



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

August 1, 2019

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

(¥ millions are rounded down)

1. Consolidated Results for the First Nine Months of Fiscal 2019 (October 1, 2018 to June 30, 2019)

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

First Nine Months	Net sales		Operating income		Recurring profit		Profit attributable to owners of parent	
Fiscal 2019	50,155	3.5%	3,836	(30.1)%	3,896	(31.3)%	2,053	(40.5)%
Fiscal 2018	48,462	8.6%	5,488	(13.1)%	5,667	(13.0)%	3,447	(2.3)%

Note: Comprehensive income: June 30, 2019: ¥2,322 million [(35.7)%], June 30, 2018: ¥3,613 million [24.5%]

First Nine Months	Earnings per share (¥)	Net income per share (diluted) (¥)
Fiscal 2019	45.61	—
Fiscal 2018	74.88	—

(2) Consolidated Financial Position (¥ millions)

	Total assets	Net assets	Equity ratio (%)
June 30, 2019	65,517	46,128	65.4
September 30, 2018	65,405	46,743	66.6

Notes: 1. Equity: June 30, 2019: ¥42,817 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	68,100	3.5%	5,700	20.8%	5,800	(22.0)%	3,000	31.6%	66.65

Note: Revisions to recent consolidated results forecasts: Yes

***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):	Fiscal 2019, 3Q end	46,311,389	Fiscal 2018 end	46,311,389
b. Number of treasury stock at end of period:	Fiscal 2019, 3Q end	1,970,940	Fiscal 2018 end	1,049,754
c. Average number of stock during the period:	Fiscal 2019, 3Q	45,011,032	Fiscal 2018, 3Q	46,046,404

Note: The number of treasury shares at end of period (Fiscal 2019, 3Q 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.

Please see "(2) Explanation Concerning Forward-Looking Statements such as Consolidated Financial Forecasts" under "1. Qualitative Information Concerning Quarterly Financial Statements and Other Matters" on page 4 of the Supplementary Materials for information on the assumptions behind the earnings forecasts and cautionary statements regarding the use of earnings forecasts and related matters.

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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 Nine Months Ended June 30, 2019

(¥ millions)

	The First Nine Months of Fiscal 2018		The First Nine Months of Fiscal 2019		Change	
	Amount	%	Amount	%	Amount	%
Net sales	48,462	100.0	50,155	100.0	1,693	3.5
Operating income	5,488	11.3	3,836	7.6	(1,652)	(30.1)
Recurring profit	5,667	11.7	3,896	7.8	(1,771)	(31.3)
Profit attributable to owners of parent	3,447	7.1	2,053	4.1	(1,394)	(40.5)

Forward-looking statements contained in this document are based on a judgment of operating results for the nine months ended June 30, 2019.

In the nine months ended June 30, 2019, the EPS Group posted consolidated net sales of ¥50,155 million, an increase of 3.5% year on year. The overall increase in net sales was mainly due to a positive contribution to sales from AC MEDICAL INC., which became a consolidated subsidiary, and steady sales increases in segments other than the CRO Business and Global Research Business. This increase in sales was partially offset by the impacts of sluggish growth in newly awarded projects, which reflected intensified competition with global CROs, the loss of large projects, and the cancellation of clinical trials in operation.

Consolidated operating income declined by 30.1% year on year to ¥3,836 million. This overall decline was due to a decrease in capacity utilization rates, mainly reflecting impacts such as the loss of large projects in the CRO Business and Global Research business, and the cancellation of clinical trials in operation. This compares with a high profit margin recorded in the nine months ended June 30, 2018 owing to favorable progress on projects in the CRO Business. The decline in consolidated operating income was partially offset by solid performances in the SMO Business and EKISHIN (China) Business in the nine months ended June 30, 2019.

Profit attributable to owners of parent decreased by 40.5% to ¥2,053 million. This decrease reflected an increase in profit attributable to non-controlling interests in the EKISHIN (China) Business, in addition to the decrease in consolidated operating income.

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 Nine Months of fiscal 2018	The First Nine Months of fiscal 2019	Change
Domestic Business	CRO	Net sales	22,769	22,943	174
		Operating income	5,115	3,505	(1,610)
	SMO	Net sales	10,464	10,616	151
		Operating income	738	1,062	324
	CSO	Net sales	5,859	6,696	836
		Operating income	297	285	(12)
Overseas Business	Global Research	Net sales	3,686	2,904	(782)
		Operating income (loss)	111	(116)	(228)
	EKISHIN (China) Business	Net sales	8,091	8,986	895
		Operating income	66	319	253

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 Corporation¹, EPS Associates Co., Ltd., and AC MEDICAL INC.¹
- b. Clinical research services: EP- CRSU Co., Ltd.
- c. Pharmaceutical and medical IT services: EP-Techno Co., Ltd.²

Looking at performance in the CRO Business by service, in clinical study services, net sales and operating income were both below forecasts, due to the impact of cancellations and delays of clinical trials and related issues, as well as the lack of growth in newly awarded projects for monitoring services. In PMS and related services, net sales and operating income were both higher than forecast, as projects currently under way performed steadily.

