Bridge Report Bridge Salon

Bridge Report Qol Co., Ltd. (3034)


Masaru Nakamura Chairman and CEO

Takashi Nakamura President and COO

Company	Qol Co., Ltd.
Security Code	3034
Exchange	Tokyo Stock Exchange, First Section
Chairman CEO	Masaru Nakamura
President COO	Takashi Nakamura
Headquarter Address	Toranomon 4-3-1, Shiroyama Trust Tower 37F, Minato-ku, Tokyo
Business Description	Qol Group is a major dispensing pharmacy operator with pharmacies located in the Tokyo metropolitan region and throughout Japan.
Year-end	March
URL	http://www.qol-net.co.jp/en/ir/index.html

— Stock Information —

Share Price	Shares Outstanding (Excluding Treasury Shares)		Market Cap.	ROE (Act.)	Trading Unit
¥2,257	38,362,599 shares		¥86,584 million	17.4%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Act.)	PBR (Act.)
¥28.00	1.2%	¥127.43	17.7x	¥936.74	2.4x

* Stock price as of the close on June 20, 2018. Number of shares outstanding as of most recent quarter end does not include treasury shares. ROE and BPS are the values from the previous term.

— Consolidated Earnings Trends — (Units: Million Yen)

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
March 2015	114,363	4,243	4,262	2,155	63.33	20.00
March 2016	124,957	6,743	6,688	3,709	107.78	24.00
March 2017	131,502	6,865	7,065	4,353	128.35	24.00
March 2018	145,516	9,091	9,333	4,986	141.19	28.00
March 2019 Est.	152,000	8,000	8,000	4,500	127.43	28.00

* Estimates are those of the Company. From fiscal year March 2016, the definition for net income has been changed to net income attributable to parent company shareholders (in the rest of this report, net income shall be defined likewise).
* Fiscal year March 2016 earnings have been retroactively revised to reflect accounting method changes made in fiscal year March 2017.

This Bridge Report provides a review of Qol Co., Ltd.'s earnings results for fiscal year March 2018 and earnings estimates for fiscal year March 2019.

1. Company Overview
2. Fiscal Year March 2018 Earnings Results
3. Fiscal Year March 2019 Earnings Estimates
4. Conclusions

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Key Points

・In fiscal year March 2018, sales and operating income grew by 10.7% and 32.4% year-on-year, respectively, allowing the Company to achieve a sales increase for the 11th consecutive term since listing and a profit rise for 4 terms in a row. The existing pharmacies showed a healthy growth because the Company propelled adoption of the drug pricing and medical fees revised in 2016, as well as the large-scale M&A activities in the previous term made full contribution. In terms of profit, in addition to the effect of a sales increase, a new inventory management system was implemented at all the group pharmacies in an attempt to more efficiently control inventories and order placement, through which productivity was boosted. The operating income margin was 6.2%, up by 1 point. The amount of an year-end dividend is to be 14 yen per share (totaling up a full-year dividend payment of 28 yen per share together with the dividend distributed in the first half of the year; payout ratio was 19.8%).

・In fiscal year March 2019, it is estimated that sales will rise by 4.5% and operating income will shrink by 12.0% year-on-year. While the profit in the BPO Consignment Business will turn to increase because CSO Business will recover its form and the pharmacist dispatch and placement service will be strong, it is projected that profit in the Pharmacy Business will decrease due to revisions to drug pricing and medical fees. In the Pharmacy Business, the Company plans to open 100 pharmacies, including newly established pharmacy stores and new types of pharmacies, mainly through M&A activities. In addition, with the aim of achieving the generics utilization rate of 80%, the Company will lay stress on promoting use of generic drugs. The annual dividend is to be 28 yen per share (14 yen per share for the first half and 14 yen per share for the end of the year; payout ratio will be 22.0%). The Company is scheduled to shift to a holding company in October 2018.

・It is predicted that sales will grow and profit will drop in the Pharmacy Business in fiscal year March 2019. While Qol is expected to maintain the sales increase trend by opening pharmacies, profit will be affected significantly by drug pricing and medical fees revisions. The Company plans to take time to absorb the influence of the revisions by intensifying its efforts to deal with the generics dispensing system premiums, which has been one of the Company's shortcomings, and developing community-based pharmacy stores. Anticipating the advent of a harsh business environment ahead of any other company, Qol has taken numerous approaches, including cultivation of new businesses, distribution reforms, and adoption of a new inventory management system. We would like to keep an eye on how much profit will be boosted in fiscal year March 2019 through these approaches.

1. Company Overview

Qol is the third largest company in the dispensing pharmacy industry with nationwide operations and the bulk of its stores in the Tokyo and surrounding regions. Traditionally, dispensing pharmacies have been located adjacent or close to hospitals, and been engaged in fierce competition to capture customers. However, Qol maintains close communications with medical institutions to ensure success in its new store opening strategy. In recent years, the Company has pursued partnerships with companies outside of the pharmacy industry to open stores in areas with well established foot traffic of potential customers including capital ties with LAWSON Inc. to create "hybrid facilities that combine dispensing pharmacies with convenience stores" in cities, a partnership with BIC CAMERA Inc. for pharmacies to be opened near train stations, and a collaborative agreement with West Japan Railway Company Group to open "Station Qol Pharmacies" within train stations. In addition, the CSO (Contract Sales Organization: dispatching medical representatives) and clinical trial support services are provided as part of the BPO Consignment Business.

Corporate Philosophy: We seek to improve the "Quality Of Life" of all people, anytime and anywhere.

【Business Description】

Qol's reported business segments are divided into the segments of the Pharmacy business, which accounted for 92.8% (after consolidation adjustments) of fiscal year March 2018 sales, and the BPO Consignment Business, in which the CSO and clinical trial support services are provided. Also, pharmacies operated jointly with convenience stores (CVS, operated in conjunction with LAWSON) with a portion of sales derived from the sale of products is included in the Pharmacy Business. At the same time, the BPO Consignment Business segment is comprised of the CSO and pharmacist dispatch and placement services conducted by APO PLUS STATION Co., Ltd., clinical trial support service, and publishing related services provided by Medical Qol Co., Ltd. Also, Qol dispatches medical representatives as a response to the need of pharmaceutical companies in reducing costs (Medical Representative Reduction).

