

# 23rd Business Report

October 1, 2012, to September 30, 2013



**We regard the year ending September 30, 2014, as “the first year of Group management.” During this year, we intend to clarify the responsibilities and authorities of all our business segments to strengthen the overall Group management system.**

**Yan Hao, Chairman and Representative Director of EPS Corporation**

Yan Hao was born in 1962 in Jiangsu Province, China. In 1979, he entered Tianjin University. In 1981, he attended the University of Yamanashi as a government-sponsored exchange student from China. He went on to specialize in medical statistics in a doctoral program at the University of Tokyo, pursuing research and the handling of clinical studies. In 1991, when he was studying at the University of Tokyo graduate school, he established EPS Corporation. In 2001, EPS's 10-year anniversary, the company was listed on the JASDAQ market and in September 2006, it was listed on the First Section of the Tokyo Stock Exchange.



**Could you sum up the business performance of this fiscal year?**

Pulling out of deflation and rebuilding nation's economy have been promoted by “Abenomics,” advocated by the Second Abe Cabinet, which was inaugurated in December 2012. In the medical and pharmaceutical fields, the government developed the “5-Year Clinical Research and Trial Activation Plan 2012” in March 2012 to encourage the ongoing development of pharmaceutical products and medical devices. In addition, movements are underway to accelerate development in preparation for a decline in revenues upon the patent expiry (patent cliff) of leading products. Furthermore, the pharmaceutical industry is marked by an increasing trend toward outsourcing, aimed at reducing delivery lead-times and lowering costs.

Under these circumstances, the EPS Group has been working to strengthen its management system, extend service variations and improve price competitiveness in each business. As a result of these efforts, although sales of domestic businesses remained unchanged from the previous fiscal year, overseas businesses showed particular growth. Consequently, consolidated net sales totaled ¥37,584 million, up 6.8% year on year. Profits of domestic businesses decreased substantially from the previous year, with consolidated operating income amounting to ¥3,497 million (down 32.4% year on year), consolidated ordinary income of ¥3,540 million (down 30.5%), and consolidated net income of ¥1,709 million (down 22.5%). Besides the completion of large projects, we made up-front investments to strengthen our business system and suffered an impairment loss on our Chinese business due to the weak yen. As a result of these factors, we fell short of the target for consolidated operating

performance we set at the beginning of the fiscal year. However, we essentially achieved the sales and operating income targets in our revised plan, announced in August, surpassing the ordinary income target by 4% and the consolidated net income target by 35%.

We have set dividends for the full year at ¥1,800 per share, taking into account the stock split.

## Could you describe conditions in each business segment?

### Domestic CRO Business

Sales of the domestic CRO business amounted to ¥22,344 million (down 0.2% year on year), maintaining almost the same level as in the previous year, and operating income came to ¥2,858 million (down 33.0%). Sales exceeded the target in our revised plan, but operating income fell short of the revised target by approximately 5%.

By type of business, sales increased from the previous year due to the acquisition of large projects. Sales increased steadily in the category of support for clinical studies, investigator-initiated clinical trials and medical devices. Conversely, sales of data management services decreased from the previous year due to the completion of large projects and downsizing of clinical studies. On the profit front, we established the Kofu Office to improve the productivity of our data management service, but profit was down year on year as a result of up-front investments.

### Domestic SMO Business

Sales of the domestic SMO business declined sharply, amounting to ¥5,703 million (down 3.4% year on year), and operating income came to ¥400 million (down 49.1%). The main reason for the profit decline was that cost of sales increased significantly in the first half of the year due the

addition of personnel in anticipation of orders for large-scale projects. However, in the latter half of the year we were able to ensure almost the same profit ratio as in the previous year, owing to the receipt of the anticipated orders and the effects of cost reductions. We essentially achieved the sales target in our revised plan, and operating income exceeded its target by 24%.

### Domestic CSO Business

Sales of the domestic CSO business nearly achieved the target outlined in the revised plan, amounting to ¥5,666 million (down 3.8% year on year). However, operating income fell to ¥30 million, representing a sharp decline from the previous year and falling short of the target in the revised plan. The main reason for this decline was an increase in up-front investment for recruitment and education in medical representative (MR) dispatch services. We essentially maintained sales of drug information services for pharmaceutical companies and business process outsourcing (BPO) services for the pharmaceutical, medical and healthcare industries as planned, resulting in a year-on-year increase in profit.

