



Consolidated Earnings Report for the First Six Months of Fiscal 2019 [Japanese GAAP]

May 8, 2019

Company Name: **EPS Holdings, Inc.**
 Stock Listing: First Section, Tokyo Stock Exchange
 Code Number: 4282
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 Filing of Quarterly Securities Report: May 15, 2019
 Scheduled Payment of Dividends: June 3, 2019
 Supplementary explanatory materials prepared: Yes
 Explanatory meeting: Yes (for institutional investors and analysts)

(¥ millions are rounded
down)

1. Consolidated Results for the First Six Months of Fiscal 2019 (October 1, 2018 to March 31, 2019)

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

First Six Months	Net sales		Operating income		Recurring profit		Profit attributable to owners of parent	
Fiscal 2019	33,501	2.6%	3,179	(17.0)%	3,275	(15.8)%	2,065	(17.2)%
Fiscal 2018	32,666	7.5%	3,828	(17.4)%	3,891	(18.5)%	2,495	(2.3)%

Note: Comprehensive income: March 31, 2019: ¥2,592 million [0.2%], March 31, 2018: ¥2,586 million [(27.3)%]

First Six Months	Profit per share (¥)	Profit per share (diluted) (¥)
Fiscal 2019	45.61	—
Fiscal 2018	54.08	—

(2) Consolidated Financial Position

(¥ million)

	Total assets	Net assets	Equity ratio (%)
March 31, 2019	67,809	47,960	65.8
September 30, 2018	65,405	46,743	66.6

Notes: 1. Equity: March 31, 2019: ¥44,605 million, September 30, 2018: ¥43,534 million

2. The Company has adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc." (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) from the beginning of the three months ended December 31, 2018. Accordingly, the Company has retroactively applied these amendments to total assets and the equity ratio for the fiscal year ended September 2018.

2. Dividends

	Dividend per share (¥)				
	First Quarter	Second Quarter	Third Quarter	Year End	Full Year
Fiscal 2018	—	12.00	—	17.00	29.00
Fiscal 2019	—	13.00			
Fiscal 2019 (forecast)			—	15.00	28.00

Notes: 1. Revisions to recent dividend forecasts: None

2. The year-end dividend for fiscal 2018 includes a special dividend of 4 yen per share.

3. Forecast of Consolidated Results for Fiscal 2019 (October 1, 2018 to September 30, 2019)

(¥ 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	72,000	9.5%	7,200	0.1%	7,350	(1.2)%	4,700	7.1%	102.39

Notes: 1. Revisions to recent consolidated results forecasts: None

2. The Company allotted 642,000 shares of treasury stock to the shareholders of All Right Technology Inc. as consideration for a share exchange to convert All Right Technology Inc. into a wholly owned subsidiary on the effective date of November 1, 2018. As a result, profit per share in the forecasts of consolidated results for the year ending September 30, 2019 has been calculated based on the number of shares reflecting the aforementioned share exchange.

*Notes

(1) Changes to important subsidiaries during the first three 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):

Fiscal 2019, 2Q end	46,311,389	Fiscal 2018 end	46,311,389
b. Number of treasury stock at end of period:			
Fiscal 2019, 2Q end	1,456,991	Fiscal 2018 end	1,049,754
c. Average number of stock during the period:			
Fiscal 2019, 2Q	45,281,728	Fiscal 2018, 2Q	46,143,103

Note: The number of treasury shares at end of period (Fiscal 2019, 2Q end) includes 93,090 shares of the Company held by EPS EKISHIN Co., Ltd.

* This financial report is outside the scope of the quarterly audit reviews performed by certified public accountants or auditing firms.

* 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 Six Months Ended March 31, 2019

(¥ millions)

	The First Six Months of Fiscal 2018		The First Six Months of Fiscal 2019		Change	
	Amount	%	Amount	%	Amount	%
Net sales	32,666	100.0	33,501	100.0	834	2.6
Operating income	3,828	11.7	3,179	9.5	(648)	(17.0)
Recurring profit	3,891	11.9	3,275	9.8	(615)	(15.8)
Profit attributable to owners of parent	2,495	7.6	2,065	6.2	(430)	(17.2)

Forward-looking statements contained in this document are based on a judgment of operating results for the six months ended March 31, 2019.

In the six months ended March 31, 2019, the EPS Group posted consolidated net sales of ¥33,501 million, an increase of 2.6% year on year. Despite sluggish growth in new projects awarded in the Global Research Business, the overall increase in net sales was mainly due to steady sales increases in other segments. Consolidated operating income declined by 17.0% year on year to ¥3,179 million, due to a high profit margin reflecting favorable progress on projects made in the same period of the previous fiscal year in the CRO Business, along with delays in winning projects in the Global Research Business.

