



Consolidated Earnings Report for the First Three Months of Fiscal 2018 [Japanese GAAP]

February 1, 2018

Company Name:	EPS Holdings, Inc.
Stock Listing:	First Section, Tokyo Stock Exchange
Code Number:	4282
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Filing of Quarterly Securities Report:	February 13, 2018
Scheduled Payment of Dividends:	—
Supplementary explanatory materials prepared:	None
Explanatory meeting:	None

(¥ millions are rounded down)

1. Consolidated Results for the First Three Months of Fiscal 2018 (October 1, 2017 to December 31, 2017)

(1) Consolidated Operating Results (¥ millions; percentage figures represent year-on-year changes)

First Three Months	Net sales	Operating income	Recurring profit	Profit attributable to owners of parent
Fiscal 2018	15,764 8.6%	1,790 (4.6)%	1,891 (8.1)%	1,260 43.9%
Fiscal 2017	14,511 25.7%	1,876 3.1%	2,058 7.1%	876 (20.8)%

Note: Comprehensive income: December 31, 2017: ¥1,702 million [(21.7)%], December 31, 2016: ¥2,174 million [92.6%]

First Three Months	Profit per share (¥)	Profit per share (diluted) (¥)
Fiscal 2018	27.33	—
Fiscal 2017	19.01	—

(2) Consolidated Financial Position (¥ millions)

	Total assets	Net assets	Equity ratio (%)
December 31, 2017	64,383	45,651	66.1
September 30, 2017	64,345	44,862	65.0

Note: Equity: December 31, 2017: ¥42,583 million, September 30, 2017: ¥41,818 million

2. Dividends

	Dividend per share (¥)				
	First Quarter	Second Quarter	Third Quarter	Year End	Full Year
Fiscal 2017	—	10.00	—	20.00	30.00
Fiscal 2018	—				
Fiscal 2018 (forecast)		12.00	—	13.00	25.00

Notes: 1. Revisions to recent dividend forecasts: None

2. Components of the fiscal 2017 year-end dividend: Ordinary dividend of 12 yen per share and special dividend of 8 yen per share

3. Forecast of Consolidated Results for Fiscal 2018 (October 1, 2017 to September 30, 2018)

(¥ millions; percentage figures represent year-on-year changes)

	Net sales	Operating income	Recurring profit	Profit attributable to owners of parent	Profit per share (¥)
Full year	66,000 9.1%	6,850 (9.8)%	7,000 (10.4)%	4,200 (9.9)%	91.06

Note: Revisions to recent consolidated results forecasts: None

*Notes

- (1) Changes to important subsidiaries during the first nine months changes in specified subsidiaries resulting in revised scope of consolidation: None
- (2) Application of special accounting methods in the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting principles, accounting estimates and restatements
 - a. Changes in accounting policies in conjunction with revisions to accounting standards: None
 - b. Other changes: None
 - c. Changes in accounting estimates: None
 - d. Restatements: None

(4) Number of shares issued (common stock)

- a. Number of shares issued at end of period (including treasury stock):
- b. Number of treasury stock at end of period:
- c. Average number of stock during the period:

Fiscal 2018, 1Q end	46,311,389	Fiscal 2017 end	46,311,389
Fiscal 2018, 1Q end	169,758	Fiscal 2017 end	186,899
Fiscal 2018, 1Q	46,133,577	Fiscal 2017, 1Q	46,096,822

Note: The total number of treasury shares included shares held by the employees' shareholding trust, specifically 47,600 shares as of September 30, 2017 and 28,600 shares as of December 31, 2017.

* This financial report is outside the scope of the audit review.

* Explanation concerning the appropriate use of financial forecasts and other notable matters.

Earnings forecasts and other forward-looking statements in this report are based on data currently available to management and certain assumptions that management believes are reasonable. Actual results may differ materially from these statements for various reasons.

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1. Qualitative Information Concerning Quarterly Financial Statements and Other Matters

(1) Explanation Regarding Consolidated Operating Results

Overview of Operating Results for the Three Months Ended December 31, 2017

(¥ millions)

	The First Three Months of Fiscal 2017		The First Three Months of Fiscal 2018		Change	
	Amount	%	Amount	%	Amount	%
Net sales	14,511	100.0	15,764	100.0	1,252	8.6
Operating income	1,876	12.9	1,790	11.4	(85)	(4.6)
Recurring profit	2,058	14.2	1,891	12.0	(167)	(8.1)
Profit attributable to owners of parent	876	6.0	1,260	8.0	384	43.9

In the three months ended December 31, 2017, the EPS Group as a whole posted consolidated net sales of ¥15,764 million, an increase of 8.6% year on year, mainly driven by higher sales in the CRO Business and GR Business. Meanwhile, consolidated operating income declined slightly by 4.6% year on year to ¥1,790 million, mainly reflecting a decrease in profitability in connection with smaller projects in the SMO Business. Both net sales and profit progressed largely in line with the consolidated forecasts for the EPS Group as a whole.