### Global Research Business

Our Global Research business controls CRO and SMO businesses overseas and provides support for global clinical studies in Japan, China and other countries.

In this term, we strove to improve our office network, including through the July acquisition of Gleneagles CRC Pte, Ltd., which has extensive service bases in the Asia-Pacific region. As a result, sales increased sharply, rising 49% year on year, to ¥1,769 million, and exceeding the revised plan by more than 7%. However, at the operating level performance fell to a loss of ¥52 million, due to the impact of the weak yen and increased operating costs.

### China Business

We are developing our China business under the concept of “serving as a trading company specialized in healthcare bridging Japan and China.” Our businesses span the sale of medical devices, drug development and services related to generic drugs and BPO. Of these, sales of medical devices performed especially well, generating steadily higher profits. In addition, we generated profits from the sale of development rights previously owned by EPS China Co., Ltd. Thanks to these contributions, sales increased eight-fold from the previous year, to ¥3,291 million. We also moved into the black on an operating basis, with operating income amounting to ¥256 million.

### Q3 Would you please tell us about your directions for the coming fiscal year?

Although we achieved most of the goals in our revised plan, we failed to achieve the targets we set in our initial plan at the beginning of the year. In addition to improved profits, we strive continuously to achieve the goals stated in our performance plans in the interest of attaining long-term growth. Looking at consolidated performance for the coming year, we expect two of our domestic businesses to recover, due to receiving orders for large-scale CRO projects. Therefore, we aim for a 9% year-on-year increase in sales and rises of more than 17% for both operating and ordinary income.

To ensure the success of these policies and plans, our Group is changing to clarify organizational responsibility and the individual authority for each business.

The Global Research business and the China business of EPS (referred to from the upcoming fiscal year as the EKISHIN business) were spun off as separate entities on October 1, 2013. In addition, we clearly divided our

organization into two: one that manages the EPS Group and one that manages the domestic CRO business.

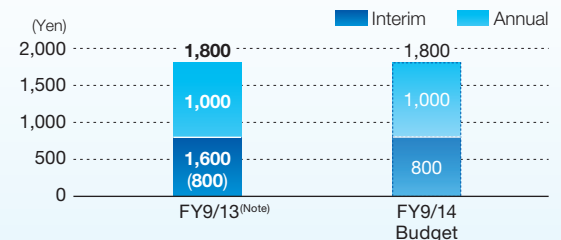
In addition, the two companies handling the domestic CSO business were combined into one large entity to strengthen our sales force and propose and create new services.

Going forward, Group management will reinforce and support the management of each business. This complex system will reinforce our PDCA functions, including budgetary control. Furthermore, our Group management system will promote marketing and alliances for the whole Group and strengthen cross-sectional management by coordinating management resources.

Operating under this new management system, we regard the coming year as “the first year of Group management.” We will develop our business along five business segments composed of three domestic businesses—CRO, SMO and CSO—and two overseas businesses: Global Research and EKISHIN. We will grow by improving group-wide profitability and generating synergistic effects.

### Dividends

For the next fiscal year, we plan to maintain dividends at ¥1,800 per share, the same level as during the year under review.



(Note) First-half dividends for the year under review were ¥1,600 per share. Taking into account the 2-for-1 stock split on common stock on April 1, 2013, dividends are calculated as ¥800 for the interim dividend and ¥1,000 for the year-end dividend.

# EPS GROUP

as at October 31, 2013

Domestic  
CRO  
Business

## Contract Research Organization

Support for implementation, operation and management of clinical studies (clinical trials) and PMS by pharmaceutical companies

 **EPS Corporation**

 **EPMate Co., Ltd.**

 **e-Trial Co., Ltd.**

Domestic  
SMO  
Business

## Site Management Organization

CRC dispatch and organizing clinical studies (clinical trials) and PMS by medical institutions

 **EP-Mint Co., Ltd.**

Domestic  
CSO  
Business

## Contract Sales Organization

Dispatch services for contracted MR and call center services related to pharmaceutical products

