Consolidated Earnings Report for the Fiscal Year Ended September 30, 2020 [Japanese GAAP]

November 5, 2020

Company Name:	**EPS Holdings, Inc.**
Stock Listing:	First Section, Tokyo Stock Exchange
Code Number:	4282
URL:	https://www.eps-holdings.co.jp
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Scheduled date of General Stockholders' Meeting:	December 18, 2020
Scheduled Payment of Dividends:	December 21, 2020
Filing of Securities Report:	December 18, 2020
Supplementary explanatory materials prepared:	Yes
Explanatory meeting:	Yes (for institutional investors and analysts)

(¥ million are rounded down)

1. Consolidated Results for the Fiscal Year Ended September 30, 2020 (October 1, 2019 to September 30, 2020)

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

Fiscal years ended September 30	Net sales		Operating income		Recurring profit		Profit attributable to owners of parent	
Fiscal 2020	66,689	(3.4)%	4,553	(27.5)%	4,978	(20.6)%	1,995	(45.1)%
Fiscal 2019	69,009	4.9%	6,279	(12.7)%	6,271	(15.7)%	3,633	(17.2)%

Note: Comprehensive income: Fiscal 2020: ¥1,539 million [(43.6)%], Fiscal 2019: ¥2,727 million [(46.5)%]

Fiscal years ended September 30	Profit per share (¥)	Profit per share (diluted) (¥)	Return on equity (ROE)	Recurring profit/ Total assets	Operating margin
Fiscal 2020	44.37	–	4.6%	7.3%	6.8%
Fiscal 2019	81.02	–	8.4%	9.5%	9.1%

Reference: Loss (gain) on entities accounted for using equity method: Fiscal 2020: ¥(0) million, Fiscal 2019: ¥(0) million

(2) Consolidated Financial Position (¥ million)

	Total assets	Net assets	Equity ratio (%)	Net assets per share (¥)
September 30, 2020	70,458	46,939	62.6	1,000.16
September 30, 2019	66,566	46,337	65.1	976.58

Reference: Equity: September 30, 2020: ¥44,106 million, September 30, 2019: ¥43,301 million

(3) Status of Consolidated Cash Flows (¥ million)

Fiscal years ended September 30	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents, ending balance
Fiscal 2020	5,847	(2,783)	554	22,833
Fiscal 2019	5,725	(956)	(4,324)	19,141

2. Dividends

	Dividend per share (¥)					Total dividend amount (¥ million)	Dividend payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	First Quarter	Second Quarter	Third Quarter	Year End	Full Year			
Fiscal 2019	–	13.00	–	15.00	28.00	1,250	34.6%	2.9%
Fiscal 2020	–	10.00	–	10.00	20.00	899	45.1%	2.0%
Fiscal 2021 (forecast)	–	10.00	–	10.00	20.00		33.9%	

3. Forecast of Consolidated Results for Fiscal 2021 (October 1, 2020 to September 30, 2021)

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

	Net sales		Operating income		Recurring profit		Profit attributable to owners of parent		Profit per share (¥)
Full year	69,800	4.7%	4,800	5.4%	5,000	0.4%	2,600	30.3%	58.96

***Notes**

(1) Changes to important subsidiaries during the period (changes in specified subsidiaries resulting in revised scope of consolidation): None

(2) 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

(3) Number of shares issued (common stock)
  a. Number of shares issued at end of period (including treasury stock):
     Fiscal 2020 end 46,311,389 Fiscal 2019 end 46,311,389
  b. Number of treasury stock at end of period:
     Fiscal 2020 end 2,212,221 Fiscal 2019 end 1,971,195
  c. Average number of stock during the period:
     Fiscal 2020 44,967,612 Fiscal 2019 44,843,327

  Note: The number of treasury shares at end of the period includes 93,090 shares of the Company held by EPS EKISHIN Co., Ltd.

(Reference) Summary of Non-Consolidated Results for Fiscal 2020 (October 1, 2019 to September 30, 2020)
Non-Consolidated Results for Fiscal 2020 (October 1, 2019 to September 30, 2020)

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

	Net sales		Operating income		Recurring profit		Profit	
Fiscal 2020	3,330	(22.9)%	1,274	(49.8)%	1,297	(49.5)%	120	(96.1)%
Fiscal 2019	4,321	19.0%	2,536	12.9 %	2,570	12.8%	3,060	35.0%

	Profit per share (¥)	Profit per share diluted (¥)
Fiscal 2020	2.67	–
Fiscal 2019	68.12	–

(2) Financial Position (¥ million)

	Total assets	Net assets	Equity ratio (%)	Net assets per share (¥)
September 30, 2020	46,041	31,321	68.0	708.76
September 30, 2019	43,675	32,773	75.0	737.59

Reference: Equity: September 30, 2020: ¥31,321 million, September 30, 2019: ¥32,773 million

* This financial report is outside the scope of the 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.

Table of Contents of Supplementary Materials

1. Summary of Operating Results and Other Matters

(1) Summary of Operating Results for the Fiscal Year Ended September 30, 2020

(¥ million)

	Fiscal 2019 (Year ended September 30, 2019)		Fiscal 2020 (Year ended September 30, 2020)		Change	
	Amount	%	Amount	%	Amount	%
Net sales	69,009	100.0	66,689	100.0	(2,320)	(3.4)
Operating income	6,279	9.1	4,553	6.8	(1,726)	(27.5)
Recurring profit	6,271	9.1	4,978	7.5	(1,293)	(20.6)
Profit attributable to owners of parent	3,633	5.3	1,995	3.0	(1,637)	(45.1)
Profit per share (¥)	81.02	–	44.37	–	–	–

Operating Results for the Fiscal Year Ended September 30, 2020

Forward-looking statements contained in this document are based on the judgment of operating results as of September 30, 2020.
In the pharmaceutical and medical devices industry, which has a major bearing on the consolidated operating results of the EPS Group, profitability is decreasing due to the promotion of the use of generic drugs and NHI drug price revisions under the Japanese government's policy of reducing social security expenditures, among other factors. In addition, environmental changes such as the increasing difficulty of clinical trials are occurring because the fields where pharmaceuticals are developed are shifting from lifestyle-related diseases to cancers, disorders of the central nervous system and rare diseases. Moreover, there is a growing market presence of biotech ventures and academic institutions specializing in regenerative medicine, groundbreaking drug discovery technologies and therapeutic fields, as well as characteristic small- and medium-sized manufacturers. In this environment, companies are seeking to ensure profitability by achieving greater economies of scale and industry realignment, such as acquisitions and business alliances of companies that develop ground-breaking new drugs. They are also attempting a variety of cost-cutting measures, such as streamlining research and development activities and shortening development lead times through the application of cutting-edge technologies and personnel reduction.