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 Six Months of Fiscal 2018	The First Six Months of Fiscal 2019	Change
Domestic Business	CRO	Net sales	15,649	15,884	234
		Operating income	3,705	2,950	(754)
	SMO	Net sales	7,033	7,123	90
		Operating income	503	815	312
	CSO	Net sales	3,903	4,070	166
		Operating income	177	168	(8)
Overseas Business	Global Research	Net sales	2,660	2,002	(657)
		Operating income (loss)	120	(96)	(216)
	EKISHIN (China) Business	Net sales	5,184	5,785	600
		Operating income (loss)	(144)	140	285

1) CRO Business

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

- Contract-based clinical study and post-marketing surveillance (PMS) services: EPS Corporation¹, EPS Associates Co., Ltd., and AC MEDICAL INC.¹
- Clinical research services: EP- CRSU Co., Ltd. and Sogo Rinsho Médéfi Co., Ltd.
- On-site CRO services: EPMate Co., Ltd.
- Pharmaceutical and medical IT services: e-Trial Co., Ltd. ² All Right Technology Inc.²

Looking at performance in the CRO Business by service, in clinical study services, net sales and operating income were slightly below forecasts, due to the impact of cancellations and delays of clinical trials and related issues. In PMS and related services, net sales and operating income were both higher than forecast, as projects currently under way performed steadily. In on-site CRO services, net sales fell short of the forecast due to delays in securing resources, but operating income surpassed the forecast primarily due to appropriate management of costs.

In clinical research services and pharmaceutical and medical IT services, results were largely in line with forecasts.

In the CRO Business, AC MEDICAL INC., which conducts businesses that integrate its abundant human resources and IT, has joined the Group. As a result, the Group can expect to fortify its data science platform, which is a core competence of AC MEDICAL INC., along with further enhancing high-quality services and supply capabilities.

As a result, net sales were ¥15,884 million, an increase of ¥234 million, or 1.5%, year on year. Operating income was ¥2,950 million, a decrease of ¥754 million, or 20.4% year on year. This decrease was due to a rebound from a high profit margin reflecting favorable progress on projects made in the same period of the previous fiscal year; milestones progressing faster than planned in the fourth quarter of the previous fiscal year; and the impact of increased amortization of goodwill.

2) SMO Business

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

In this business, the Group worked to strengthen the project management system and enhance business performance by bolstering the sales structure through such means as 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 ¥90 million, or 1.3%, to ¥7,123 million. Operating income was ¥815 million, an increase of ¥312 million, or 62.0%, year on year. This increase was mainly due to cost-cutting measures including appropriate personnel placements.

3) CSO Business

The CSO Business is undertaken by EP-PharmaLine Co., Ltd., AC MEDICAL INC.1, and ES-Link Co., Ltd.

There were no notable changes in the environment for CMR (Contract Medical Representative) services for pharmaceuticals, and overall conditions did not improve. Nevertheless, the academic materials production and BPO businesses trended favorably at EP-PharmaLine Co., Ltd. Other businesses, including CMR services for pharmaceuticals, performed largely in line with forecasts.

ES-Link Co., Ltd., a joint venture between the Group and SUZUKEN Co., Ltd., seeks to strengthen sales of new services through the fusion of marketing specialists (MS) and call centers with BPO. The joint venture is focusing on winning projects based on inquiries received from customers.

Moreover, in March 2019, the Group integrated the UPSHE (CSO) business of AC MEDICAL INC. into the Group's CSO Business. With this step, the Group will deliver high-quality services by leveraging the abundant human resources of AC MEDICAL INC.

As a result, net sales were ¥4,070 million, an increase of ¥166 million, or 4.3%, year on year, and operating income was ¥168 million, a decrease of ¥8 million, or 4.7%, year on year.

4) Global Research Business

The Global Research Business comprises EPS International Holdings Co., Ltd. and its overseas group companies. This business, which encompasses the CRO business in China, is primarily carried out in the Asia-Pacific region.

The number of global clinical trials in the Asia-Pacific region has been increasing. However, net sales and operating income both were below forecasts, partly due to sluggish growth in newly awarded projects, which reflected intensified competition with global CROs. The Group will work to strengthen sales and enhance the quality control system, as well as rigorously managing costs and aiming for stable performance.

As a result, net sales were ¥2,002 million, a decrease of ¥657 million, or 24.7%, year on year. Due partly to the impact of transferring the CRO business and related services in China that had been conducted by the EKISHIN (China) Business in the previous fiscal year, the Group recorded an operating loss of ¥96 million compared to operating income of ¥120 million in the same period of the previous fiscal year.