Pharmacy Business

Qol Pharmacies

Because of the strong tradition of "purchasing prescription medicines at pharmacies located close to hospitals," customers generally sought to get their prescription drugs at pharmacies located close to hospitals and clinics. Therefore, dispensing pharmacies had sought to open stores in front of or close to major hospitals and clinics. Despite this trend, Qol will continue its strategy of maintaining close one-on-one relations with numerous medical institutions (strong and credible relations with physicians at prescribing medical institutions) to maintain its reputation as a pharmacy with detailed person-to-person services. At the same time, Qol will also promote a store development strategy that focuses upon the opening of pharmacies that satisfy the need to get prescription drugs issued by multiple medical institutions.

While Qol operates pharmacies providing personal advice, the number of pharmacies conducting similar services is on the rise. While the focus of its new pharmacy openings is centered in the Tokyo and surrounding regions (approximately 50% of all new pharmacy openings), efforts will be made to expand the number of pharmacies that do not depend upon close proximity to hospitals for business by leveraging Qol Card, which can be used at Qol pharmacies across the country, prescription transmission applications and other information technologies. Such efforts have been successful to achieve a stable rate of new customer business rate of about 8% per month.

Increase Collaboration with Other Industries as Part of Strengthened Non-Adjacent Pharmacy Strategy: "Cover Wide Range of the Market"

From 2010 onwards, Qol has focused upon developing diversified sales channels through cooperation with partners in differing industries. As part of this strategy, Qol has promoted a new pharmacy opening strategy in various locations including hybrid pharmacies jointly operated with LAWSON convenience stores (from April 2014, a shift has been made to opening hybrid stores that fuse the traditional dispensing pharmacies, convenience stores, and drug stores to form health care stores), near the station pharmacies, pharmacies located within BIC CAMERA stores that boast of high customer foot traffic, and pharmacies within West Japan Railway Company railway stations. Because over 20% of patients make conscious decisions in their choice of dispensing pharmacies they frequent, Qol seeks to acquire orders for filling of prescribed medicines by broadening the types of pharmacies it operates and as part of its differentiation strategy to capture patients. In the future, home delivery services are also being considered for not only pharmaceutical products, but also for nursing care products and prepared foods.

Qol Pharmacies	Professional Advice Providing Pharmacies (Core Business)	Customers: 100 / day
LAWSON,	Town Pharmacies	Customers: 850 / day
BIC CAMERA	Pharmacies Near Train Stations	Customers: Several 10,000s / day
West JR Group	Pharmacies within Train Stations	Customers: 850,000 / day

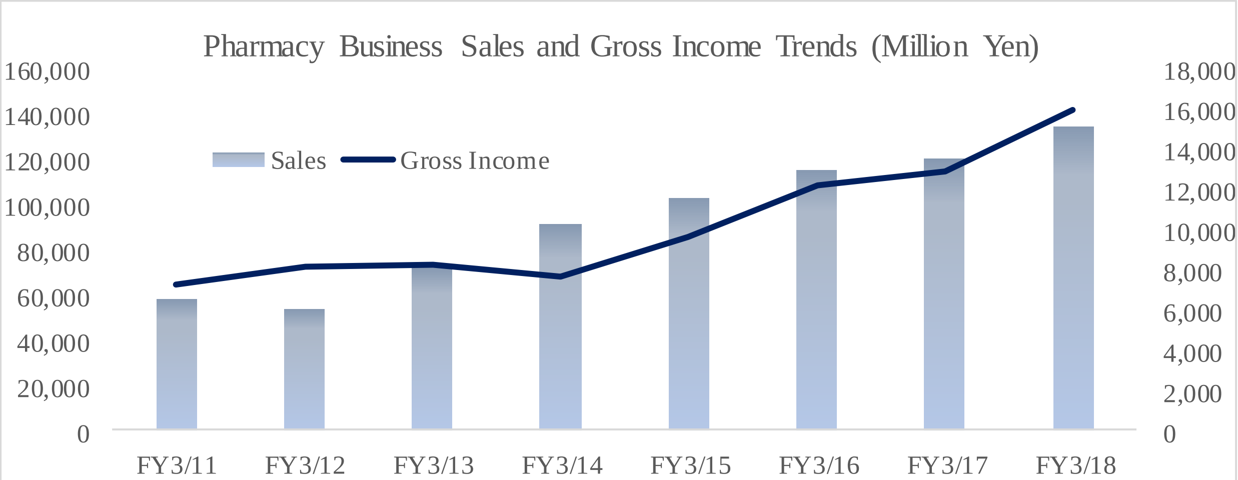
	Store Numbers	Qol	LAWSON	BIC CAMERA	West Japan Railway	Kiosk
2015/3	538	453	37	4	3	41
2016/3	563	494	32	4	4	29
2017/3	696	626	34	4	6	26
2018/3	718	650	35	4	5	24

Pharmacies Adjacent to Hospitals						
Pharmacies Non-Adjacent to Hospitals						

(Source: Qol)

Distribution Reforms

The Pharmaceutical Product Sourcing Organization established in March 2014 for conducting competitive bidding on pharmaceutical product purchases is currently composed of 18 different drug store and pharmacy companies nationwide. Although Qol was only able to get limited discounts on its purchases because it had negotiated with wholesalers over the prices of all drugs by itself; however, participation in the organization has allowed Qol to conduct negotiations and conclude agreements at an appropriate and fair price.



BPO Consignment Business

In order to survive, pharmaceutical companies have adopted a selection and concentration strategy for its businesses. Therefore, reduction in the scale of business has been promoted including specialization in original drugs and sale of long selling product businesses. In addition, efforts to reduce sales, general and administrative expenses (reductions in fixed costs, shift to variable costs) are being conducted, and reductions in labor force, including manufacturer medical representatives and development staff, are being undertaken. At the same time, use of CSO (MR dispatch) and CRO (Pharmaceutical product development support) companies is increasing (reflecting a shift from fixed to variable costs in the form of outsourcing). In response to these pharmaceutical company trends, APO PLUS STATION Co., Ltd., one of the group companies of the Qol Group, has provided services that reflect this "switch from manufacturer MRs (in-house MRs) to contracted MRs (CMRs for short, or Dispatched MRs)" (the need for a shift from fixed costs to variable costs).