Operational segment are outlined as follows.

Segment Overview

The Group primarily operates businesses in the following five segments (three domestic segments and two overseas segments).

(¥ millions)

			The First Three Months of Fiscal 2017	The First Three Months of Fiscal 2018	Change
Domestic Business	CRO	Net sales	6,787	7,372	584
		Operating income	1,560	1,934	373
	SMO	Net sales	3,440	3,507	66
		Operating income	364	221	(143)
	CSO	Net sales	2,064	1,933	(130)
		Operating income	111	69	(42)
Overseas Business	Global Research	Net sales	1,058	1,211	152
		Operating income (loss)	(101)	5	107
	EKISHIN (China) Business	Net sales	1,723	2,561	838
		Operating income (loss)	174	(170)	(345)

1) CRO Business

In the CRO Business, the Group conducts operations based on the following structure:

- a. Contract-based clinical study and post-marketing surveillance (PMS) services: EPS Corporation and EPS Associates Co., Ltd.
- b. Clinical research services: EP- CRSU Co., Ltd.
- c. On-site CRO services: EPMate Co., Ltd.
- d. Pharmaceutical and medical IT services: e-Trial Co., Ltd.

Looking at performance by service, in clinical study services, net sales and operating income both surpassed forecasts, supported mainly by measures to strengthen management of overall clinical development and to promote the integration of internal management systems. In PMS and related services, net sales and operating income were both largely in line with forecasts. In clinical research services, net sales and operating income both increased year on year due to favorable progress on contract-based projects. In on-site CRO services, net sales and operating income both trended firmly as resources were secured as planned. In pharmaceutical and medical IT services, net sales were slightly below forecast, but operating income was solid due to rigorous enforcement of cost controls.

As a result, in the CRO Business, net sales were ¥7,372 million, an increase of 8.6% year on year, and operating income was ¥1,934 million, an increase of 23.9% year on year.

2) SMO Business

The SMO Business is undertaken primarily by EP-SOGO Co., Ltd. and EXAM Co., Ltd.

On October 2, 2017, EP-SOGO Co., Ltd. converted EXAM Co., Ltd. into a wholly owned subsidiary.

In this business, the Group has achieved steady progress on integration with the former Sogo Rinsho Group. The Group worked to enhance business performance by bolstering the sales structure through such means as strengthening the project management system and fully expanding proposal-based sales activities. Efforts were also made to enhance the quality control system.

As a result, in the SMO Business, net sales rose by 1.9% year on year to ¥3,507 million. Operating income was ¥221 million, a decrease of 39.3%, year on year, due partly to the impact of a loss posted by EXAM Co., Ltd.

3) CSO Business

The CSO Business is undertaken by EP-PharmaLine Co., Ltd.

Performance was largely in line with forecasts across all CMR services for pharmaceuticals, the pharmaceutical call center division, BPO services and CMR services for medical devices. However, net sales decreased year on year due to the impact of a temporary decrease in inquiries for large-scale projects reflecting changes in the environment surrounding CMR services for pharmaceuticals (CMR: Contract Medical Representatives).

As a result, in the CSO Business, net sales were ¥1,933 million, a decrease of 6.3% year on year, and operating income was ¥69 million, a decrease of 38.0% year on year.

4) Global Research Business

The Global Research Business comprises EPS International Holdings Co., Ltd. and overseas Group companies.

In the Global Research Business, net sales rose 14.4%, year on year to ¥1,211 million atop strong progress on current projects and a contribution from newly awarded major projects. On the earnings front, the Group recorded operating income of ¥5 million in the Global Research Business, compared with an operating loss of ¥101 million in the same period of the previous fiscal year. This return to profitability mainly reflected the positive contribution from cost controls, in addition to the increase in net sales. The CRO business and related services in China have been managed under the control of the EKISHIN (China) Business from the fiscal year ending September 30, 2018.

5) EKISHIN (China) Business

The EKISHIN (China) Business comprises the two regional holding companies EPS EKISHIN Co., Ltd. and EPS (China) Co., Ltd., and related overseas Group companies.