5) EKISHIN (China) Business

The EKISHIN (China) Business is undertaken by the two regional holding companies EPS EKISHIN Co., Ltd. and EPS (China) Co., Ltd., and related Group companies in China.

In this business, under a solid capital and business partnership with SUZUKEN Co., Ltd., the Group provides four types of services, specifically product-related services centered on pharmaceuticals and medical devices, 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.

In the product-related services, steady progress in the continuous development of existing markets and cultivation of new regional markets contributed to increased earnings.

As a result, from a performance aspect, net sales were ¥5,785 million, up ¥600 million, or 11.6%, year on year, and operating income was ¥140 million compared to an operating loss of ¥140 million in the previous fiscal year.

*1 On February 28, 2019, the Company acquired all of the issued shares of AC MEDICAL INC., and incorporated each of its businesses into the CRO segment and CSO segment. In addition, on April 1, 2019, EPS Corporation absorbed EPMate Co., Ltd. through a merger.

*2 On April 1, 2019, e-Trial Co., Ltd. absorbed All Right Technology Inc. through a merger, and was renamed as EP-Techno Co., Ltd.

(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, 2018 issued on November 7, 2018.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(¥ millions)

	As of September 30, 2018 (Previous Fiscal Year-End)	As of March 31, 2019 (End of the First Six Months)
Assets		
Current assets:		
Cash and time deposits	17,857	17,916
Notes and accounts receivable - trade	15,746	16,608
Marketable securities	1,357	1,231
Merchandise and finished goods	849	905
Work in process	1,473	1,637
Other current assets	3,094	3,096
Less: Allowance for doubtful accounts	(51)	(50)
Total current assets	40,326	41,345
Fixed assets:		
Property, plant and equipment	4,892	5,222
Intangible fixed assets:		
Goodwill	6,629	7,380
Other intangible fixed assets	773	918
Total intangible fixed assets	7,402	8,298
Investments and other assets:		
Investment securities	5,999	5,773
Lease and guarantee deposits	1,867	2,012
Other investments and other assets	5,815	6,054
Less: Allowance for doubtful accounts	(898)	(898)
Total investments and other assets	12,784	12,942
Total fixed assets	25,078	26,463
Total assets	65,405	67,809

(¥ millions)

	As of September 30, 2018 (Previous Fiscal Year-End)	As of March 31, 2019 (End of the First Six Months)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	456	834
Short-term loans	65	565
Current portion of long-term loans payable	602	645
Income taxes payable	1,251	1,351
Allowance for employees' bonuses	2,732	2,941
Provision for loss on order received	242	216
Other current liabilities	9,237	9,270
Total current liabilities	14,587	15,825
Non-current liabilities:		
Long-term debt	918	684
Allowance for directors' and corporate auditors' retirement benefits	453	378
Net defined benefit liability	1,428	1,407
Asset retirement obligations	556	619
Other non-current liabilities	716	932
Total non-current liabilities	4,073	4,022
Total liabilities	18,661	19,848
Net assets		
Shareholders' equity:		
Capital stock	3,888	3,888
Additional paid-in capital	13,601	13,690
Retained earnings	26,347	27,643
Treasury common stock, at cost	(2,167)	(2,803)
Total shareholders' equity	41,670	42,418
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,012	1,374
Foreign currency translation adjustment	861	817
Remeasurements of defined benefit plans	(9)	(5)
Total accumulated other comprehensive income	1,864	2,186
Non-controlling interests	3,209	3,355
Total net assets	46,743	47,960
Total liabilities and net assets	65,405	67,809

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(The six months ended March 31, 2019)

(¥ millions)

	First Six Months of Fiscal 2018 (October 1, 2017 to March 31, 2018)	First Six Months of Fiscal 2019 (October 1, 2018 to March 31, 2019)
Net sales	32,666	33,501
Cost of sales	21,107	21,542
Gross profit	11,558	11,958
Selling, general and administrative expenses	7,729	8,778
Operating income	3,828	3,179
Non-operating income:		
Interest income	19	51
Dividend income	23	23
Gain on insurance cancellation	31	63
Other non-operating income	85	20
Total non-operating income	159	158
Non-operating expenses:		
Interest expenses	9	7
Foreign exchange losses	81	39
Other non-operating expenses	6	14
Total non-operating expenses	97	62
Recurring profit	3,891	3,275
Extraordinary gains:		
Gain on sales of investment securities	—	263
Gain on step acquisitions	—	198
Total extraordinary gains	—	461
Profit (loss) before income taxes	3,891	3,737
Income taxes	1,408	1,357
Income tax adjustment	(17)	102
Total income taxes	1,390	1,460
Profit	2,500	2,277
Profit attributable to non-controlling interests	4	211
Profit attributable to owners of parent	2,495	2,065