 **EP-Pharma Line Co., Ltd.**

Global  
Research  
Business

## Global Research

CRO and SMO businesses in the Asia-Pacific region and support for Asian and global clinical studies by pharmaceutical companies

 **EPS International Holdings Co., Ltd.**

 **EPS International Co., Ltd.**

 **EPS Global Research, Inc.**

 **EPS Global Research, Pte. Ltd.**

EKISHIN  
Business  
(China)

## China Business

Services as a trading company specialized in healthcare bridging Japan and China, developing mainly the two businesses of selling pharmaceutical products and manufacturing medical devices

 **EPSEKISHIN Co., Ltd.**

 **EPS China Co., Ltd.**

## Group Business

Promoting commercialization as a Group business of BPO and shared services.

BPO.  
Others


## Business Process Outsourcing

Specialized services to spur innovation in the business processes of collecting, analyzing and processing various information

 **EPI (SUZHOU) Co., Ltd.**

 **EMS Co., Ltd.**  **EPS Yamanashi Co., Ltd.**

Shared Services

 **EPBiz Co., Ltd.**

Non-Clinical Trial Related

 **LSG Corporation**

# To clarify responsibility and authority for all business segments and promote Group management

We aim to establish a stable profit and growth model, with independent accounting for all five business segments—three domestic and two overseas businesses—with the aim of clearly outlining the scope of responsibility. We will also implement effective management to enhance productivity and efficiency for the Group as a whole.

## Group Management

**A new organization will be constructed in the first year of Group management**

- Promoting independent management at each business segment
- Strengthening cross-sectional management functions
  - Marketing for the whole Group
  - Promoting alliances
  - Coordinating management resources and performing other activities

## Domestic Businesses

### Domestic CRO Business

#### Improving profitability through independent management

- Securing resources in the strong monitoring service
- Strengthening project management in the data management service
- Establishing management systems as an independent entity

### Domestic SMO Business

#### Expanding business performance by improving sales force and productivity

- Training CRCs and expanding facilities to reinforce the cancer area
- Increasing orders through proposal-based sales strategies
- Thoroughly implementing progress management to enhance project quality and speed

### Domestic CSO Business

#### Improving competitiveness through high-value-added services

- Strengthening the sales force by expanding the scale of business
- Proposing a new service combining a call center service and an MR service
- Reinforcing the organization and establishing a new business model



## Overseas Businesses

### Global Research Business

#### Strengthening the organization to lead multi-country CROs

- Strengthening sales activities targeting Japanese pharmaceutical companies
- Improving area coverage and service quality
- Exploring M&A opportunities

### EKISHIN Business (China)

#### Establishing a business model to ensure stable profits

- Strengthening sales of medical devices and building a local production system
- Supporting sales of pharmaceutical products in the Chinese market through joint business ventures
- Reinforcing management of investment and profit returns toward establishment of a specialized trading company model

### BPO- Others

#### Promoting commercialization as a Group business

- Expanding BPO services with the aim of spinning the business off as an independent segment
- Promoting such businesses as shared services

## Consolidated Balance Sheets

(Thousands of yen)

	September 30, 2012	September 30, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>	20,543,338	21,867,224
<b>FIXED ASSETS</b>	6,104,074	8,456,510
Tangible assets	1,881,401	2,590,022
Intangible assets	814,248	1,410,862
Investments and other assets	3,408,423	4,455,626
<b>TOTAL ASSETS</b>	26,647,412	30,323,735
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>	6,317,248	6,108,935
<b>LONG-TERM LIABILITIES</b>	1,893,822	4,153,835
<b>TOTAL LIABILITIES</b>	8,211,071	10,262,770
<b>NET ASSETS</b>		
Shareholders' equity	15,785,945	16,870,034
Accumulated other comprehensive income (or loss)	(177,921)	615,828
Minority interests	2,828,317	2,575,101
<b>TOTAL NET ASSETS</b>	18,436,341	20,060,964
<b>TOTAL LIABILITIES AND NET ASSETS</b>	26,647,412	30,323,735

## Consolidated Statements of Income and Comprehensive Income

(Thousands of yen)