In the EKISHIN (China) Business, the Group provides five types of services, specifically, product-related services centered on pharmaceuticals and medical devices, specialized services related to clinical trials, investment-related services, international trading-related services and peripheral support services. The Group is working to further expand earnings as a specialist trading company in the healthcare industry linking Japan and China.

The Group is expanding collaboration with business partners through initiatives such as forming a strategic alliance with Hangzhou Tigermed Consulting Co., Ltd., one of China's largest clinical CROs, and setting up a joint venture with the group asset management firm of Shandong Buchang Pharmaceuticals Co., Ltd., a major Chinese pharmaceutical manufacturer, in addition to entering into a solid capital and business partnership with SUZUKEN Co., Ltd. Through these collaborations, the Group is working to upgrade and expand its operating foundation and create new added value.

In terms of operating results, in the EKISHIN (China) Business, net sales increased, outperforming forecasts, and the operating loss was reduced. This reflected positive contributions to net sales and profit from measures to step up the development of existing markets and cultivate new regional markets in pharmaceutical-related product services, and to strengthen the sales platform in medical device-related product services, despite an increase in expenses for the realignment of the operating foundation in specialized services. Since the fiscal year ending September 30, 2018, the amount of sales has been increasing at Shanghai Hua Xin High Biotechnology Co., Ltd. in product-related services due to a change in distribution processes in China.

As a result, net sales were ¥2,561 million, up 48.6%, year on year. The Group recorded an operating loss of ¥170 million in the EKISHIN (China) Business, compared with operating income of ¥174 million in the same period of the previous fiscal year.

(2) Explanation Concerning Forward-Looking Statements such as Consolidated Financial Forecasts

There have been no changes to the consolidated financial forecasts announced in the financial report for the fiscal year ended September 30, 2017 issued on November 7, 2017.

2. Quarterly Consolidated Financial Statements
(1) Quarterly Consolidated Balance Sheets

(¥ millions)

	As of September 30, 2017 (Previous Fiscal Year-End)	As of December 31, 2017 (End of the First Three Months)
Assets		
Current assets:		
Cash and time deposits	22,773	19,091
Notes and accounts receivable - trade	13,119	15,156
Marketable securities	662	303
Merchandise and finished goods	1,052	996
Work in process	1,756	1,965
Other current assets	4,711	5,093
Less: Allowance for doubtful accounts	(52)	(57)
Total current assets	44,023	42,549
Fixed assets:		
Property, plant and equipment	4,145	4,330
Intangible fixed assets:		
Goodwill	7,107	7,500
Other intangible fixed assets	726	712
Total intangible fixed assets	7,834	8,212
Investments and other assets:		
Investment securities	4,039	4,533
Lease and guarantee deposits	1,704	1,813
Other investments and other assets	3,496	3,843
Less: Allowance for doubtful accounts	(898)	(898)
Total investments and other assets	8,342	9,291
Total fixed assets	20,322	21,834
Total assets	64,345	64,383

(¥ millions)

	As of September 30, 2017 (Previous Fiscal Year-End)	As of December 31, 2017 (End of the First Three Months)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	1,120	548
Short-term loans	65	65
Current portion of long-term loans payable	774	749
Income taxes payable	1,905	216
Allowance for employees' bonuses	2,840	1,090
Provision for loss on order received	215	221
Other current liabilities	8,365	11,294
Total current liabilities	15,287	14,185
Non-current liabilities:		
Long-term debt	1,660	1,491
Allowance for directors' and corporate auditors' retirement benefits	320	520
Net defined benefit liability	1,245	1,319
Asset retirement obligations	497	533
Other non-current liabilities	472	681
Total non-current liabilities	4,195	4,545
Total liabilities	19,483	18,731
Net assets		
Shareholders' equity:		
Capital stock	3,888	3,888
Additional paid-in capital	13,451	13,451
Retained earnings	23,437	23,774
Treasury common stock, at cost	(230)	(214)
Total shareholders' equity	40,545	40,899
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	372	711
Foreign currency translation adjustment	1,007	1,072
Remeasurements of defined benefit plans	(107)	(100)
Total accumulated other comprehensive income	1,272	1,684
Non-controlling interests	3,043	3,068
Total net assets	44,862	45,651
Total liabilities and net assets	64,345	64,383

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(The three months ended December 31, 2017)

(¥ millions)