Quarterly Consolidated Comprehensive Income
(The six months ended March 31, 2018)

(¥ millions)

	First Six Months of Fiscal 2018 (October 1, 2017 to March 31, 2018)	First Six Months of Fiscal 2019 (October 1, 2018 to March 31, 2019)
Profit	2,500	2,277
Other comprehensive income:		
Valuation difference on available-for-sale securities	243	362
Foreign currency translation adjustment	(94)	(51)
Remeasurements of defined benefit plans	(62)	4
Share of other comprehensive income of entities accounted for using equity method	(0)	0
Total other comprehensive income	86	314
Comprehensive income	2,586	2,592
(Breakdown)		
Comprehensive income attributable to owners of parent	2,582	2,387
Comprehensive income attributable to non-controlling interests	4	204

(3) Notes Concerning Quarterly Consolidated Financial Statements

(Notes Concerning the Going Concern Assumption)

None

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

The Company implemented a share exchange of 642,000 shares of treasury stock for the shareholders of All Right Technology Inc. to convert All Right Technology Inc. into a wholly owned subsidiary on the effective date of November 1, 2018.

The Company acquired 956,100 of its own shares in accordance with resolutions of the Board of Directors passed on March 27, 2018 and February 1, 2019.

As a result, treasury shares increased by ¥636 million during the six months ended March 31, 2019, to stand at ¥2,803 million as of March 31, 2019.

(Segment Information)

【Segment Information】

I. The First Six Months of Fiscal 2018 (October 1, 2017 to March 31, 2018)

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	13,978	6,989	3,850	2,660	5,063	123	32,666	—	32,666
Inter-segment sales and transfers	1,671	43	53	—	120	704	2,593	(2,593)	—
Total	15,649	7,033	3,903	2,660	5,184	828	35,260	(2,593)	32,666
Segment operating income	3,705	503	177	120	(144)	60	4,421	(593)	3,828

Note: Adjustment of ¥(593) million for segment operating income includes inter-segment transactions of ¥23 million and corporate expenses not allocated to each reportable segment of ¥(616) million. The main corporate expenses comprise expenses related to the Company (the holding company).

II. The First Six Months of Fiscal 2019 (October 1, 2018 to March 31, 2019)

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	14,528	7,092	4,022	1,970	5,765	122	33,501	—	33,501
Inter-segment sales and transfers	1,356	31	47	32	19	865	2,352	(2,352)	—
Total	15,884	7,123	4,070	2,002	5,785	987	35,853	(2,352)	33,501
Segment operating income	2,950	815	168	(96)	140	38	4,018	(838)	3,179

Note: Adjustment of ¥(838) million for segment operating income includes inter-segment transactions of ¥10 million and corporate expenses not allocated to each reportable segment of ¥(849) million. The main corporate expenses comprise expenses related to the Company (the holding company).

2. Information Concerning Impairment Loss on Fixed Assets or Goodwill in Each Reportable Segment

In the three months ended December 31, 2018, All Right Technology Inc. became a wholly owned subsidiary of the Company by means of a stock exchange with the Company. As a result, the amount of goodwill in the CRO Business segment increased by ¥1,164 million.

3. Supplementary Information

(1) Main data related to consolidated cash flows

(¥ millions)

	First Six Months of Fiscal 2018 (October 1, 2017 to March 31, 2018)	First Six Months of Fiscal 2019 (October 1, 2018 to March 31, 2019)
I. Cash flows from operating activities	1,424	3,190
II. Cash flows from investing activities	(1,905)	(377)
III. Cash flows from financing activities	(1,075)	(2,903)
IV. Effect of exchange rate change on cash and cash equivalents	11	(2)
V. Net increase (decrease) in cash and cash equivalents	(1,544)	(92)
VI. Cash and cash equivalents at beginning of period	23,097	18,753
VII. Increase in cash and cash equivalents due to share exchange	—	323
VIII. Cash and cash equivalents at end of period	21,553	18,984
Depreciation	403	403
Amortization of goodwill	576	621

(2) Orders Received

(¥ millions)

Segment	The First Six Months of Fiscal 2019 (October 1, 2018 to March 31, 2019)			
	New orders	YoY (%)	Backlog	YoY (%)
CRO Business	16,002	123.7	43,890	112.1
SMO Business	8,327	108.2	20,653	110.6
CSO Business	3,974	106.9	9,581	115.9
Global Research Business	2,895	149.2	8,960	113.2
EKISHIN (China) Business	5,785	121.8	74	28.6
Others	120	100.0	6	73.0
Total	37,106	119.0	83,166	112.0

Notes: 1. Figures represent sales prices.

2. The above figures do not include consumption taxes.