Under these circumstances, in the market for outsourcing services for the healthcare industry, which spans the development of pharmaceutical and medical devices to post-market surveillance, there has been growing demand from customers such as pharmaceutical companies and medical device manufacturers for outsourcing companies to accelerate the development and improve the quality of new drugs and to initiate reforms for a flexible cost structure through personnel reduction and outsourcing in an effort to enhance their competitiveness.

In the year ended September 30, 2020, a decrease in the number of patients visiting medical institutions due to the infection risk of COVID-19 impacted the progress of clinical trials, including delays in acquiring clinical trial patients. In addition, it has become difficult to conduct activities as in the past due to the imposition of restrictions on visits to medical institutions to prevent the spread of COVID-19. The EPS Group has addressed this challenge by putting its operations online and introducing remote work.
In the Domestic Business, the conclusion of a highly profitable monitoring project and a large-scale clinical trial in the previous fiscal year had an impact in the Contract Research Organization (CRO) Business. The spread of COVID-19 also impacted delays in new project starts and a decrease in clinical trial patients visiting hospitals, centering on the CRO and Site Management Organization (SMO) businesses.
In the Overseas Business, while shipments in the EKISHIN (China) Business were affected by the temporary suspension of manufacturing lines stemming from China's Revised Drug Administration Law, there was an impact on the Global Research Business from the conclusion of a large-scale project in the previous fiscal year. As a result, consolidated net

sales came to ¥66,689 million, a decrease of 3.4% year on year.
Consolidated operating income was ¥4,553 million, a decrease of 27.5% year on year, affected by the fall in net sales despite the EPS Group's efforts to reduce costs. Profit attributable to owners of parent was ¥1,995 million, a decrease of 45.1% year on year, mainly due to the posting of impairment loss of goodwill and loss on valuation of investment securities.

In the forecast of operating results announced on August 4, 2020, the Company was concerned about the impact of the second wave of COVID-19, but consolidated net sales exceeded the revised forecast because the Company was able to continue clinical trials while taking measures against COVID-19, in addition to less-than-expected negative effects such as the cancellation and interruption of clinical trials, restrictions on visits to medical institutions, a decrease in clinical trial patients visiting hospitals and the termination of contracts of Contract Medical Representative (CMR). In addition, consolidated operating income and consolidated recurring profit were greater than the forecasts due to thorough cost reduction, in addition to greater-than-expected consolidated net sales.

Operational segment is outlined as follows.

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

(¥ million)

			Fiscal 2019 (Year ended September 30, 2019)	Fiscal 2020 (Year ended September 30, 2020)	Change
Domestic Business	CRO	Net sales	31,234	30,504	(730)
		Operating income	5,197	4,360	(837)
	SMO	Net sales	14,339	13,220	(1,119)
		Operating income	1,679	1,541	(138)
	CSO	Net sales	9,399	11,424	2,024
		Operating income	489	849	359
Overseas Business	Global Research	Net sales	4,848	3,540	(1,307)
		Operating income	258	41	(217)
	EKISHIN (China) Business	Net sales	11,543	8,613	(2,930)
		Operating income (loss)	381	(210)	(592)

EPS Associates Co., Ltd., which was in the CRO Business, merged with EPS International Holdings Co., Ltd. in the Global Research Business on October 1, 2019. For the year-on-year comparisons above, consolidated figures for the previous fiscal year have been reclassified into their business segments following the merger.

1) CRO Business
In the CRO Business, the Group conducts operations mainly based on the following structure:
a. Contract-based clinical trials and post-marketing surveillance (PMS) services: EPS Corporation and EP Mediate Co., Ltd.
b. Clinical research services: EP-CRSU Co., Ltd.
c. Pharmaceutical and medical IT services: EP-Techno Co., Ltd.

In this business, aiming for establishment of global CRO operation, the Group restructured domestic CRO in the fiscal year under review and expanded academic alliances and digitalization to innovate the business.
Looking at performance in the CRO Business by service, contract-based services including clinical trials and PMS services had brisk inquiries and alliance contracts with business partners made solid progress. Therefore, utilization rates remained high. In the year-on-year comparison of performance in the CRO Business, sales and income declined mainly due to delays in the progress of clinical trials from the impact of COVID-19, while in monitoring, high-revenue -generating projects wrapping up in the previous fiscal year, the impact in the first half of the fiscal year under review of sluggish inquiries in

the second half of the previous fiscal year, and a decrease in highly profitable large projects as well as the reduced scale of small contract-based projects.
In clinical research services, although net sales decreased year on year due to the conclusion of a large-scale clinical trial in the previous fiscal year, joint research has started with the National Cancer Center and inquiries about clinical research remained strong. As a result, operating income increased partly supported by the limited impact of the COVID-19 pandemic and the effect of cost reduction.
In pharmaceutical and medical IT services, the Group is promoting digitization in the CRO business. In product sales for clinical studies and PMS services, net sales declined due to slow progress in capturing orders. In sales operations, the Group was actively promoting the academic alliances.
As a result, net sales were ¥30,504 million, a decrease of ¥730 million, or 2.3%, year on year, and operating income was ¥4,360 million, a decrease of ¥837 million, or 16.1%, year on year.