In clinical research services, although orders for new projects fell short of expectations, higher-than-forecast results in the first half of the fiscal year contributed to net sales in line with forecast. Operating income was higher than forecast. In pharmaceutical and medical IT services, net sales and operating income were both slightly below forecast due to the postponement of the start of a new project to the fourth quarter.

In the CRO Business, as a result of the acquisition of AC MEDICAL INC., 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 ¥22,943 million, an increase of ¥174 million, or 0.8%, year on year. Net sales were supported partly by a positive contribution to sales from the acquisition of AC MEDICAL INC., despite weak sales from monitoring services. The underperformance against forecasts in clinical study services had a large impact on operating income. Consequently, operating income decreased by ¥1,610 million, or 31.5%, to ¥3,505 million.

2) SMO Business

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

In this business, 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 ¥151 million, or 1.4%, to ¥10,616 million. Operating income was ¥1,062 million, an increase of ¥324 million, or 43.9%, 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., and ES-Link Co., Ltd.

CMR (Contract Medical Representative) services for pharmaceuticals, as well as the academic materials production and BPO businesses, trended favorably. The medical contact center business 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 CMR (Contract Medical Representative) services for pharmaceuticals (the UPSHE 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, with a positive contribution from the acquisition of AC MEDICAL INC., net sales were ¥6,696 million, an increase of ¥836 million, or 14.3%, year on year, and operating income was ¥285 million, a decrease of ¥12 million, or 4.1%, year on 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.

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.

In the Asia-Pacific region, the Group has been focusing on winning new projects while laying solid business foundations in the region. 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 has formed a strategic partnership with George Clinical Pty Ltd of Australia and is working to strengthen its sales platform in the Asia-Pacific region.

Concurrently, the Group is aiming for stable business performance by bolstering its quality control system and enhancing the CRO business platform in China.

As a result, net sales were ¥2,904 million, a decrease of ¥782 million, or 21.2%, year on year. Due partly to the impact of integrating into this segment the CRO business and related services in China that had been conducted by the EKISHIN (China) Business in the previous year, the Group recorded an operating loss of ¥116 million, compared to operating income of ¥111 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, the Group made steady progress with the continuous development of existing markets and cultivation of new regional markets. Notably, the pharmaceutical manufacturing and marketing business contributed positively to increased earnings.

As a result, net sales were ¥8,986 million, up ¥895 million, or 11.1%, year on year, and operating income was ¥319 million, an increase of ¥253 million, or 380.9%, from the same period of the previous fiscal year.

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

In light of recent business performance, the Group has revised its consolidated financial forecasts announced in the financial report for the fiscal year ended September 30, 2018 issued on November 7, 2018. For details, please see the press release titled “Revision of Financial Forecasts” issued today (August 1, 2019).

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

(¥ millions)

	As of September 30, 2018 (Previous Fiscal Year-End)	As of June 30, 2019 (End of the First Nine Months)
Assets		
Current assets:		
Cash and time deposits	17,857	16,431
Notes and accounts receivable - trade	15,746	14,894
Marketable securities	1,357	2,135
Merchandise and finished goods	849	847
Work in process	1,473	2,031
Other current assets	3,094	4,007
Less: Allowance for doubtful accounts	(51)	(52)
Total current assets	40,326	40,295
Fixed assets:		
Property, plant and equipment	4,892	5,153
Intangible fixed assets:		
Goodwill	6,629	7,058
Other intangible fixed assets	773	935
Total intangible fixed assets	7,402	7,994
Investments and other assets:		
Investment securities	5,999	5,581
Lease and guarantee deposits	1,867	2,045
Other investments and other assets	5,815	5,070
Less: Allowance for doubtful accounts	(898)	(622)
Total investments and other assets	12,784	12,074
Total fixed assets	25,078	25,222
Total assets	65,405	65,517

(¥ millions)