2. Fiscal Year March 2018 Earnings Results

(1) Consolidated Earnings (Unit: Million Yen)

	FY3/17	Share	FY3/18	Share	YY Change	3Q Revised Forecast	Divergence
Sales	131,502	100.0%	145,516	100.0%	+10.7%	146,000	-0.3%
Gross Income	16,876	12.8%	19,648	13.5%	+16.4%	20,112	-2.3%
SG&A	10,010	7.6%	10,557	7.3%	+5.5%	11,112	-5.0%
Operating Income	6,865	5.2%	9,091	6.2%	+32.4%	9,000	+1.0%
Ordinary Income	7,065	5.4%	9,333	6.4%	+32.1%	9,200	+1.4%
Net Income	4,353	3.3%	4,986	3.4%	+14.5%	4,900	+1.8%

* Data in this table and other parts of this report include figures which have been calculated by Investment Bridge, and may differ from those of the Company.

Sales and operating income grew 10.7% and 32.4% year-on-year, respectively, as forecasted based on the second upward revision.

Sales stood at 145,516 million yen, up by 10.7% year-on-year. While sales in the BPO Consignment Business, in which the Contract Sales Organization (CSO) market reached a plateau, shrank 4.3% year-on-year, the Pharmacy Business showed a year-on-year sales increase of 12.0%. In the Pharmacy Business, the existing pharmacies showed a healthy growth because the Company propelled adoption of the drug pricing and medical fees revised in 2016, as well as because the large-scale M&A activities in the previous year brought full results.

Operating income grew by 32.4% year-on-year to 9,091 million yen. The new inventory management system that started to be in operation at all of the Company's pharmacies improved the accuracy of management of orders put in and inventories regarding pharmaceuticals, raising the gross income margin by 0.7 points to 13.5% (the gross income margin of the Pharmacy Business increased by 1.2 points). The ratio of selling, general and administrative (SG&A) expenses decreased 0.3 points on the back of the results of the continuous efforts of control of costs. In addition, the contingency reserve (142 million yen), which was reserved in the previous term as an amount corresponding to the interest of bonds payable following the conversion of all of the convertible bonds (CBs), were reversed, which brought improvement in ordinary income and loss.

The number of regular employees at the end of the term stood at 4,532 (which was 4,361 at the end of the previous term), including 1,993 pharmacists (1,914 at the end of the previous term), and the number of temporary staff was 2,027 (which was 1,928 at the end of the previous term). Capital investments grew by 2.9% year-on-year to 1,778 million yen (1,728 million yen in fiscal year March 2017), and depreciation rose 2.5% year-on-year to 1,624 million yen (1,584 million yen in fiscal year March 2017).

Trends in operating income before goodwill amortization (Unit: Million Yen)

	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18
Operating Income	2,105	4,243	6,743	6,865	9,091
Goodwill Amortization	1,172	1,497	1,569	1,946	2,340
Total	3,277	5,740	8,312	8,811	11,431

(2) Segment Earnings Trend (Unit: Million Yen)

	FY3/17	Share/Profit rate	FY3/18	Share/Profit rate	YY Change
Prescription drug sales	83,566	63.5%	93,581	64.3%	+12.0%
Technical Fees	26,352	20.0%	30,400	20.9%	+15.4%
Others, Adjustments	10,676	8.1%	11,102	7.6%	+4.0%
Pharmacy	120,596	91.7%	135,084	92.8%	+12.0%
BPO Consignment	10,905	8.3%	10,431	7.2%	-4.3%
Total Sales	131,502	100.0%	145,516	100.0%	+10.7%
Pharmacy	12,931	10.7%	16,051	11.9%	+24.1%
BPO Consignment	3,944	36.2%	3,597	34.5%	-8.8%
Total Gross Income	16,876	12.8%	19,648	13.5%	+16.4%

Pharmacy Business

Sales and operating income were 135,084 million yen (up 12.0% year-on-year) and 8,652 million yen (up 40.4% year-on-year), respectively. The Company proactively dealt with the revisions to drug pricing and medical fees implemented in 2016 by promoting the concept of Primary Care Pharmacist and Pharmacy Advice, and facilitating use of generics, which increased technical sales by 15.4% and pharmaceuticals sales by 12.0% year-on-year. With regard to each pharmacy store, the existing pharmacies showed a healthy growth, in addition to the contributions made through M&A activities, particularly the large-scale ones conducted in the previous term (the sales increase of 11,273 million yen is attributable to M&A activities, out of which sales of 9,527 million yen were yielded through the M&A activities performed in the previous term). The growth in the number of pharmacy stores resulted in a rise in the number of prescriptions received by 12.1% year-on-year, in conjunction with a 0.6% year-on-year increase of an average price of a prescription.

The number of pharmacies of the overall Qol Group at the end of the term stood at 718 (compared with 696 at the end of the previous term). Qol opened a total of 35 new pharmacies (the number was 143 at the end of the previous term), including 17 self-operated stores (compared with 11 in the previous term), 14 pharmacies acquired through M&A (125 in the previous term), 3 pharmacies operated in cooperation with LAWSON (4 in the previous term), and 1 other pharmacy (3 in the previous term). In anticipation of revisions to drug pricing and medical fees, the industry as a whole did not proactively move ahead with M&A activities. Meanwhile, Qol Group closed 13 pharmacy stores (compared with 10 in the previous term), including 3 kiosks.