2) SMO Business
The SMO Business is undertaken by EP-SOGO Co., Ltd.
In this business, the Group is striving to secure orders through proposal-based sales activities targeting clinical trial sponsors and alliance contracts, and actively executing regional strategies such as concentrating resources on preferred facilities with good patient recruitment rates, among others.
In terms of operations, the Group is bolstering education focused on specialties such as cancer, mental illness, and dermatology while promoting the appropriate placement of personnel such as clinical research coordinators (CRCs), site management associates (SMAs) and the Institutional Review Board's remote review system, in consideration of the maintenance of internal frameworks and regionality. The Group is working to deploy a new business model to rapidly recruit clinical trial participants and reduce clinical trial costs by promoting a collaborative project between the CRO Business and the Global Research Business, which was launched in the previous fiscal year.
Comparing with the same period from the previous year, the impact of the COVID-19 pandemic has delayed progress in clinical trials due to postponements in starting clinical trials and a decrease in clinical trial patients visiting hospitals. While clinical trial patients visiting hospitals was recovering gradually due to the lifting of the state of emergency, it did not return to the previous level, having an impact on sales and income.
As a result, net sales were ¥13,220 million, a decrease of ¥1,119 million, or 7.8%, year on year. Operating income decreased ¥138 million, or 8.3%, year on year, to ¥1,541 million.

3) CSO Business
The CSO Business is undertaken by EP-PharmaLine Co., Ltd., EP-Force Co., Ltd., and ES-Link Co., Ltd.
In the CMR business, the Group aggregated the EP-PharmaLine Co., Ltd. Contract MR Division to EP-Force Co., Ltd. in June 2020 for the purpose of responding rapidly to customer needs and efficient and agile business operations. CMR business performance was broadly in line with forecasts because the decline in demand for CMRs spurred by the pharmaceutical industry’s ongoing MR reductions in recent years decreased, along with inquiries on a recovery trajectory as well as the Group's efforts to minimize the impact of the COVID-19 pandemic by maintaining activities with remote work and successfully starting new projects.
The medical call center business, which handles call center operations for medical facilities, exceeded forecasts due partly to a larger-than-usual number of orders in contracts for highly profitable spot projects and maintaining operations under the impact of the COVID-19 pandemic by switching some contact center duties to work from home.
Academic materials production business performance surpassed forecasts as progress was made shifting from variable, volume-based charges to contracts with fixed monthly fees and earnings stabilized. In addition, the BPO business was broadly in line with forecasts.
As a result, net sales were ¥11,424 million, an increase of ¥2,024 million, or 21.5%, year on year. Operating income was ¥849 million, an increase of ¥359 million, or 73.3%, 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. In this business, EPS Associates Co., Ltd., which was in the CRO Business, merged with EPS International Holdings Co., Ltd. in the Global Research Business in October 2019 to build a firm foundation that responds quickly to global clinical trials.
Orders from overseas for trials within Japan experienced a significant decrease in sales and income, owing to the conclusion of a large-scale project in the previous fiscal year, suspension of an existing project, and sluggish new orders due to intensified competition with global CROs.
In the Asia-Pacific region, the Group continues to strengthen the business base and is focusing on orders for projects in each country. In the CRO business in China, profitability improved as the Group worked to strengthen operations, reflecting rising inquiries in tandem with market expansion.
As a result, net sales were ¥3,540 million, a decrease of ¥1,307 million, or 27.0%, year on year. Operating income came to ¥41 million, a decrease of ¥217 million, or 84.1%, year on year.

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 this 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 trade related services and peripheral support services. The Group is working to expand earnings as a healthcare-focused trading company in the healthcare industry, linking Japan and China.
In product-related services, sales and income declined in earnings-driving pharmaceutical manufacturing and sales. This is due to the impact from sweeping inspections and examinations being carried out at existing manufacturers accompanying the announcement of revisions to China's Drug Administration Law in August 2019, as well as temporary suspension of manufacturing lines at a Group company in China. Although the affected manufacturing lines resumed operations in December 2019, logistics and sales operations were affected by COVID-19. In China, the impact of declining demand was also felt from the effects of an ongoing decrease in the number of patients visiting medical institutions.
As a result, net sales were ¥8,613 million, a decrease of ¥2,930 million, or 25.4%, year on year, and operating losses were ¥210 million (¥381 million in operating income posted in the same period of the previous fiscal year).

(2) Summary of Financial Position as of September 30, 2020

Status of Assets, Liabilities and Net Assets
Changes in the Group's financial position during the fiscal year under review, compared with the previous fiscal year-end, are outlined as follows:
Current assets amounted to ¥45,909 million as of September 30, 2020, an increase of ¥5,075 million from the previous fiscal year-end. The main contributing factors were increases of ¥4,844 million in cash and deposits and ¥287 million in work in process. These increases were partly offset by a decrease of ¥479 million in marketable securities. Fixed assets amounted to ¥24,548 million, a decrease of ¥1,183 million from the previous fiscal year-end. The main contributing factors were decreases of ¥778 million in goodwill, ¥1,096 million in investment securities and ¥1,384 million in other under investments and other assets. These decreases were partly offset by increases of ¥311 million in buildings, ¥502 million in land, ¥765 million in construction in progress and ¥447 million in other intangible fixed assets. As a result, total assets stood at ¥70,458 million, an increase of ¥3,891 million from the previous fiscal year-end.
In terms of liabilities, total liabilities amounted to ¥23,518 million as of September 30, 2020, an increase of ¥3,289 million compared with the previous fiscal year-end. This mainly reflected increases of ¥2,200 million short-term loans, ¥801 million in income taxes payable, ¥502 million in allowance for employees' bonuses and ¥1,326 million in other current liabilities. These increases were partly offset by decreases of ¥522 million in accounts payable - other, ¥459 million in long-term debt, ¥285 million in allowance for directors' and corporate auditors' retirement benefits and ¥379 million in net defined benefit liability.
In terms of net assets, total net assets amounted to ¥46,939 million as of September 30, 2020, an increase of ¥602 million

from the previous fiscal year-end. This mainly reflected an increase of ¥378 million in retained earnings and a decrease of ¥962 million in treasury common stock, at cost. These factors were partly offset by decreases of ¥286 million in additional paid-in capital and ¥643 million in valuation difference on available-for-sale securities.