	For the year ended September 30, 2012	For the year ended September 30, 2013
<b>NET SALES</b>	35,202,880	37,584,381
<b>COST OF SALES</b>	23,551,266	27,398,061
<b>Gross profit</b>	11,651,613	10,186,320
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	6,476,958	6,688,582
<b>Operating income</b>	5,174,654	3,497,737
Other income (expenses)-net	(159,007)	(61,228)
<b>Income before income taxes and minority interests</b>	5,015,647	3,436,508
<b>INCOME TAXES</b>		
Current	2,332,291	1,455,587
Deferred	154,195	151,419
<b>Total</b>	2,486,486	1,607,007
<b>Income before minority interests</b>	2,529,161	1,829,500
<b>MINORITY INTERESTS</b>	321,840	119,521
<b>NET INCOME</b>	2,207,320	1,709,979
<b>Income before minority interests</b>	2,529,161	1,829,500
<b>OTHER COMPREHENSIVE INCOME</b>	72,796	835,867
<b>COMPREHENSIVE INCOME</b>	2,601,957	2,665,368
Comprehensive income attributable to parent shareholders	2,272,582	2,503,730
Comprehensive income attributable to minority interests	329,375	161,637



## Consolidated Statements of Changes in Net Assets

(Thousands of yen)

	For the year ended September 30, 2012	For the year ended September 30, 2013
<b>Shareholders' equity</b>	<b>15,785,945</b>	<b>16,870,034</b>
Common stock	1,875,251	1,875,251
Additional paid-in capital	1,826,300	1,826,300
Retained earnings	12,401,651	13,485,740
Common stock for treasury	(317,258)	(317,258)
<b>Accumulated other comprehensive income (or loss)</b>	<b>(177,921)</b>	<b>615,828</b>
Unrealized gain (or loss) on available-for-sale securities	(57,555)	(108,881)
Foreign currency translation adjustments	(120,366)	724,710
<b>Minority interests</b>	<b>2,828,317</b>	<b>2,575,101</b>
<b>TOTAL NET ASSETS</b>	<b>18,436,341</b>	<b>20,060,964</b>

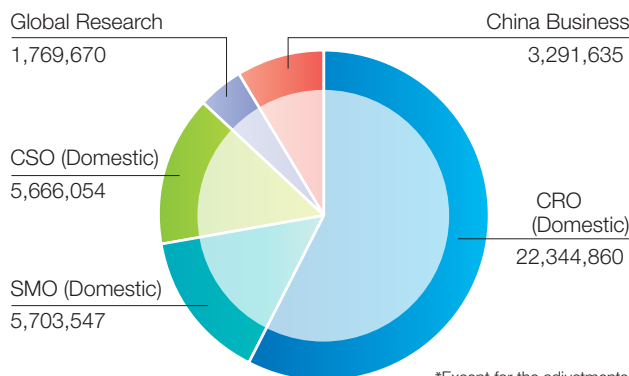
## Consolidated Statements of Cash Flows

(Thousands of yen)

	For the year ended September 30, 2012	For the year ended September 30, 2013
<b>OPERATING ACTIVITIES</b>	<b>4,038,209</b>	<b>640,961</b>
<b>INVESTING ACTIVITIES</b>	<b>(945,878)</b>	<b>(3,028,172)</b>
<b>FINANCING ACTIVITIES</b>	<b>(1,101,650)</b>	<b>1,849,250</b>
<b>EFFECT OF EXCHANGE DIFFERENCE ON CASH &amp; CASH EQUIVALENTS</b>	<b>45,392</b>	<b>503,588</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,036,072</b>	<b>(34,371)</b>
<b>BEGINNING OF BALANCE, CASH AND CASH EQUIVALENTS</b>	<b>8,627,744</b>	<b>10,663,816</b>
<b>ENDING OF BALANCE, CASH AND CASH EQUIVALENTS</b>	<b>10,663,816</b>	<b>10,629,445</b>

## Industry Segment

(Thousands of yen)



