



## Consolidated Financial Report for the First Three Months of Fiscal 2020 [Japanese GAAP]

February 4, 2020

|   |   |
|---|---|
| Company Name:                                 | <b>EPS Holdings, Inc.</b>   |
| Stock Listing:                                | First Section, Tokyo Stock Exchange                                       |
| Code Number:                                  | 4282  |
| URL:  | <a href="http://www.eps-holdings.co.jp">http://www.eps-holdings.co.jp</a> |
| Representative Director:                      | Yan Hao, Chairman & CEO   |
| Inquiries:                                    | Kazuki Sekitani, Director, Managing Corporate Officer                     |
| Tel:  | +81-3-5684-7873   |
| Filing of Quarterly Securities Report:        | February 12, 2020   |
| 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 2020 (October 1, 2019 to December 31, 2019)

#### (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 2020        | 15,053 (6.9)% | 740 (52.9)%      | 892 (43.7)%      | 491 (58.1)%                             |
| Fiscal 2019        | 16,162 2.5%   | 1,571 (12.2)%    | 1,586 (16.1)%    | 1,172 (7.0)%                            |

Note: Comprehensive income: Fiscal 2020, 1Q: ¥74 million [(93.2)%], Fiscal 2019, 1Q: ¥1,093 million [(35.7)%]

| First Three Months | Profit per share (¥) | Profit per share (diluted) (¥) |
|--------------------|----------------------|--------------------------------|
| Fiscal 2020        | 10.97                | —                              |
| Fiscal 2019        | 25.78                | —                              |

#### (2) Consolidated Financial Position (¥ millions)

|                    | Total assets | Net assets | Equity ratio (%) |
|--------------------|--------------|------------|------------------|
| December 31, 2019  | 65,211       | 47,575     | 68.4             |
| September 30, 2019 | 66,566       | 46,337     | 65.1             |

Notes: Equity: December 31, 2019: ¥44,598 million, September 30, 2019: ¥43,301 million

### 2. Dividends

|                        | Dividend per share (¥) |                |               |          |           |
|------------------------|------------------------|----------------|---------------|----------|-----------|
|                        | First Quarter          | Second Quarter | Third Quarter | Year End | Full Year |
| Fiscal 2019            | —                      | 13.00          | —             | 15.00    | 28.00     |
| Fiscal 2020            | —                      |                |               |          |           |
| Fiscal 2020 (forecast) |                        | 13.00          | —             | 15.00    | 28.00     |

Notes: Revisions to recent dividend forecasts: None

### 3. Forecast of Consolidated Results for Fiscal 2020 (October 1, 2019 to September 30, 2020)

(¥ 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 | 72,500 5.1% | 6,170 (1.7)%     | 6,320 0.8%       | 3,540 (2.6)%                            | 77.39                |

Notes: Revisions to recent consolidated results forecasts: None

#### \* 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)

(Shares)

|   |                     |            |                 |            |
|---|---------------------|------------|-----------------|------------|
| a. Number of shares issued at the end of the period (including treasury stock): | Fiscal 2020, 1Q end | 46,311,389 | Fiscal 2019 end | 46,311,389 |
| b. Number of treasury stock at the end of the period:                           | Fiscal 2020, 1Q end | 653,547    | Fiscal 2019 end | 1,971,195  |
| c. Average number of stock during the period:                                   | Fiscal 2020, 1Q     | 44,779,375 | Fiscal 2019, 1Q | 45,476,799 |

Note: 93,090 company shares owned by EPS EKISHIN Co., Ltd. have been included in the number of treasury stock at the end of the period.

\* 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

### (1) Explanation Regarding Consolidated Operating Results

Overview of Operating Results for the Three Months Ended December 31, 2019

(¥ millions)

|   | The First Three Months of Fiscal 2019 |       | The First Three Months of Fiscal 2020 |       | Change  |        |
|---|---------------------------------------|-------|---------------------------------------|-------|---------|--------|
|   | Amount                                | %     | Amount                                | %     | Amount  | %      |
| Net sales                               | 16,162                                | 100.0 | 15,053                                | 100.0 | (1,109) | (6.9)  |
| Operating income                        | 1,571                                 | 9.7   | 740                                   | 4.9   | (830)   | (52.9) |
| Recurring profit                        | 1,586                                 | 9.8   | 892                                   | 5.9   | (693)   | (43.7) |
| Profit attributable to owners of parent | 1,172                                 | 7.3   | 491                                   | 3.3   | (680)   | (58.1) |

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

In the three months ended December 31, 2019, both net sales and operating income for the entire Group progressed largely in line with consolidated forecasts.