(3) Summary of Cash Flows for the Fiscal Year Ended September 30, 2020

In the fiscal year ended September 30, 2020, net cash provided by operating activities was ¥5,847 million, net cash used in investing activities was ¥2,783 million and net cash provided by financing activities was ¥554 million. These cash flows were adjusted for the effect of exchange rate change in cash and cash equivalents of ¥73 million. As a result, cash and cash equivalents on September 30, 2020 stood at ¥22,833 million, an increase of ¥3,692 million from the previous fiscal year-end.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥5,847 million, an increase of ¥121 million from the previous fiscal year.

The main reasons for this increase in net cash provided by operating activities were an increase in provision for bonuses of ¥500 million (an increase of ¥304 million year on year), a decrease in inventories of ¥161 million (a decrease of ¥167 million year on year), other cash provided by operating activities of ¥555 million (an increase of ¥1,013 million year on year), proceeds from subsidy income of ¥388 million (an increase of ¥350 million year on year) and income taxes paid of ¥2,138 million (a decrease of ¥603 million year on year), as well as profit before income taxes of ¥4,409 million (a decrease of ¥2,450 million year on year) and a decrease in notes and accounts payable – trade of ¥85 million (a decrease of ¥280 million year on year).

(Cash flows from investing activities)

Net cash used in investing activities was ¥2,783 million, an increase of ¥1,826 million year on year.

The main reasons for this increase in net cash used in investing activities were the purchase of non-current assets ¥2,327 million (an increase of ¥711 million year on year), the purchase of investment securities of ¥855 million (an increase of ¥394 million year on year), proceeds from sales of investment securities of ¥189 million (a decrease of ¥1,877 million year on year), short-term loan advances of ¥815 million (an increase of ¥734 million year on year) and the purchase of shares of subsidiaries resulting in a change in scope of consolidation of ¥217 million (not recorded in the previous fiscal year). Other factors were proceeds from the cancellation of insurance funds of ¥1,627 million (an increase of ¥1,410 million year on year) and the purchase of shares of subsidiaries and associates of ¥497 million (not recorded in the fiscal year under review).

(Cash flows from financing activities)

Net cash provided by financing activities was ¥554 million, an increase of ¥4,878 million year on year.

The main factors behind the increase in cash provided by financing activities were an increase in short-term loans payable of ¥10,200 million (an increase of ¥8,100 million year on year) and proceeds from sales of treasury shares of ¥1,916 million (not recorded in the previous fiscal year). These increases were partially offset by a decrease in short-term loans payable of ¥8,000 million (an increase of ¥7,100 million year on year).

(4) Outlook

The EPS Group focuses on strengthening Group management capabilities across both the horizontal and vertical dimensions of the organization by encouraging autonomous activities in each segment and streamlining management operations, while strengthening its business operation functions as One EPS. In this way, we aim to realize three aspects of growth: base growth, sound growth, and sustainable growth.

In terms of business, the Group will expand and aggressively promote necessary upfront investments from a Groupwide perspective. Specific measures including the creation of added value through new businesses and new products and services, exploration of M&A opportunities with a view toward business synergies, incubation investments to create new businesses, the promotion of academic-related business and use of the Group's specialists.

In terms of management, the Company will support, manage and lead each segment in identifying and understanding issues in its organization, business structure and management by strengthening the controlling function to produce synergistic effects under the "One EPS" concept. In addition, the Group will unify its administrative management to seek total optimization more organically. The Group will also take the initiative in its efforts to address issues such as workstyle reforms and organizational activation. Furthermore, the Group will develop human resource measures across the Group, strengthen development of management human resources and constantly activate the organization.

The measures for each business segment are as follows:

1) CRO Business

In the CRO business, the Group will aim to realize solid base growth underpinned by its existing business models. At the same time, it will examine new business models in response to changes in the business environment and provide services using new technologies such as IT. The Group will also enhance its sales capabilities and work to maximize profit by rigorously enforcing cost controls and promoting operating efficiency.

In clinical trials and PMS services, the Group will take proactive steps to expand the range of new services. It includes the promotion of virtual clinical trials through bolstering its competitiveness by differentiating itself from competitors with digitalization, strengthening monitoring, utilizing its capacity to provide high-quality data science services, improving its capabilities to respond to globalization, and enhancing its specialization and therapeutic fields.

In development support for medical devices and the development of functional food, which have potential for growth, the Group will actively promote business expansion, taking advantage of its track record and knowledge cultivated in clinical trials.

On the earnings front, the Group will rebuild and improve services for which needs have declined and services with low profitability.

In clinical research services, the Group will strengthen its system for diversified clinical tests, enhance support services from the upstream process of clinical trials and strengthen its sales capabilities in research, investigator-initiated clinical trials and database research.

2) SMO Business

In the SMO Business, the Group will leverage its industry-leading business scale while making effective use of resources by executing regional and facility strategies, with the aim of increasing its market share by focusing on areas of high customer need, such as oncology, dermatology, and neurology, and by responding to growing needs for support to clinical trial centers from large medical institutions. In addition, as a way to make use of resources in cooperation with the CRO business, clinical research associates (CRAs) that have received training in CRO are assigned to medical facilities as site data managers (SDMs) and are designated to perform tasks such as carefully examining clinical trials data and data entry for systems, so that clinical research coordinators (CRCs) will be able to concentrate on responding to clinical trial patients and medical staff, recruiting patients and enhancing efficiency. In a new approach to IT, the Group will achieve higher customer satisfaction by expanding the efficiency of clinical trials services, computerizing central IRB and selling a clinical study solution for medical institutions.

3) CSO Business

In the CSO business, the Group will develop new services by sensitively capturing needs from and changes in pharmaceutical companies and medical device manufacturers.