Basic Dispensing Fee Store Ratios

	FY3/16	FY3/17-2Q	FY3/17	FY3/18-2Q	FY3/18
41 Points	93.9%	68.1%	65.7%	69.8%	70.1%
25 Points	6.1%	4.7%	3.9%	3.3%	3.3%
20 Points	-	27.2%	30.4%	26.9%	26.6%
Store Numbers	526	558	664	688	689

Standards for Dispensing Premium Store Ratios

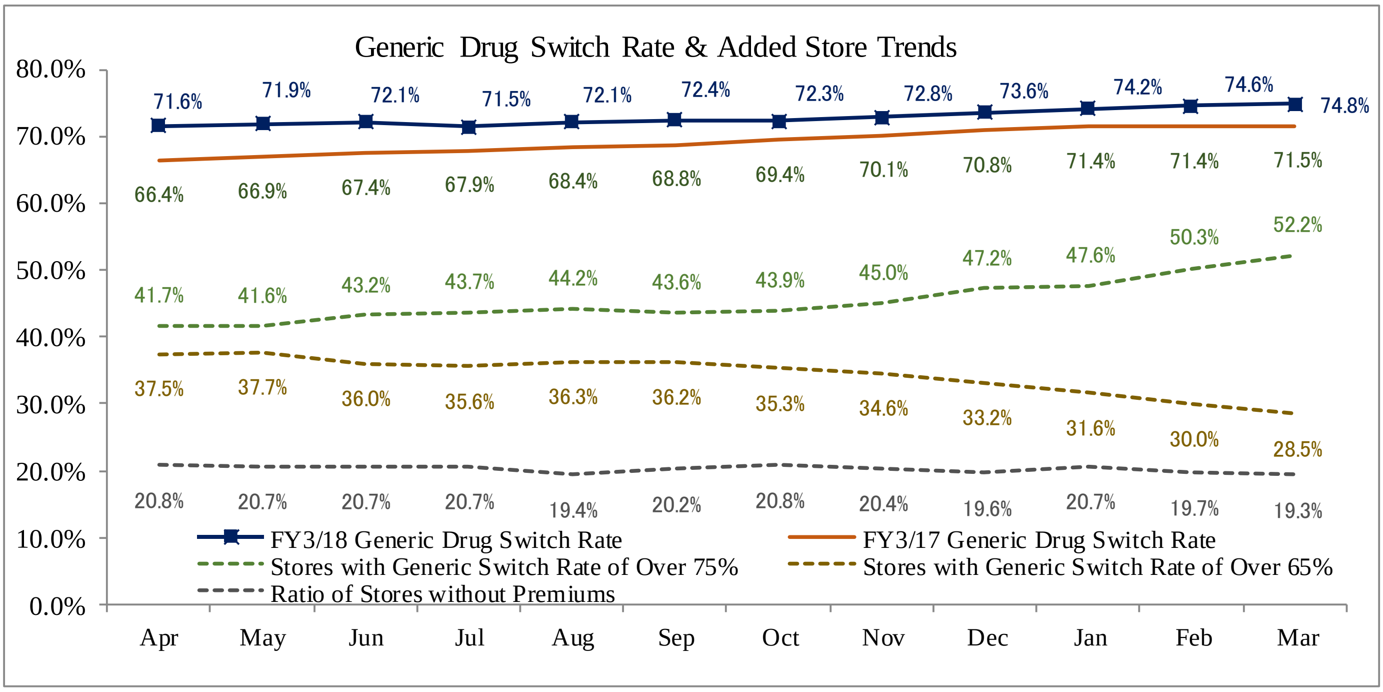
	FY3/16	FY3/17-2Q	FY3/17	FY3/18-2Q	FY3/18
36 Points	8.6%	-	-	-	-
32 Points	-	28.3%	35.4%	40.8%	39.9%
12 Points	75.3%	-	-	-	-
None	16.2%	71.7%	64.6%	59.2%	60.1%
Store Numbers	526	558	664	688	689

GE Dispensing System Premiums Store Ratios

	FY3/16	FY3/17-2Q	FY3/17	FY3/18-2Q	FY3/18
22 Points	53.5%	28.2%	40.2%	44.8%	54.1%
18 Points	27.9%	42.4%	38.0%	35.0%	28.4%
None	18.6%	29.4%	21.8%	20.2%	17.4%
Store Numbers	526	558	664	688	689

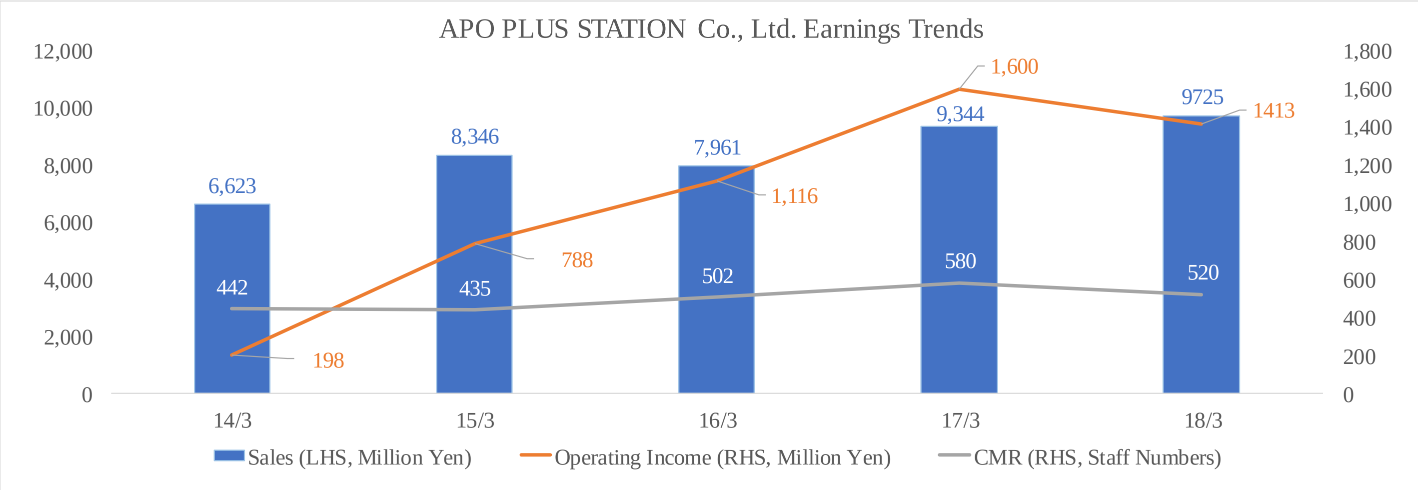
• FY3/16 18 Points: Over 55%, 22 Points: Over 65%
• FY3/17 18 Points: Over 65%, 22 Points: Over 75%

(Source: Qol)



BPO Consignment Business

Sales and operating income stood at 10,431 million yen (down by 4.3% year-on-year) and 1,341 million yen (down 10.5% year-on-year), respectively. While the pharmacist dispatch and placement service, in which the number of pharmacists dispatched increased, exceeded the forecast and underpinned this segment as its second pillar, the CSO Business exhibited a sluggish growth this year. At the same time, the growth of the number of orders placed in the Contract Research Organization (CRO) Business slowed down. Concerning the CSO Business, although the Company has retained the largest number of partner companies in the industry, the entire industry is reaching a plateau. With regard to the CRO Business, Qol is forging ahead with establishment of a structure that will strengthen its sales capabilities.