The EPS Group posted consolidated net sales of ¥15,053 million, a decrease of 6.9% year on year, despite an increase in income in the CSO Business. This decrease in sales was due to the temporary suspension of production lines at the EKISHIN (China) Business following the amendment of the Drug Administration Law in China, and conclusion of a large-scale project in the Global Research Business in the previous fiscal year. Furthermore, operating income declined 52.9% year on year to ¥740 million, owing to impacts from the conclusion of a very profitable monitoring project in the CRO Business in the previous fiscal year and completion of a large-scale clinical research project, in addition to the suspension of product lines in the EKISHIN (China) 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 Three Months of fiscal 2019 | The First Three Months of fiscal 2020 | Change  |
|-------------------|-----------------|-------------------------|---------------------------------------|---------------------------------------|---------|
| Domestic Business | CRO             | Net sales               | 7,001                                 | 6,926                                 | (74)    |
|                   |                 | Operating income        | 1,264                                 | 787                                   | (477)   |
|                   | SMO             | Net sales               | 3,470                                 | 3,509                                 | 38      |
|                   |                 | Operating income        | 477                                   | 471                                   | (5)     |
|                   | CSO             | Net sales               | 1,952                                 | 2,831                                 | 878     |
|                   |                 | Operating income        | 99                                    | 226                                   | 126     |
| Overseas Business | Global Research | Net sales               | 1,177                                 | 1,016                                 | (160)   |
|                   |                 | Operating income        | 31                                    | 70                                    | 39      |
|                   | EKISHIN (China) | Net sales               | 3,149                                 | 1,160                                 | (1,989) |
|                   |                 | Operating income (loss) | 77                                    | (355)                                 | (433)   |

EPS Associates Co., Ltd. in the CRO Business in the first three months of fiscal 2019, merged with EPS International Holdings Co., Ltd. in the Global Research Business on October 1, 2019. Consolidated figures in the year-on-year comparison above have been reclassified to their business segments after the merger took place.

### 1) CRO Business

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

- a. Contract-based clinical study and post-marketing surveillance (PMS) services: EPS Corporation and AC MEDICAL INC.
- b. Clinical research services: EP-CRSU Co., Ltd.
- c. Pharmaceutical and medical IT services: EP-Techno Co., Ltd.

Looking at performance in the CRO Business by service, sales and operating income declined in contract-based services, such as clinical studies and PMS services, as they were impacted by both the conclusion of high-value projects in monitoring that ended in the previous fiscal year and sluggish inquiries in the second half of the previous fiscal year. However, when compared against the forecast, sales and operating income have exceeded expectations as the trials currently underway are proceeding smoothly and acquisition of new projects are also steadily growing. Inquiries are also moving in a favorable trajectory this fiscal year.

Clinical research services continued in line with the forecast. Profit has been decreasing due to the conclusion of a large-scale clinical trial in the previous fiscal year; however, the operation rate is satisfactorily progressing due to active acceptance of orders for doctor-initiated clinical trials.

In pharmaceutical and medical IT services, sales of external systems have been increasing.

As a result, net sales were ¥6,926 million, a decrease of ¥74 million, or 1.1%, year on year, and operating income was ¥787 million, a decrease of ¥477 million, or 37.7%, year on year.

### 2) SMO Business

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

In the same business, the EPS Group is proactively undertaking initiatives such as full development of proposal-based sales operations for clients requesting trials, securing orders through business alliance contracts, and focusing resources on superior facilities suited for case clustering.

At the same time, with maintenance of the Company's internal structure and the appropriate placement of CRCs (clinical trial coordinators) and SMAs (managers that support clinical trial centers), the EPS Group will push forward with improving profitability and efficiency while strengthening specialized education, starting with the fields of cancer, mental diseases, and dermatology.

Furthermore, since the previous fiscal year, the Company has begun a collaborative project between the CRO Business and the Global Research Business, and is undertaking development of a new business model for the purpose of speedily gathering cases and reducing clinical trial costs.

As a result, net sales were ¥3,509 million, up ¥38 million, or 1.1%, year on year. Due to human investment in the abovementioned initiatives, operating income decreased to ¥471 million, down ¥5 million, or 1.2%, year on year.

### 3) CSO Business

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

In CMR (Contract Medical Representative) services for pharmaceuticals, performance was largely in line with forecasts as the decrease in demand for CMRs originating from the recent decline in MRs in the pharmaceutical industry looped around and inquiries trended toward recovery.