In the existing services, the Group will work to differentiate itself from competitors by integrating the Group's wide range of unique services into traditional CSO services such as CMR and call center operations. In Drug Information (DI) services, the Group will continue improving the quality of its highly specialized operators, while working to enhance efficiency by raising digital transformation (DX) in addition to advancing communication with clients. In the Contract MR Division, the Group will transition from the assignment of contact-based MRs to multi-channel promotion, integrating the real and digital, and improving the quality of MRs at the same time.

In new services, the Group will expand areas such as the commercialization of remote PMS monitors in PMS services and the strengthening of field service engineers in medical devices services. The Group will also expand contract-based services leveraging its strengths in academic materials production, education and training services and its specialization in the field of oncology.

At ES-Link Co., Ltd., a joint venture established with SUZUKEN Co., Ltd., the Company will combine its advanced specialization in virtual MR with SUZUKEN's driving power to promote distribution management as a measure in response to new needs related to promotion services and orphan drugs, as well as medical devices.

4) Global Research Business

In the Global Research Business, the Group will proceed to build a solid business base in Japan, Asia and China with the aim of becoming a CRO leader in the Asia-Pacific region. For that purpose, the Group will expand contract-based services for inbound projects from Europe, the United States and China as well as outbound projects from Japan to China and Asia by reorganizing CROs in China and Asia and enhancing collaboration with overseas CROs, such as Beijing Global Pharmaceutical Research Co., Ltd. (G&P), a Chinese CRO that the Company acquired in June 2020, Hangzhou Tigermed Consulting Co., Ltd. and George Clinical Pty Ltd., as well as CROs in Japan. The Group will also aim to achieve stable growth in international joint trials by providing the required high-quality products (services) and by strengthening human resource management. In terms of earnings, the Group will reduce costs by reviewing cost of sales and selling, general and administrative expenses, including expenses at bases in Japan and overseas.

5) EKISHIN (China) Business

In the EKISHIN (China) Business, the Group will proceed with the transition toward the next stage by seeking an alliance with new partners based on its existing businesses as a healthcare-focused trading company in the healthcare industry linking Japan and China.

The EKISHIN (China) Business comprises four core businesses, specifically the products-related business, the specialized services-related business, the international trading-related business, and the peripheral support-related business. At the same time, the Group will ensure sustained operating performance through stable management of its existing core businesses, while using its internal resources and those of its partner companies. In product-related services, the Group improved the production process for interferon manufacturing at Shanghai Hua Xin High Biotechnology Co., Ltd. The Group will promote business development centered on the cultivation of sales markets and pioneering of new markets, and the introduction of new products.

Forecast of Operating Results for Fiscal 2021 (October 1, 2020 to September 30, 2021)

Fiscal 2021 will be the final year of the medium-term business plan. In the revised forecast announced on November 7, 2019, the Group set consolidated net sales and consolidated operating income at ¥80 billion and ¥8 billion, respectively. However, given the external environment, including the impact of the COVID-19 pandemic, the Group has set the forecast as shown below.

The impact of the COVID-19 pandemic is formulated on the assumption that developments such as progress in clinical trials and regulations on visits to medical institutions will remain at the current level.

Fiscal 2021 Consolidated performance forecast	Amount (¥ million)	Year-on-year change (%)
Net sales	69,800	4.7
Operating income	4,800	5.4
Recurring profit	5,000	0.4
Profit attributable to owners of parent	2,600	30.3

(Segment Outlook)

Forecasts of net sales for each segment include inter-segment transactions.

	Net sales (¥ million)	Year-on-year change (%)
CRO	31,400	2.9
SMO	13,900	5.1
CSO	11,600	1.5
Global Research	2,900	(18.1)
EKISHIN (China) Business	8,800	2.2

(5) Risk Information Concerning COVID-19

The Group supports pharmaceutical development, mainly for pharmaceutical companies, and conducts clinical trials at medical facilities for new drug development. Clinical trials require the participation of subjects (patients).

As a basic principle, the Group makes ensuring the safety of employees, clinical trial patients, medical facility personnel, and clients a top priority in business operations. However, the Group believes there are risks such as those noted below for the current COVID-19 situation affecting its financial position, operating results, and other matters.

Once it has recognized a risk, the Group's policy is to work to avoid or mitigate that risk. However, the Group could be affected substantially by a variety of factors that could arise going forward.

Forward-looking statements contained in this document are based on a judgment as of the last day of the fiscal year ended September 30, 2020.

1) Risk of employees contracting COVID-19

Because much of the Group's business entails direct work with medical institutions, we are exercising extreme care in taking steps to prevent employees from contracting COVID-19. However, in the event that it becomes difficult for a long period of time to continue operations, owing to events such as Group employees contracting the virus and an inability to secure alternative personnel, the Group's financial position, operating results, and other matters could be affected.

2) Risk of clients suspending or postponing development due to COVID-19

In the event that there is a prolonged situation wherein clients postpone or suspend activities such as clinical trials that are planned or underway with a view to prevent the spread of COVID-19, the Group's financial position, operating results, and other matters could be affected.

3) Risk of medical institutions becoming unable to conduct clinical trials and so forth due to COVID-19

In the event that medical facilities become unable to conduct clinical trials for a long period of time due to the status of the COVID-19 outbreak, the Group's financial position, operating results, and other matters could be affected.

2. Basic Policy Regarding Selection of Accounting Standards

The EPS Group prepares its consolidated financial statements based on Japanese accounting standards, taking into consideration the need to ensure the comparability of the consolidated financial statements between different accounting periods and companies.

The Group intends to appropriately address the issue of adopting International Financial Reporting Standards (IFRS) based on the consideration of a variety of conditions in Japan and overseas.

3. Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheets

(¥ million)

	Fiscal 2019 As of September 30, 2019	Fiscal 2020 As of September 30, 2020
Assets		
Current assets		
Cash and time deposits	17,283	22,127
Notes and accounts receivable - trade	16,125	16,313
Marketable securities	1,858	1,378
Merchandise and finished goods	992	1,002
Work in process	1,464	1,752
Other current assets	3,248	3,494
Less: Allowance for doubtful accounts	(137)	(159)
Total current assets	40,834	45,909
Fixed assets		
Property, plant and equipment		
Buildings	4,623	5,102
Accumulated depreciation	(1,792)	(1,959)
Buildings, net	2,831	3,142
Furniture and fixtures	2,004	2,112
Accumulated depreciation	(1,352)	(1,441)
Furniture and fixtures, net	652	670
Land	1,608	2,110
Construction in progress	138	903
Other	845	957
Accumulated depreciation	(417)	(539)
Other, net	428	417
Total property, plant and equipment	5,658	7,244
Intangible fixed assets		
Goodwill	6,762	5,984
Other intangible fixed assets	991	1,438
Total intangible fixed assets	7,754	7,422
Investments and other assets		
Investment securities	4,786	3,690
Long-term loans receivable	59	6
Lease and guarantee deposits	2,067	1,984
Deferred tax assets	2,697	2,799
Net defined benefit asset	160	209
Other investments and other assets	2,575	1,190
Less: Allowance for doubtful accounts	(27)	–
Total investments and other assets	12,319	9,880
Total fixed assets	25,732	24,548
Total assets	66,566	70,458

(¥ million)

	Fiscal 2019 As of September 30, 2019	Fiscal 2020 As of September 30, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	648	753
Short-term loans	1,265	3,465
Current portion of long-term loans payable	449	209
Accounts payable - other	4,946	4,423
Income taxes payable	1,302	2,104
Allowance for employees' bonuses	3,051	3,554
Provision for loss on order received	242	296
Other current liabilities	4,084	5,411
Total current liabilities	15,991	20,219
Non-current liabilities		
Long-term debt	424	204
Allowance for directors' and corporate auditors' retirement benefits	395	110
Net defined benefit liability	2,146	1,767
Asset retirement obligations	614	580
Other non-current liabilities	656	636
Total non-current liabilities	4,238	3,299
Total liabilities	20,229	23,518
Net assets		
Shareholders' equity		
Capital stock	3,888	3,888
Additional paid-in capital	13,669	13,382
Retained earnings	28,628	29,007
Treasury common stock, at cost	(3,765)	(2,802)
Total shareholders' equity	42,420	43,475
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	808	164
Foreign currency translation adjustment	544	559
Remeasurements of defined benefit plans	(470)	(93)
Total accumulated other comprehensive income	881	630
Non-controlling interests	3,035	2,833
Total net assets	46,337	46,939
Total liabilities and net assets	66,566	70,458

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(¥ million)

	Fiscal 2019 (October 1, 2018 to September 30, 2019)	Fiscal 2020 (October 1, 2019 to September 30, 2020)
Net sales	69,009	66,689
Cost of sales	44,412	46,060
Gross profit	24,596	20,628
Selling, general and administrative expenses		
Promotion expenses	5,063	2,743
Directors' compensations	592	654
Salaries and bonuses	4,928	5,140
Provision for bonuses	579	566
Provision for directors' retirement benefits	72	16
Retirement benefit expenses	134	180
Rent expenses	921	1,026
Commission fee	536	574
Other	5,487	5,171
Total selling, general and administrative expenses	18,316	16,075
Operating income	6,279	4,553
Non-operating income		
Interest income	110	108
Gain on insurance cancellation	102	66
Subsidy income	37	388
Dividend income	55	59
Other non-operating income	39	260
Total non-operating income	345	884
Non-operating expenses		
Interest expenses	16	16
Foreign exchange losses	248	–
Loss due to COVID-19	–	377
Other	89	64
Total non-operating expenses	353	458
Recurring profit	6,271	4,978
Extraordinary gains		
Gain on sales of investment securities	661	126
Surrender value of insurance	–	671
Gain on sales of shares of subsidiaries and associates	41	–
Gain on step acquisitions	198	–
Total extraordinary gains	901	798
Extraordinary losses		
Loss on valuation of investment securities	228	442
Loss on transition of retirement benefit plans	84	–
Impairment loss	–	650
Business reorganization losses	–	274
Total extraordinary losses	313	1,367
Profit before income taxes	6,859	4,409
Income taxes	2,789	2,939
Income tax adjustment	93	(259)
Total income taxes	2,882	2,680
Profit	3,977	1,728
Profit (loss) attributable to non-controlling interests	344	(266)
Profit attributable to owners of parent	3,633	1,995

Consolidated Statements of Comprehensive Income

(¥ million)

	Fiscal 2019 (October 1, 2018 to September 30, 2019)	Fiscal 2020 (October 1, 2019 to September 30, 2020)
Profit	3,977	1,728
Other comprehensive income		
Valuation difference on available-for-sale securities	(204)	(643)
Foreign currency translation adjustment	(586)	74
Remeasurements of defined benefit plans	(460)	378
Share of other comprehensive income of entities accounted for using equity method	0	1
Total other comprehensive income	(1,250)	(189)
Comprehensive income	2,727	1,539
(Breakdown)		
Comprehensive income attributable to owners of parent	2,650	1,745
Comprehensive income attributable to non-controlling interests	77	(205)

(3) Consolidated Statements of Changes in Shareholders Equity

Fiscal 2019 (From October 1, 2018 to September 30, 2019) (¥ million)

	Shareholders' equity				
	Capital stock	Additional paid-in capital	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	3,888	13,601	26,347	(2,167)	41,670
Changes of items during period					
Change by share exchange		88		1,325	1,414
Changes in equity in consolidated subsidiaries		(37)			(37)
Dividends of surplus			(1,352)		(1,352)
Profit attributable to owners of parent			3,633		3,633
Purchase of treasury shares				(2,923)	(2,923)
Change of scope of consolidation		15			15
Net changes of items other than shareholders' equity					
Total changes of items during period	–	67	2,280	(1,598)	750
Balance at end of current period	3,888	13,669	28,628	(3,765)	42,420