(3) Financial Conditions and Cash Flow (CF)

Balance Sheet Summary (Units: Million Yen)

	3/17	3/18		3/17	3/18
Cash, Equivalents	14,174	19,820	Payables	17,626	18,265
Receivables	15,785	16,640	Unpaid Taxes	1,481	2,360
Inventories	4,660	4,719	Bonus Reserves	1,974	2,092
Current Assets	36,578	43,313	Current Liabilities	31,183	33,991
Tangible Assets	10,373	10,544	Noncurrent Liabilities	28,473	17,387
Intangible Assets	29,483	27,938	Net Assets	21,632	35,935
Investments, others	4,812	5,489	Total Liabilities, Net Assets	81,290	87,315
Noncurrent Assets	44,668	43,971	Total Interest Bearing Liabilities	33,607	22,560

Total assets at the end of the term were 87,315 million yen, up 6,024 million yen from the end of the previous term. The conversion of all of the CBs (with the face value being 10 billion yen) increased cash and equivalents, and net assets. In addition, account receivables and payables grew due to a cut-off error caused because the end of this term was a holiday. Capital adequacy ratio was 41.2% (which stood at 26.2% at the end of the previous term).

Cash Flow（CF） （Units: Million Yen）

	FY3/17	FY3/18	YY Change	
Operating Cash Flow (A)	5,813	11,116	+5,303	+91.2%
Investing Cash Flow (B)	-15,392	-3,775	+11,617	-
Free Cash flow (A+B)	-9,579	7,341	+16,920	-
Financing Cash Flow	7,435	-1,685	-9,120	-
Cash, Equivalents at End Term	14,144	19,800	+5,656	+40.0%

Operating cash flow grew by 91.2% year-on-year to 11,116 million yen due to a profit increase and the aforementioned term-end factors. The decline in expenses related to M&A activities improved investing cash flow, and free cash flow of 7,341 million yen was secured. Financing cash flow fell into the red due to the payment of loans.

3. Fiscal Year March 2019 Earnings Estimates

(1) Consolidated Earnings

(Units: Million Yen)

	FY3/18	Share	FY3/19 Est.	Share	YY Change
Sales	145,516	100.0%	152,000	100.0%	+4.5%
Gross Income	19,648	13.5%	20,995	13.8%	+6.9%
SG&A	10,557	7.3%	12,995	8.5%	+23.1%
Operating Income	9,091	6.2%	8,000	5.3%	-12.0%
Ordinary Income	9,333	6.4%	8,000	5.3%	-14.3%
Net Income	4,986	3.4%	4,500	3.0%	-9.7%

Sales will grow 4.5% and operating income will shrink by 12.0% year-on-year.

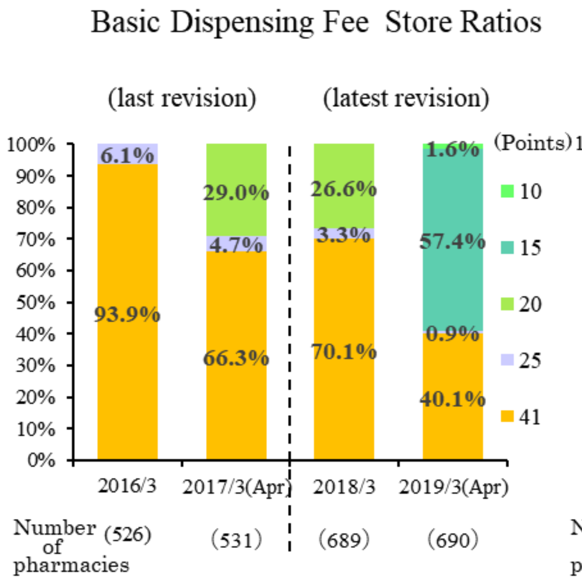
The Company predicts that operating income is to be 8.0 billion yen, down 12.0% year-on-year, due to a decreasing profit in the Pharmacy Business attributed to the influence of revisions to drug pricing and medical fees. In the Pharmacy Business, Qol plans to open 100 pharmacies, including newly established pharmacy stores and new types of pharmacies, mainly through M&A activities. In addition, aiming to achieve a generics utilization rate of 80%, which is the government's target, the Company will lay stress on facilitating use of generic drugs. With regard to profit, while impact of drug pricing and medical fees revisions on earnings is inevitable, Qol will put forth efforts to further streamline operation of its pharmacies by taking advantage of its new inventory management system. Meanwhile, sales and profit are expected to be on the rise in the BPO Consignment Business, following revitalization of the CSO Business and prosperity of the pharmacist dispatch and placement service.