In the medical contact center business that undertakes call center operations for medical institutions, the Company received orders for highly profitable spot projects and surpassed the forecast. Furthermore, CMRs for medical institutions, the academic and technical materials production business, and the BPO business proceeded largely according to forecasts.

As a result, net sales were ¥2,831 million, an increase of ¥878 million, or 45%, year on year with growth mainly focused on the medical contact center business, and operating income was ¥226 million, an increase of ¥126 million, or 127.1%, year on year.

### 4) Global Research Business

The Global Research Business comprises EPS International Holdings Co., Ltd. and its overseas group companies, and is developing business focused on the Asia-Pacific region, including CRO business within China.

Orders from overseas for trials within Japan experienced a decrease in sales due to the conclusion of a large-scale project in the previous fiscal year. The Company maintained its business base in the Asia-Pacific region, and is focusing on orders for local projects in each country. Furthermore, for the CRO business within China, inquiries are increasing in line with expansion in the China market, and the Company is looking to reinforce its operations there.

As a result, net sales were ¥1,016 million, a decrease of ¥160 million, or 13.7%, year on year, and operating income was ¥70 million, an increase of ¥39 million, or 125.8%, year on 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., as well as related Group companies in China.

In the EKISHIN (China) Business, under a solid capital and business partnership with SUZUKEN Co., Ltd., the Group provides product-related services centered on pharmaceuticals and medical devices, 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.

Manufacture and sales of pharmaceutical products serve as the pillar of profit for product-related services; however, sales and profit in this business declined due to impacts from the implementation of simultaneous inspections and investigations at existing manufacturers in line with the announcement of revisions to China's Drug Administration Law in August 2019 and temporary suspension of manufacturing lines at a Group company in China. The affected manufacturing lines recommenced operations in December 2019, however, there is a possibility that there will be an impact on supply going forward.

For sales of services such as for medical devices, sales and profits grew and new breakthroughs are proceeding favorably.

Furthermore, sales of products were brisk in international trading-related services.

As a result, net sales were ¥1,160 million, a decrease of ¥1,989 million, or 63.2%, year on year, and operating loss was ¥355 million (¥77 million in operating income recorded in 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, 2019 issued on November 7, 2019.

**2. Quarterly Consolidated Financial Statements and Notes**  
**(1) Quarterly Consolidated Balance Sheets**

|                                       | (¥ millions)   |   |
|---------------------------------------|--|---|
|                                       | As of September 30, 2019<br>(Previous Fiscal Year-End) | As of December 31, 2019<br>(End of the First Three<br>Months) |
| <b>Assets</b>                         |  |   |
| <b>Current assets:</b>                |  |   |
| Cash and time deposits                | 17,283   | 18,975  |
| Notes and accounts receivable—trade   | 16,125   | 13,386  |
| Marketable securities                 | 1,858  | 1,808   |
| Merchandise and finished goods        | 992  | 1,121   |
| Work in process                       | 1,464  | 2,008   |
| Other current assets                  | 3,248  | 3,515   |
| Less: Allowance for doubtful accounts | (137)  | (158)   |
| Total current assets                  | 40,834   | 40,658  |
| <b>Fixed assets:</b>                  |  |   |
| <b>Property, plant and equipment</b>  | 5,658  | 6,045   |
| <b>Intangible fixed assets:</b>       |  |   |
| Goodwill                              | 6,762  | 6,675   |
| Other intangible fixed assets         | 991  | 996   |
| Total intangible fixed assets         | 7,754  | 7,672   |
| <b>Investments and other assets:</b>  |  |   |
| Investment securities                 | 4,786  | 4,201   |
| Lease and guarantee deposits          | 2,067  | 2,169   |
| Other investments and other assets    | 5,492  | 4,491   |
| Less: Allowance for doubtful accounts | (27)   | (26)  |
| Total investments and other assets    | 12,319   | 10,835  |
| Total fixed assets                    | 25,732   | 24,553  |
| <b>Total assets</b>                   | 66,566   | 65,211  |