	First Three Months of Fiscal 2017 (October 1, 2016 to December 31, 2016)	First Three Months of Fiscal 2018 (October 1, 2017 to December 31, 2017)
Net sales	14,511	15,764
Cost of sales	9,883	10,037
Gross profit	4,628	5,727
Selling, general and administrative expenses	2,752	3,936
Operating income	1,876	1,790
Non-operating income:		
Interest income	14	9
Dividend income	5	23
Foreign exchange gains	177	18
Other non-operating income	31	62
Total non-operating income	228	113
Non-operating expenses		
Interest expenses	23	5
Share of loss of entities accounted for using equity method	5	2
Other non-operating expenses	17	4
Total non-operating expenses	46	12
Recurring profit	2,058	1,891
Extraordinary losses:		
Loss on change in equity	215	—
Total extraordinary losses	215	—
Income before income taxes	1,842	1,891
Income taxes	163	140
Income tax adjustment	606	511
Total income taxes	769	652
Profit	1,073	1,239
Profit (loss) attributable to non-controlling interests	197	(21)
Profit attributable to owners of parent	876	1,260

Quarterly Consolidated Comprehensive Income
(The three months ended December 31, 2017)

(¥ millions)

	First Three Months of Fiscal 2017 (October 1, 2016 to December 31, 2016)	First Three Months of Fiscal 2018 (October 1, 2017 to December 31, 2017)
Profit	1,073	1,239
Other comprehensive income:		
Valuation difference on available-for-sale securities	267	339
Foreign currency translation adjustment	705	114
Remeasurements of defined benefit plans	11	6
Share of other comprehensive income of entities accounted for using equity method	116	2
Total other comprehensive income	1,101	463
Comprehensive income	2,174	1,702
(Breakdown)		
Comprehensive income attributable to owners of parent	1,791	1,671
Comprehensive income attributable to non-controlling interests	383	30

(3) Notes Concerning Quarterly Consolidated Financial Statements

(Notes Concerning the Going Concern Assumption)

None

(Note Concerning Significant Changes in the Amount of Shareholders' Equity)

None

(Segment Information)

【Segment Information】

I. The First Three Months of Fiscal 2017 (October 1, 2016 to December 31, 2016)

1. Information Concerning Net Sales and Operating Income for Each Segment

(¥ millions)

	CRO	SMO	CSO	Global Research Business	EKISHIN (China) Business	Others	Total	Adjustment (Note 1)	Amount recorded on quarterly consolidated financial statements
Net sales									
Sales to outside customers	6,185	3,431	2,053	1,050	1,719	71	14,511	—	14,511
Inter-segment sales and transfers	602	9	11	7	4	335	970	(970)	—
Total	6,787	3,440	2,064	1,058	1,723	406	15,482	(970)	14,511
Segment operating income	1,560	364	111	(101)	174	26	2,136	(260)	1,876

Notes: 1. Eliminations/Corporate for operating income of ¥(260) million includes intersegment transactions of ¥8 million and non-attributable corporate expenses not distributed to each segment of ¥(268) million. The main corporate expenses comprise expenses related to the Company (the holding company).

2. From the three months ended December 31, 2016, the Domestic CRO, Domestic SMO, and Domestic CSO segments have been renamed as the CRO Business, SMO Business, and CSO Business, respectively.

II. The First Three Months of Fiscal 2018 (October 1, 2017 to December 31, 2017)

1. Information Concerning Net Sales and Operating Income for Each Segment

(¥ millions)

	CRO	SMO	CSO	Global Research Business	EKISHIN (China) Business	Others	Total	Adjustment (Note)	Amount recorded on quarterly consolidated financial statements
Net sales									
Sales to outside customers	6,586	3,463	1,906	1,211	2,536	61	15,764	—	15,764
Inter-segment sales and transfers	786	44	27	-	25	341	1,224	(1,224)	—
Total	7,372	3,507	1,933	1,211	2,561	402	16,989	(1,224)	15,764
Segment operating income	1,934	221	69	5	(170)	17	2,077	(286)	1,790

Note: Eliminations/Corporate for operating income of ¥(286) million includes intersegment transactions of ¥12 million and non-attributable corporate expenses not distributed to each segment of ¥(298) million. The main corporate expenses comprise expenses related to the Company (the holding company).

3. Supplementary Information

(1) Orders Received

(¥ millions)

	The First Three Months of Fiscal 2018 (October 1, 2017 to December 31, 2017)			
	New orders	YoY (%)	Backlog	YoY (%)
CRO Business	6,277	103.0	39,892	106.8
SMO Business	4,097	163.5	18,591	100.8
CSO Business	1,740	89.5	8,234	121.3
Global Research Business	1,922	157.4	9,345	129.4
EKISHIN (China) Business	2,557	142.5	594	381.1
Others	60	83.9	10	95.8
Total	16,656	122.2	76,669	109.6

Notes: 1. Figures represent sales prices.

2. The above figures do not include consumption taxes.