### Company Profile (as at October 1, 2013)

<b>Capital:</b>	¥1875.25 million
<b>Main Services:</b>	CRO, SMO, CSO, Global Research and China business
<b>Locations:</b>	<b>Center Office</b> Tsuruya Bldg. 2-23 Shimomiyabicho, Shinjuku-ku, Tokyo 162-0822 TEL: +81-3-5684-7797 <b>Annex. 1</b> Kagurazaka AK Bldg. 1-8 Tsukudocho, Shinjuku-ku, Tokyo 162-0821 <b>Annex. 2</b> Iidabashi MF Bldg. 1-1 Shinogawamachi, Shinjuku-ku, Tokyo 162-0814 <b>Annex. 3</b> Acropolis TOKYO. 6-29 Shinogawamachi, Shinjuku-ku, Tokyo 162-0814 <b>Annex. 5</b> KDX Iidabashi Bldg. 2-26 Shimomiyabicho, Shinjuku-ku, Tokyo 162-0822 <b>Tsuruse Laboratory</b> 2662 Tsuruma, Fujimi-shi, Saitama 354-0021 <b>Osaka Branch</b> Nissei Shin-osaka Bldg. 3-4-30 Miyahara, Yodogawa-ku, Osaka-shi, Osaka 532-0003 <b>Nagoya Branch</b> Horiuchi Bldg. 3-25-9 Meieki, Nakamura-ku, Nagoya-shi, Aichi 450-0002 <b>Kofu Branch</b> 101 Aria, Kawadamachi, Kofu-shi, Yamanashi 400-0811

### Members of the Board and Statutory Auditors

(as at December 20, 2013)

<b>Chairman &amp; CEO</b>	Yan Hao
<b>President &amp; COO</b>	Shinro Tashiro
<b>Directors</b>	Shuzo Orihashi Kazuki Sekitani Hisashi Tanaka Junichi Nishizuka Dan Weng Yoshinori Ando
<b>Statutory auditors</b>	Motohisa Fujii Koichi Shibuya Haruo Funabashi

Authorized shares	1,296,000
Shares of common stock issued	361,600
Number of shareholders	4,148

### Principal Shareholders

Shareholder	Shares held	Percentage of total
Y&G Limited	97,440	26.94
BBH FOR MATTHEWS ASIA DIVIDEND FUND	29,184	8.07
Sumitomo Life Insurance Company	10,800	2.98
Japan Trustee Services Bank, Ltd. (Trust Account)	10,664	2.94
JP MORGAN CHASE BANK 385078	10,664	2.94
PLEASANT VALLEY	9,952	2.75
JPM CHASE OMNIBUS US PENSION TREATY JASDEC ACCOUNT	9,288	2.56
GOLDMAN, SACHS & CO. REG	7,947	2.19
Yan Hao	6,726	1.86
THE BANK OF NEW YORK, TREATY JASDEC ACCOUNT	6,604	1.82

### Shareholder Breakdown

#### Other Japanese corporations

28.58%  
103,355 shares,  
23 shareholders

#### Foreign shareholders

37.28%  
134,826 shares,  
128 shareholders

#### Treasury stock

1.09%  
3,948 shares,  
1 shareholder

#### Securities companies

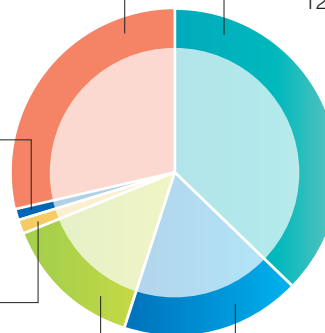
1.32%  
4,783 shares,  
30 shareholders

#### Other Japanese financial institutions

13.97%  
50,518 shares,  
29 shareholders

#### Individuals / Others

17.74%  
64,170 shares,  
3,937 shareholders



## Stock Split

EPS conducted a stock split on April 1, 2013 (the effective date) to reduce its stock price per share, broaden the investor base and increase share liquidity.

### Outline of Stock Split

#### 1. Method of stock split

The record date of the stock split was set on Sunday, March 31, 2013 (As this day was a holiday for the shareholder registry administrator, the effective record date was Friday, March 29, 2013).

Each share of common stock held by shareholders entered or recorded in the latest shareholder registry as of the said record date was split into two shares.

#### 2. Increase in the number of shares due to the stock split

Total shares issued before the stock split:	180,800 shares
Increase in the number of shares due to the stock split:	180,800 shares
Total shares issued after the stock split:	361,600 shares
Total number of shares authorized for issuance after the stock split:	1,296,000 shares

### Forward-Looking Statements

The items in this report include descriptions of future plans and forecasts. Actual performances may differ substantially due to various factors.