(¥ millions)

|  | As of September 30, 2019<br>(Previous Fiscal Year-End) | As of December 31, 2019<br>(End of the First Three Months) |
|--|--|--|
| <b>Liabilities</b>   |  |  |
| <b>Current liabilities:</b>  |  |  |
| Accounts payable—trade   | 648  | 777  |
| Short-term loans   | 1,265  | 965  |
| Current portion of long-term loans payable                           | 449  | 372  |
| Income taxes payable   | 1,302  | 92   |
| Allowance for employees' bonuses                                     | 3,051  | 1,438  |
| Provision for loss on order received                                 | 242  | 225  |
| Other current liabilities  | 9,030  | 9,746  |
| <b>Total current liabilities</b>                                     | <b>15,991</b>  | <b>13,618</b>  |
| <b>Non-current liabilities:</b>                                      |  |  |
| Long-term debt   | 424  | 367  |
| Allowance for directors' and corporate auditors' retirement benefits | 395  | 106  |
| Net defined benefit liability  | 2,146  | 2,110  |
| Asset retirement obligations   | 614  | 596  |
| Other non-current liabilities  | 656  | 836  |
| <b>Total non-current liabilities</b>                                 | <b>4,238</b>   | <b>4,017</b>   |
| <b>Total liabilities</b>   | <b>20,229</b>  | <b>17,636</b>  |
| <b>Net assets</b>  |  |  |
| <b>Shareholders' equity:</b>   |  |  |
| Capital stock  | 3,888  | 3,888  |
| Additional paid-in capital   | 13,669   | 12,889   |
| Retained earnings  | 28,628   | 28,454   |
| Treasury common stock, at cost                                       | (3,765)  | (1,178)  |
| <b>Total shareholders' equity</b>                                    | <b>42,420</b>  | <b>44,054</b>  |
| <b>Accumulated other comprehensive income:</b>                       |  |  |
| Valuation difference on available-for-sale securities                | 808  | 364  |
| Foreign currency translation adjustment                              | 544  | 621  |
| Remeasurements of defined benefit plans                              | (470)  | (441)  |
| <b>Total accumulated other comprehensive income</b>                  | <b>881</b>   | <b>544</b>   |
| <b>Non-controlling interests</b>                                     | <b>3,035</b>   | <b>2,976</b>   |
| <b>Total net assets</b>  | <b>46,337</b>  | <b>47,575</b>  |
| <b>Total liabilities and net assets</b>                              | <b>66,566</b>  | <b>65,211</b>  |



**(2) Quarterly Consolidated Statements of Income and Comprehensive Income**

## Quarterly Consolidated Statements of Income

(¥ millions)

|   | First Three Months of<br>Fiscal 2019<br>(October 1, 2018<br>to December 31, 2018) | First Three Months of<br>Fiscal 2020<br>(October 1, 2019<br>to December 31, 2019) |
|---|---|---|
| <b>Net sales</b>  | 16,162  | 15,053  |
| Cost of sales   | 10,055  | 10,889  |
| <b>Gross profit</b>                                     | 6,107   | 4,164   |
| Selling, general and administrative expenses            | 4,536   | 3,423   |
| <b>Operating income</b>                                 | 1,571   | 740   |
| Non-operating income:                                   |   |   |
| Interest income   | 27  | 26  |
| Gain on insurance cancellation                          | 27  | 25  |
| Foreign exchange gains                                  | —   | 61  |
| Other non-operating income                              | 31  | 70  |
| Total non-operating income                              | 85  | 184   |
| Non-operating expenses:                                 |   |   |
| Interest expenses                                       | 3   | 3   |
| Foreign exchange losses                                 | 57  | —   |
| Equity liquidation loss                                 | —   | 14  |
| Treasury stock disposal expenses                        | —   | 11  |
| Other non-operating expenses                            | 9   | 2   |
| Total non-operating expenses                            | 70  | 32  |
| <b>Recurring profit</b>                                 | 1,586   | 892   |
| Extraordinary gains:                                    |   |   |
| Gain on sales of investment securities                  | 256   | —   |
| Gain on step acquisitions                               | 198   | —   |
| Total extraordinary gains                               | 454   | —   |
| <b>Profit before income taxes</b>                       | 2,040   | 892   |
| Income taxes  | 73  | (203)   |
| Income tax adjustment                                   | 659   | 748   |
| Total income taxes                                      | 733   | 545   |
| <b>Profit</b>   | 1,307   | 347   |
| Profit (loss) attributable to non-controlling interests | 134   | (144)   |
| <b>Profit attributable to owners of parent</b>          | 1,172   | 491   |

