

Quarterly consolidated statement of income

For nine-month period

(Million yen)

	Nine months ended February 28, 2023	Nine months ended February 29, 2024
Net sales	38,730	40,674
Cost of sales	32,717	34,219
Gross profit	6,013	6,455
Selling, general and administrative expenses	5,116	5,592
Operating profit	896	863
Non-operating income		
Interest income	1	0
Dividend income	1	0
Commission income	20	13
Rental income	12	12
Other	21	11
Total non-operating income	57	39
Non-operating expenses		
Interest expenses	40	42
Commission expenses	8	42
Cost of lease revenue	8	6
Other	4	10
Total non-operating expenses	62	102
Ordinary profit	890	799
Extraordinary income		
Gain on sale of non-current assets	1	0
Reversal of provision for loss on store closings	16	–
Subsidy income	61	41
Gain on sale of investment securities	–	19
Total extraordinary income	80	61
Extraordinary losses		
Loss on sale of non-current assets	5	0
Loss on retirement of non-current assets	31	4
Impairment losses	46	16
Loss on tax purpose reduction entry of non-current assets	61	35
Provision of allowance for doubtful accounts	–	41
Loss on cancellation of rental contracts	104	3
Total extraordinary losses	248	100
Profit before income taxes	722	761
Income taxes	503	573
Profit	218	187
Profit attributable to non-controlling interests	9	10
Profit attributable to owners of parent	208	177

Quarterly consolidated statement of comprehensive income

For nine-month period

(Million yen)

	Nine months ended February 28, 2023	Nine months ended February 29, 2024
Profit	218	187
Other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Remeasurements of defined benefit plans, net of tax	(0)	(1)
Total other comprehensive income	(0)	(0)
Comprehensive income	217	187
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	208	176
Comprehensive income attributable to non-controlling interests	9	10

(3) Notes on quarterly consolidated financial statements

(Note on going concern premise)

Not applicable.

(Notes in the case of significant changes in shareholders' equity)

On November 13, 2023, the AG No. 2 investment business limited partnership exercised its rights to convert a portion of the Company's 1st series of unsecured convertible bonds with share subscription rights into new shares, resulting in a 626 million yen increase in share capital and capital surplus, respectively. Primarily for this reason, share capital and capital surplus came to 1,961 million yen and 2,177 million yen, respectively, in the first nine months under review.

In addition, based on a resolution at the Board of Directors meeting held on January 11, 2024, the Company repurchased 496,000 treasury shares. As a result of this repurchase, treasury shares increased 340 million yen to 550 million yen in the first nine months under review.

(Application of particular accounting treatments concerning preparation of quarterly consolidated financial statements)

(Calculation of tax expense)

Taxes are calculated by multiplying profit before income taxes by a reasonable estimate of the effective tax rate after adjustments for tax-effect accounting for profit before income taxes in the current fiscal year. However, in cases where the calculation of taxes using such estimated effective tax rate yields a result that is not reasonable to a significant extent, the effective statutory tax rate is used.

(Segment information, etc.)

First nine months ended February 28, 2023

1. Reportable segment sales, profit or loss

(Million yen)

	Reportable segments					Other (Note 1)	Total	Adjustments (Note 2)	Amount in quarterly consolidated statement of income (Note 3)
	Dispensing Pharmacy	Drug/ Convenience Store	Storage and Management of Medical Documents	Medical Mall Management	Total				
Net sales									
Sales to external customers	31,532	5,760	485	378	38,156	573	38,730	–	38,730
Inter-segment net sales or transfers	–	–	–	–	–	–	–	–	–
Total	31,532	5,760	485	378	38,156	573	38,730	–	38,730
Segment profit (loss)	1,129	(170)	56	70	1,086	37	1,123	(226)	896

(Notes) 1. The Other segment includes the temporary help business and the system integration business for pharmaceutical companies.

2. The adjustment to segment profit (loss), (226 million yen), is corporate costs that are not allocated to any of the reportable segments.

3. Segment profit (loss) is adjusted to be consistent with the operating profit reported in the consolidated statements of income.

2. Information on impairment loss in non-current assets and goodwill by reported segment

(Important impairment loss on non-current assets)

The Dispensing Pharmacy Business posted an impairment loss of 46 million yen.

First nine months ended February 29, 2024

1. Reportable segment sales, profit or loss

(Million yen)

	Reportable segments					Other (Note 1)	Total	Adjustments (Note 2)	Amount in quarterly consolidated statement of income (Note 3)
	Dispensing Pharmacy	Drug/ Convenience Store	Storage and Management of Medical Documents	Medical Mall Management	Total				
Net sales									
Sales to external customers	33,074	6,171	456	378	40,081	593	40,674	–	40,674
Inter-segment net sales or transfers	–	–	–	–	–	–	–	–	–
Total	33,074	6,171	456	378	40,081	593	40,674	–	40,674
Segment profit (loss)	1,036	(45)	33	83	1,107	5	1,113	(250)	863

(Notes) 1. The Other segment includes the temporary help business and the system integration business for pharmaceutical companies.

2. The adjustment to segment profit (loss), (250 million yen), is corporate costs that are not allocated to any of the reportable segments.

3. Segment profit (loss) is adjusted to be consistent with the operating profit reported in the consolidated statements of income.

2. Information on impairment loss in non-current assets and goodwill by reported segment

(Important impairment loss on non-current assets)

The Dispensing Pharmacy Business posted an impairment loss of 16 million yen.