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	1,012	861	(9)	1,864	3,209	46,743
Changes of items during period						
Change by share exchange						1,414
Changes in equity in consolidated subsidiaries						(37)
Dividends of surplus						(1,352)
Profit attributable to owners of parent						3,633
Purchase of treasury shares						(2,923)
Change of scope of consolidation						15
Net changes of items other than shareholders' equity	(204)	(317)	(461)	(983)	(173)	(1,156)
Total changes of items during period	(204)	(317)	(461)	(983)	(173)	(406)
Balance at end of current period	808	544	(470)	881	3,035	46,337

Fiscal 2020 (From October 1, 2019 to September 30, 2020) (¥ million)

	Shareholders' equity				
	Capital stock	Additional paid-in capital	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	3,888	13,669	28,628	(3,765)	42,420
Changes of items during period					
Changes in equity in consolidated subsidiaries		12			12
Dividends of surplus			(1,121)		(1,121)
Profit attributable to owners of parent			1,995		1,995
Purchase of treasury shares				(1,810)	(1,810)
Disposal of treasury shares		(793)		2,773	1,979
Transfer of loss on disposal of treasury shares		494	(494)		–
Net changes of items other than shareholders' equity					
Total changes of items during period	–	(286)	378	962	1,054
Balance at end of current period	3,888	13,382	29,007	(2,802)	43,475

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	808	544	(470)	881	3,035	46,337
Changes of items during period						
Changes in equity in consolidated subsidiaries						12
Dividends of surplus						(1,121)
Profit attributable to owners of parent						1,995
Purchase of treasury shares						(1,810)
Disposal of treasury shares						1,979
Transfer of loss on disposal of treasury shares						–
Net changes of items other than shareholders' equity	(643)	15	377	(250)	(202)	(452)
Total changes of items during period	(643)	15	377	(250)	(202)	602
Balance at end of current period	164	559	(93)	630	2,833	46,939

(4) Consolidated Statements of Cash Flow

(¥ million)

	Fiscal 2019 (October 1, 2018 to September 30, 2019)	Fiscal 2020 (October 1, 2019 to September 30, 2020)
Cash flow from operating activities		
Profit before income taxes	6,859	4,409
Depreciation	801	1,000
Impairment loss	–	650
Amortization of goodwill	1,207	1,219
Increase (decrease) in provision for bonuses	196	500
Increase (decrease) in net defined benefit liability	242	(1)
Increase (decrease) in provision for directors' retirement benefits	(87)	(285)
Interest and dividend income	(165)	(168)
Interest expenses	16	16
Surrender value of insurance	–	(671)
Business reorganization losses	–	274
Loss due to COVID-19	–	377
Loss (gain) on sales of investment securities	(661)	(126)
Loss (gain) on valuation of investment securities	228	442
Loss on transition of retirement benefit plans	84	–
Subsidy income	(37)	(388)
Loss (gain) on cancellation of insurance contract	(102)	(66)
Gain on step acquisitions	(198)	–
Loss (gain) on sale of investments in capital of subsidiaries and associates	(41)	–
Decrease (increase) in notes and accounts receivable – trade	177	2
Decrease (increase) in inventories	(6)	161
Increase (decrease) in notes and accounts payable - trade	194	(85)
Increase (decrease) in other current liabilities	32	(370)
Other, net	(458)	555
Subtotal	8,281	7,446
Interest and dividend income received	165	168
Interest expenses paid	(18)	(17)
Proceeds from subsidy income	37	388
Income taxes paid	(2,741)	(2,138)
Net cash provided by (used in) operating activities	5,725	5,847

(¥ million)

	Fiscal 2019 (October 1, 2018 to September 30, 2019)	Fiscal 2020 (October 1, 2019 to September 30, 2020)
Cash flow from investing activities		
Payments into time deposits	(80)	(0)
Proceeds from withdrawal of time deposits	528	–
Purchase of property, plant and equipment	(1,309)	(1,592)
Purchase of intangible assets	(306)	(735)
Purchase of investment securities	(460)	(855)
Purchase of shares of subsidiaries and associates	(497)	-
Proceeds from sales of investment securities	2,066	189
Short-term loan advances	(81)	(815)
Payments for lease and guarantee deposits	(160)	(219)
Proceeds from cancellation of insurance funds	217	1,627
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(663)	(701)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	6
Purchase of investments in capital of subsidiaries resulting in change in scope of consolidation	–	(217)
Other, net	(210)	530
Net cash provided by (used in) investing activities	(956)	(2,783)
Cash flows from financing activities		
Increase in short-term loans payable	2,100	10,200
Repayments of short-term loans payable	(900)	(8,000)
Repayments of long-term loans payable	(1,231)	(489)
Purchase of treasury shares	(2,790)	(1,821)
Proceeds from sales of treasury shares	–	1,916
Proceeds from share issuance to non-controlling shareholders	14	–
Cash dividends paid	(1,352)	(1,119)
Dividends paid to non-controlling interests	(19)	(11)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(48)	–
Other, net	(97)	(119)
Net cash provided by (used in) financing activities	(4,324)	554
Effect of exchange rate change on cash and cash equivalents	(379)	73
Net increase (decrease) in cash and cash equivalents	64	3,692
Cash and cash equivalents at beginning of period	18,753	19,141
Increase in cash and cash equivalents by share exchanges	323	–
Cash and cash equivalents at end of period	19,141	22,833

(5) Notes Concerning Consolidated Financial Statements

(Notes Concerning the Going Concern Assumption)

None

(Segment Information)

[Segment Information]

1. Summary of Reportable Segment

(1) Method of Determining Reportable Segments

The EPS Group's reportable segments are components of the Group for which discrete financial information is available and which the Board of Directors reviews regularly to make decisions about the allocation of resources and to assess business performance.

The EPS Group operates in industries related to pharmaceuticals development, primarily serving pharmaceutical companies worldwide. The Group provides various services incidental to various stages of pharmaceuticals development, along with services associated with healthcare, pharmaceuticals, BPO and related areas in China. The Group has five reportable segments: the CRO Business, SMO Business, CSO Business, Global Research Business, and EKISHIN (China) Business.