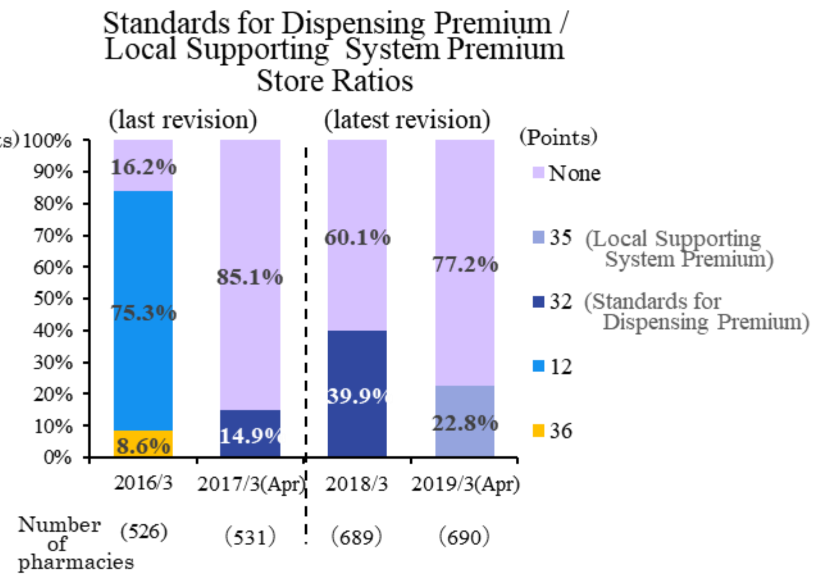
Segment Earnings Trend

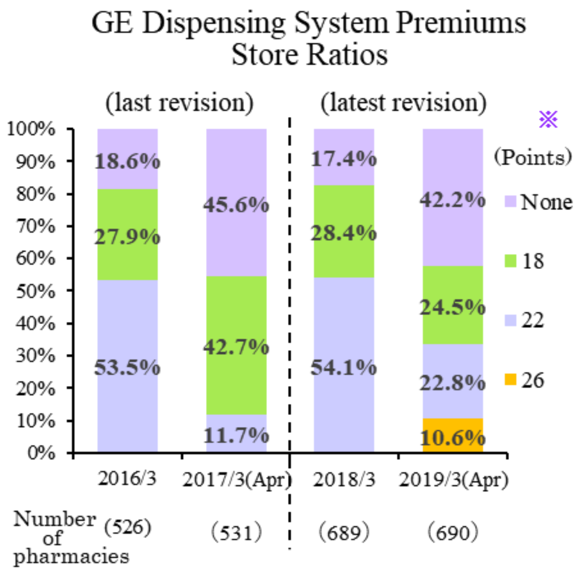
(Units: Million Yen)

	FY3/18	Share/Profit rate	FY3/19 Est.	Share/Profit rate	YY Change
Pharmacy	135,109	92.6%	140,600	92.1%	+4.1%
BPO Consignment	10,824	7.4%	12,000	7.9%	+10.9%
Adjustments	-417	-	-600	-	-
Total Sales	145,516	-	152,000	-	+4.5%
Pharmacy	8,652	6.4%	7,600	5.4%	-12.2%
BPO Consignment	1,341	12.4%	1,700	14.2%	+26.8%
Adjustments	-902	-	-1,300	-	-
Total Operating Income	9,091	6.2%	8,000	5.3%	-12.0%

*Sales, profit, share, profit rate and YY Change in FY3/18 are rough estimates.







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FY3_2018	18 Points	Over 65%
	22 Points	Over 75%
FY3_2019	18 Points	Over 75%
	22 Points	Over 80%
	26 Points	Over 85%

(Source: Qol)

(2) Future Business Strategy

Qol will not only realize a vision of pharmacies for patients and expand the Pharmacy Business, which is its core business, by securing larger market share, but it will also grow the BPO Consignment Business on a stable basis through pursuit of group synergy. Furthermore, it will shift to a holding company in October 2018.

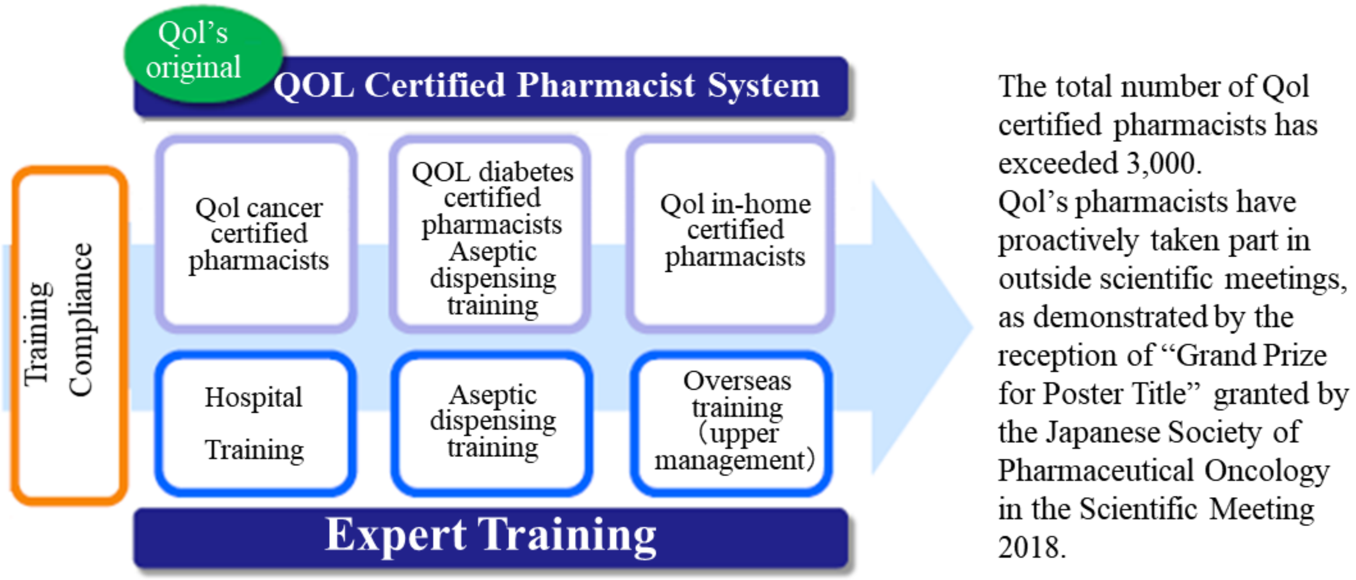
Pharmacy Business

There are 3 key points, which are “establishment of pharmacies of choice,” “expansion of the business scale,” and “development of human capital.” Regarding “establishment of pharmacies of choice,” the Company will propel enhancement of the advanced pharmacy management function and organization of pharmacies that support health, as well as promote the concept of Primary Care Pharmacist Advice. The number of pharmacies which have met the criteria on pharmacies that support health at the end of the previous term reached 43 in the Qol Group as a whole, with 753 pharmacists completing training for pharmacists to work at pharmacies that support health. This means that Qol Group has accounted for about 5% of a national total of 817 pharmacies (composed of 515 chain pharmacies and 302 other pharmacies) that have fulfilled the criteria on pharmacies that support health.