	As of September 30, 2018 (Previous Fiscal Year-End)	As of June 30, 2019 (End of the First Nine Months)
Liabilities		
Current liabilities:		
Notes and accounts payable - trade	456	583
Short-term loans	65	1,065
Current portion of long-term loans payable	602	633
Income taxes payable	1,251	341
Allowance for employees' bonuses	2,732	1,664
Provision for loss on order received	242	201
Other current liabilities	9,237	11,021
Total current liabilities	14,587	15,511
Non-current liabilities:		
Long-term debt	918	536
Allowance for directors' and corporate auditors' retirement benefits	453	388
Net defined benefit liability	1,428	1,444
Asset retirement obligations	556	608
Other non-current liabilities	716	899
Total non-current liabilities	4,073	3,878
Total liabilities	18,661	19,389
Net assets		
Shareholders' equity:		
Capital stock	3,888	3,888
Additional paid-in capital	13,601	13,690
Retained earnings	26,347	27,048
Treasury common stock, at cost	(2,167)	(3,764)
Total shareholders' equity	41,670	40,862
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,012	1,319
Foreign currency translation adjustment	861	644
Remeasurements of defined benefit plans	(9)	(8)
Total accumulated other comprehensive income	1,864	1,954
Non-controlling interests	3,209	3,311
Total net assets	46,743	46,128
Total liabilities and net assets	65,405	65,517

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income
(The nine months ended June 30, 2019)

(¥ millions)

	First Nine Months of Fiscal 2018 (October 1, 2017 to June 30, 2018)	First Nine Months of Fiscal 2019 (October 1, 2018 to June 30, 2019)
Net sales	48,462	50,155
Cost of sales	31,182	32,559
Gross profit	17,279	17,596
Selling, general and administrative expenses	11,790	13,759
Operating income	5,488	3,836
Non-operating income:		
Interest income	35	74
Dividend income	52	55
Gain on insurance cancellation	46	82
Other non-operating income	154	63
Total non-operating income	289	276
Non-operating expenses:		
Interest expenses	14	11
Foreign exchange losses	77	169
Other non-operating expenses	19	35
Total non-operating expenses	110	216
Recurring profit	5,667	3,896
Extraordinary gains:		
Gain on sales of investment securities	-	274
Gain on step acquisitions	-	198
Total extraordinary gains	-	472
Extraordinary losses:		
Loss on transition of retirement benefit plans	-	84
Total extraordinary losses	-	84
Income before income taxes	5,667	4,283
Income taxes	1,435	1,150
Income tax adjustment	631	739
Total income taxes	2,067	1,889
Profit	3,600	2,394
Profit attributable to non-controlling interests	152	341
Profit attributable to owners of parent	3,447	2,053

Quarterly Consolidated Comprehensive Income
(The nine months ended June 30, 2019)

(¥ millions)

	First Nine Months of Fiscal 2018 (October 1, 2017 to June 30, 2018)	First Nine Months of Fiscal 2019 (October 1, 2018 to June 30, 2019)
Profit	3,600	2,394
Other comprehensive income:		
Valuation difference on available-for-sale securities	279	306
Foreign currency translation adjustment	(210)	(382)
Remeasurements of defined benefit plans	(56)	0
Share of other comprehensive income of entities accounted for using equity method	0	2
Total other comprehensive income	12	(72)
Comprehensive income	3,613	2,322
(Breakdown)		
Comprehensive income attributable to owners of parent	3,502	2,143
Comprehensive income attributable to non-controlling interests	110	178

(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. (currently EP-Techno Co., Ltd.) into a wholly owned subsidiary of the Company on the effective date of November 1, 2018.

The Company acquired 1,469,800 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 ¥1,597 million during the nine months ended June 30, 2019, to stand at ¥3,764 million as of June 30, 2019.

(Segment Information)

【Segment Information】

I. The First Nine Months of Fiscal 2018 (October 1, 2017 to June 30, 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	20,469	10,416	5,785	3,675	7,949	166	48,462	—	48,462
Inter-segment sales and transfers	2,300	48	74	11	142	1,067	3,645	(3,645)	—
Total	22,769	10,464	5,859	3,686	8,091	1,234	52,108	(3,645)	48,462
Segment operating income	5,115	738	297	111	66	59	6,388	(899)	5,488

Notes: Eliminations/Corporate for operating income of ¥(899) million includes intersegment transactions of ¥35 million and non-attributable corporate expenses not distributed to each segment of ¥(935) million. The main corporate expenses comprise expenses related to the Company (the holding company).

II. The First Nine Months of Fiscal 2019 (October 1, 2018 to June 30, 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	20,967	10,577	6,609	2,864	8,957	179	50,155	—	50,155
Inter-segment sales and transfers	1,976	39	86	39	29	1,386	3,556	(3,556)	—
Total	22,943	10,616	6,696	2,904	8,986	1,565	53,712	(3,556)	50,155
Segment operating income	3,505	1,062	285	(116)	319	51	5,108	(1,272)	3,836

Note: Eliminations/Corporate for operating income of ¥(1,272) million includes intersegment transactions of ¥18 million and non-attributable corporate expenses not distributed to each segment of ¥(1,290) 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. On April 1, 2019, e-Trial Co., Ltd. absorbed All Right Technology Inc. through a merger, and was renamed as EP-Techno Co., Ltd.