Quarterly Consolidated Comprehensive Income

(¥ millions)

|  | First Three Months of<br>Fiscal 2019<br>(October 1, 2018<br>to December 31, 2018) | First Three Months of<br>Fiscal 2020<br>(October 1, 2019<br>to December 31, 2019) |
|--|---|---|
| <b>Profit</b>  | 1,307   | 347   |
| <b>Other comprehensive income:</b>   |   |   |
| Valuation difference on available-for-sale securities                                | (70)  | (449)   |
| Foreign currency translation adjustment  | (146)   | 147   |
| Remeasurements of defined benefit plans  | 3   | 29  |
| Share of other comprehensive income of entities<br>accounted for using equity method | 0   | 0   |
| Total other comprehensive income   | (213)   | (273)   |
| <b>Comprehensive income</b>  | 1,093   | 74  |
| (Breakdown)  |   |   |
| Comprehensive income attributable to owners of parent                                | 1,018   | 154   |
| Comprehensive income attributable to non-controlling<br>interests                    | 75  | (80)  |

### (3) Notes Concerning Quarterly Consolidated Financial Statements

(Notes Concerning the Going Concern Assumption)

None

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

In accordance with a Board of Directors resolution adopted on October 29, 2019, the EPS Group undertook disposal of 1,400,000 shares of treasury stock to Hongkong Tigermed Co., Ltd. through a third-party allocation on December 12, 2019.

The Company acquired 82,000 of its own shares in accordance with a resolution of the Board of Directors on February 1, 2019.

As a result, treasury shares decreased by ¥2,586 million during the three months ended December 31, 2019, to stand at ¥1,178 million as of December 31, 2019.

(Segment Information)

I. The First Three Months of Fiscal 2019 (October 1, 2018 to December 31, 2018)

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

|                                   | (¥ millions) |              |              |                          |                          |        |        |                              |  |
|-----------------------------------|--------------|--------------|--------------|--------------------------|--------------------------|--------|--------|------------------------------|--|
|                                   | CRO Business | SMO Business | CSO Business | Global Research Business | EKISHIN (China) Business | Others | Total  | Elimination/Corporate (Note) | Amount recorded on quarterly consolidated statements of income |
| Net sales                         |              |              |              |                          |                          |        |        |                              |  |
| Sales to outside customers        | 6,499        | 3,443        | 1,929        | 1,086                    | 3,142                    | 61     | 16,162 | —                            | 16,162   |
| Inter-segment sales and transfers | 502          | 26           | 23           | 90                       | 7                        | 417    | 1,067  | (1,067)                      | —  |
| Total                             | 7,001        | 3,470        | 1,952        | 1,177                    | 3,149                    | 478    | 17,230 | (1,067)                      | 16,162   |
| Segment operating income          | 1,264        | 477          | 99           | 31                       | 77                       | 2      | 1,952  | (381)                        | 1,571  |

Note: Eliminations/Corporate for operating income of ¥(381) million includes intersegment transactions of ¥8 million and non-attributable corporate expenses not distributed to each segment of ¥(389) 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.

II. The First Three Months of Fiscal 2020 (October 1, 2019 to December 31, 2019)

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

|                                   | (¥ millions) |              |              |                          |                          |        |        |                              |  |
|-----------------------------------|--------------|--------------|--------------|--------------------------|--------------------------|--------|--------|------------------------------|--|
|                                   | CRO Business | SMO Business | CSO Business | Global Research Business | EKISHIN (China) Business | Others | Total  | Elimination/Corporate (Note) | Amount recorded on quarterly consolidated statements of income |
| Net sales                         |              |              |              |                          |                          |        |        |                              |  |
| Sales to outside customers        | 6,522        | 3,500        | 2,802        | 957                      | 1,158                    | 113    | 15,053 | —                            | 15,053   |
| Inter-segment sales and transfers | 404          | 8            | 29           | 59                       | 1                        | 419    | 922    | (922)                        | —  |
| Total                             | 6,926        | 3,509        | 2,831        | 1,016                    | 1,160                    | 532    | 15,976 | (922)                        | 15,053   |
| Segment operating income          | 787          | 471          | 226          | 70                       | (355)                    | 30     | 1,230  | (489)                        | 740  |

Note: 1. Eliminations/Corporate for operating income of ¥(489) million includes intersegment transactions of ¥7 million and non-attributable corporate expenses not distributed to each segment of ¥(497) million. The main corporate expenses comprise expenses related to the Company (the holding company).

2. EPS Associates Co., Ltd. merged with EPS International Holdings Co., Ltd. on October 1, 2019, and EPS Associates Co., Ltd. is changing its company name to EPS International Holdings Co., Ltd. In line with this change, its business segment has changed from the CRO Business to the Global Research Business. The Company is now disclosing segment information from the first three months of fiscal 2019, based on the reporting segments for the first three months of fiscal 2020.