Furthermore, as it is necessary to lure more patient customers into Qol’s pharmacies in order to facilitate self-medication, the Company has been engaged in establishment of more convenient and comfortable pharmacy stores, in parallel with not only adoption of the self-medication system but also "development of human capital." The Company has installed free Wi-Fi and settlement terminals for versatile payment methods in all the Qol pharmacy stores, excluding some pharmacies, and besides, it has realized continuous management using Qol Card and other Information and Communication Technology using prescription transmission applications. Qol will forge ahead with introduction of digital signage and enrich contents.

The Company will continue M&A and creation of partnership with companies outside the pharmacy industry with the aim of "expansion of the business scale." Although the room for opening pharmacies is limited, Qol will open pharmacies based on a careful selection. In fiscal year March 2019, Qol plans to open a total of 100 pharmacies, including 20 newly established pharmacies, 70 pharmacies acquired through M&A, and 10 pharmacies in a new form (in coordination with companies in different industries). It has been demonstrated that pharmacies opened through partnership built with companies in different industries, including LAWSON, LIFE, BIC CAMERA, Odakyu Railway, and West Japan Railway, are superior in terms of capabilities to attract customers (the rate of new patient customers), growth abilities (the number of prescriptions received), and appeal (the number of medical institutions). Qol will open pharmacy stores within hospitals, which have garnered great attention, on the premise of an environment that allows pharmacists to learn about highly advanced medical care from doctors with extensive expertise, like the pharmacy currently operated in Chiba University. The Company plans to make the most of the knowledge which pharmacists have acquired in such pharmacies in expanding business.

Concerning "development of human capital," the Company will endeavor to further enrich its educational systems and strengthen compliance, aiming to nurture pharmacists who are capable of offering quality medical treatment.



(Source: Qol)

BPO Consignment Business

In the BPO Consignment Business, Qol has engaged in the CSO Business that has the largest number of partner companies in the industry, the pharmacist dispatch and placement service in which the Company dispatches multifarious kinds of experts, the CRO Business in the pharmaceuticals and food fields, and the publishing-related business that has strength in medical treatment. The Company is able to secure high-quality human capital in the CSO Business through coordination with the highly advanced education of Qol pharmacies, and expected to realize synergy, such as capture of demand from medical institutions and pharmaceutical companies which are client companies of Qol pharmacies, in the CRO Business and publishing-related business.

CSO Business

While the number of MRs is shrinking in Japan, the ratio of Contracted MRs (CMRs) is on the rise, and the market share of APO PLUS STATION is showing a tendency for growth in conjunction with the increasing number of client companies. The CMR ratio is rising following the decline in the number of MRs also in Europe and the U.S., with the ratio being at 10 – 20% level today. This indicates that the CMR ratio of Japan, which remains at 5.6%, is expected to grow further.
In the wake of these changes in the environment surrounding MRs, it is predicted that there will be growing needs for Contracted MRs with

aptitude for health care providers and abundant medical knowledge. Therefore, in anticipation of the era of a 15% CMR ratio like Europe and the U.S., APO PLUS STATION plans to expand business by offering superior human capital to a multitude of channels.
Specifically, while ensuring quality by nurturing both general and professional MRs through educational programs in coordination with the Qol education and training division, the Company will grow business by taking advantage of its strengths, which are the largest number of partner companies in the industry and the fact that, after completion of projects, it has received requests for continuous dispatch of staff from over 70% of the companies accepting its temporarily loaned staff.

	2012	2013	2014	2015	2016	2017
No. of MRs certified by MR certification center (persons)	63,843	65,752	64,657	64,135	63,185	63,185
Ratio of CMRs to all MRs	5.3%	5.4%	6.4%	6.0%	6.1%	5.6%
APO PLUS STATION's market share of CMRs	7.8%	11.3%	10.8%	11.6%	13.5%	13.7%

*Produced by the Company based on various documents, including an annual report by the Japan CSO Association (No. of MRs in employment as of Oct. 1 of each year).

Pharmacist Dispatch and Placement Service

In fiscal year March 2018, sales and profit in the pharmacist dispatch and placement service (the MJ Business Division of APO PLUS STATION) grew for three consecutive years, both hitting record highs. One of the strengths in this business is staff with multi-disciplinary expertise, including pharmacists, registered drug sellers, registered dietitians, clerical staff for pharmaceuticals dispensing, and occupational health nurses. The Company would like to double sales in fiscal year March 2021 compared with those of fiscal year March 2016. Thus, it will enhance cooperation with Health & Beauty (H&B) Business Division of APO PLUS STATION in order to pursue synergy. H&B Business Division makes proposal of health-supporting products backed up by an evidence that they have been sold exclusively by medical institutions.