(2) Types of services in each reportable segment

In the CRO Business, the Group provides various specialized services concerning the operation and management of clinical studies based on service contracts with pharmaceutical companies and other entities in connection with the implementation of clinical studies (including post-marketing surveillance (PMS) and studies) in Japan.

In the SMO Business, the Group primarily provides specialized services centered on the assignment of CRCs (Clinical Research Coordinators), who assist medical institutions with the implementation of clinical trials, to medical institutions and the provision of clinical trials administrative support and related services.

In the CSO Business, the Group is contracted by pharmaceutical companies to provide services related to the sale of pharmaceuticals. The Group primarily provides contract-based medical representative (MR) services and undertakes the assignment of MRs. Their main duties are to provide information on the quality, efficacy, safety and other attributes of pharmaceuticals and to collect and communicate information on side effects and other matters to medical professionals, for the purpose of ensuring the proper use and widespread adoption of pharmaceuticals. In addition, the Group provides pharmaceutical-related information and support services.

In the Global Research Business, the Group provides a variety of services in connection with the implementation of clinical studies (including post-market surveillance (PMS) services and studies) overseas, primarily in Asia.

In the EKISHIN (China) Business, the Group mainly provides optimal business solutions in China in the healthcare field, including the research, development, manufacture and sales of pharmaceuticals, as well as the manufacture and sales of medical devices.

2. Information Concerning the Calculation Method for the Amounts of Net Sales, Profit or Loss, by Reportable Segment

The accounting treatment method for reportable segments is largely the same as the accounting treatment methods used in the preparation of the Consolidated Financial Statements.

The segment operating income is based on the operating income.

Inter-segment net sales are generally based on reasonable transaction prices.

3. Information Concerning the Amounts of Net Sales, Profit or Loss, by Reportable Segment
Fiscal 2019 (From October 1, 2018 to September 30, 2019)

(¥ million)

	CRO	SMO	CSO	Global Research Business	EKISHIN (China) Business	Others	Total	Adjustment (Note 1)	Amount recorded on consolidated financial statements
Net sales									
Sales to outside customers	29,206	14,292	9,264	4,511	11,504	229	69,009	–	69,009
Inter-segment sales and transfers	2,028	47	135	336	38	1,762	4,349	(4,349)	–
Total	31,234	14,339	9,399	4,848	11,543	1,992	73,358	(4,349)	69,009
Segment operating income	5,197	1,679	489	258	381	46	8,054	(1,774)	6,279

Note:1. Eliminations/Corporate for operating income of ¥(1,774) million includes intersegment transactions of ¥9 million and non- attributable corporate expenses not distributed to each segment of ¥(1,784) million. The main corporate expenses comprise expenses related to the Company (the holding company).

Fiscal 2020 (From October 1, 2019 to September 30, 2020)

(¥ million)

	CRO	SMO	CSO	Global Research Business	EKISHIN (China) Business	Others	Total	Adjustment (Note 1)	Amount recorded on consolidated financial statements
Net sales									
Sales to outside customers	29,128	13,192	11,359	3,342	8,594	1,071	66,689	–	66,689
Inter-segment sales and transfers	1,376	28	64	197	18	1,728	3,414	(3,414)	–
Total	30,504	13,220	11,424	3,540	8,613	2,800	70,103	(3,414)	66,689
Segment operating income	4,360	1,541	849	41	(210)	30	6,611	(2,058)	4,553

Notes: 1. Eliminations/Corporate for operating income of ¥(2,058) million includes intersegment transactions of ¥(2) million and non- attributable corporate expenses not distributed to each segment of ¥(2,056) million. The main corporate expenses comprise expenses related to the Company (the holding company).

2. EPS Associates Co., Ltd. and EPS International Holdings Co., Ltd. merged on October 1, 2019. EPS Associates Co., Ltd. was the surviving company in the merger by absorption upon which its name was changed to EPS International Holdings Co., Ltd. Accompanying this, it was moved from the CRO Business to the Global Research Business segment. Segment information for the fiscal year ended September 30, 2019 is disclosed based on the reporting segments for the fiscal year ended September 30, 2020.

(Per Share Information)

	Fiscal 2019 (October 1, 2018 to September 30, 2019)	Fiscal 2020 (October 1, 2019 to September 30, 2020)
Net assets per share	¥976.58	¥1,000.16
Amount of profit per share	¥81.02	¥44.37

Notes: 1. The amounts of diluted profit per share for the fiscal years ended September 30, 2019 and 2020 are not disclosed because there were no dilutive shares.

2. The basis for calculating the amount of profit per share is as follows:

	Fiscal 2019 (October 1, 2018 to September 30, 2019)	Fiscal 2020 (October 1, 2019 to September 30, 2020)
Amount of profit per share		
Profit attributable to owners of parent (¥ million)	3,633	1,995
Amount not attributable to shareholders of common stock (¥ million)	—	—
Profit attributable to shareholders of common stock of the parent (¥ million)	3,633	1,995
Average number of common shares during the period	44,843,327	44,967,612
Dilutive stocks that were not included in the calculation of profit per share after adjustment for dilution, because they do not have a dilutive effect	――――――	――――――

4. Order

(1) Orders Received

(¥ million)

	Fiscal 2020 (October 1, 2019 to September 30, 2020)			
	New orders	YoY (%)	Backlog	YoY (%)
CRO Business	29,956	98.8	43,832	101.9
SMO Business	13,803	85.8	21,831	102.9
CSO Business	11,812	121.5	10,538	104.5
Global Research Business	367	7.8	5,811	66.4
EKISHIN (China) Business	8,347	70.2	158	36.0
Others	809	354.6	564	8,833.0
Total	65,097	89.2	82,737	99.1

Notes: 1. Figures represent sales prices.
2. The above figures do not include consumption tax.
3. In the Global Research Business, orders received are being cancelled, in association with the discontinuation of projects, and this amount is included in new orders.
4. In the fiscal year under review, new orders and the backlog in others increased as a result of acquiring shares of TTC Co., Ltd. and making it a subsidiary.