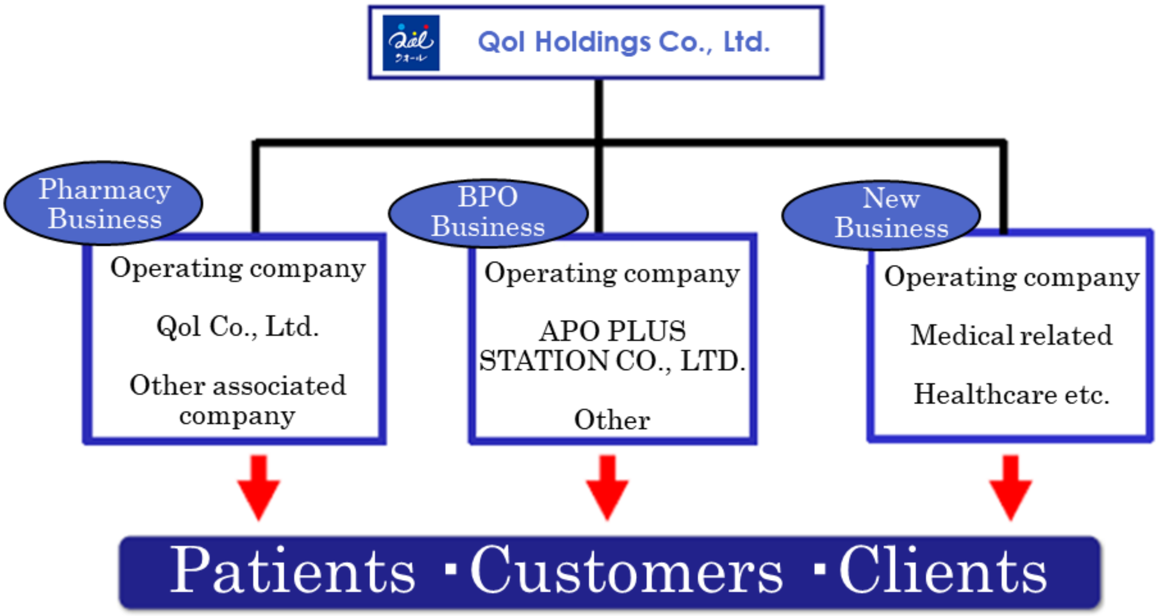
Overseas Business

The Company will expand business in Thailand, with a focus on APO PLUS STATION (THAILAND) Co., Ltd.　Although Qol currently serves as an agency for application of Over-the-Counter (OTC) ethical pharmaceuticals to the Food and Drug Administration (FDA), it will lay stress also on cultivation of sales/marketing support services in Thailand for assisting Japanese and overseas companies to break into the market in the country.

[Shift to a holding company]

Qol will shift to a holding company in October 2018. The aims of the shift include (1) enhancement of the function of propelling the Group business strategy, (2) speeding-up of the decision-making process by clarifying authority and responsibility, (3) strengthening of its corporate governance framework (strengthening of the compliance management structure), and (4) maximization of group synergy. The Company strives to thrive further with creation of new businesses and expansion of overseas businesses in mind, as well as accelerate opening of pharmacies mainly through M&A. Furthermore, Qol as a holding company will strengthen governance of the whole Group by providing managerial guidance to each operating company in accordance with the Group business strategy in order to increase transparency of management.

At the beginning, Qol planned to become a holding company around April 1, 2018; however, the Company noticed that it would take a longer period of time than initially expected to deal with the revisions to drug pricing and medical fees implemented in April 2018 and go through proper procedures necessary for operating business. Therefore, in January 2018, Qol announced its plan to postpone the shift.



（Source: Qol）

Qol and other associated companies that are engaged in the Pharmacy Business, and APO PLUS STATION engaging in the BPO Business are affiliated with Qol Holdings, Co., Ltd., the holding company. The Company will develop new businesses within a category of medical care.

4. Conclusions

It is predicted that sales will grow and profit will drop in the Pharmacy Business in fiscal year March 2019. While Qol is expected to maintain the sales increase trend by opening pharmacies, profit will be affected significantly by drug pricing and medical fees revisions. The Company plans to take time to absorb the influence of the revisions by intensifying its efforts to deal with the generics dispensing system premiums, which has been one of the Company's shortcomings, and developing community-based pharmacy stores.
Anticipating the advent of a harsh business environment ahead of any other company, Qol has taken numerous approaches, including cultivation of new businesses, distribution reforms, and adoption of a new inventory management system. We would like to keep an eye on how much profit will be boosted in fiscal year March 2019 through these approaches.

Reference: Corporate Governance

◎Organizational Composition and Operation

Organization Structure	Company with audit and supervisory board
Number of Directors	11 directors, of whom 2 are outside directors
Number of Audit & Supervisory Board Members	3 audit and supervisory board members, whom are all outside members

◎Corporate Governance Report

Last update: June 29, 2017

Basic Concept

Our company has believed that we will be able to fulfill the expectations of all stakeholders, including shareholders, patients, and employees, by continuously improving our corporate value through corporate activities in compliance with our corporate philosophy, slogan, Qol vision, and Qol Group Charter of Corporate Behavior. For that, as a basis for ensuring soundness, transparency, and efficiency in management, we have considered continuous enhancement of our corporate governance framework to be one of the high-profile managerial issues and strengthened the managerial supervisory function by appointing outside directors and auditors who have met the requirements for independent directors.

Furthermore, our company has proactively held dialogue with shareholders and investors. We strive to satisfy the expectations of stakeholders, including shareholders and investors, not only by disclosing information on business conditions, such as progress with business plans, quantitative financial information, and non-financial information, including corporate governance and CSR, in a timely and appropriate manner but also by properly arranging environment in order to allow shareholders to exercise rights.

<Reasons for Non-Compliance with the Principles of the Corporate Governance Code (Excerpts)>

The Company states that it complies with all basic principles of the Corporate Governance Code of which a reason is required for non-compliance.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

(Principle 3-1) Enrichment of information disclosure

(1) Our company has set a corporate philosophy, slogan, Qol vision, and Qol Group Charter of Corporate Behavior, and disclosed them on our website (http://www.qol-net.co.jp/). In addition, we have proactively disclosed and announced our business strategies and plans through announcements of financial results, financial briefings, shareholder meetings, explanatory meetings for individual investors, and overseas IR activities.

(2) Our company has believed that we will be able to fulfill the expectations of all stakeholders, including shareholders, patients, and employees, by continuously improving our corporate value through corporate activities in compliance with our corporate philosophy, slogan, Qol vision, and Qol Group Charter of Corporate Behavior. For that, as a basis for ensuring soundness, transparency, and efficiency in management, we have considered continuous enhancement of our corporate governance framework to be one of the high-profile managerial issues and strengthened the managerial supervisory function by appointing outside directors and auditors who have met the requirements for independent officers. Furthermore, our company has proactively held dialogue with shareholders and investors. We strive to satisfy the expectations of stakeholders, including shareholders and investors, not only by disclosing information on business conditions, such as progress with business plans, quantitative financial information, and non-financial information, including corporate governance and CSR, in a timely and appropriate manner but also by properly arranging environment in order to allow shareholders to exercise rights.

(Principle 5-1) Policy regarding Constructive Communications with Shareholders

Qol promotes constructive communications with shareholders, maintains high levels of transparency in its information disclosure, endeavors to build good relationships with shareholders and actively conducts investor relations activities. Specifically, Qol conducts presentations to analysts and institutional investors twice a year, road shows to overseas institutional investors, actively discloses earnings information and provides presentations on management strategies. In addition, presentations are provided to individual investors over 10 times per year to explain management strategies. Furthermore, store visits are also implemented.

To view back numbers of Bridge Reports on Qol Co., Ltd. (3034) and other companies and to see IR related seminars of Bridge Salon, please go to our website at the following url: www.bridge-salon.jp/