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Consolidated Financial Statements for the Six Months Ended September 30, 2024 [Japanese GAAP]

November 8, 2024

Name of listed company: SHIP HEALTHCARE HOLDINGS, INC.
 Shares listed on: Tokyo Stock Exchange
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Scheduled date for filing semi-annual securities report: November 13, 2024

Scheduled start date of dividend payments: –

Supplementary briefing materials on results: Yes

Briefing on results: Yes (for institutional investors and analysts)

(All figures are rounded down to the nearest million yen.)

1. Consolidated financial results for the Six Months Ended September 30, 2024

(April 1, 2024 – September 30, 2024)

(1) Consolidated operating results

(Percentages represent year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	(Million yen)	%	(Million yen)	%	(Million yen)	%	(Million yen)	%
Six months ended September 30, 2024	310,032	4.5	7,743	(16.2)	8,414	(16.8)	5,539	50.3
September 30, 2023	296,771	12.6	9,238	15.9	10,116	34.9	3,686	(11.0)

Note: Comprehensive income: Six months ended September 30, 2024: ¥5,218 million ((6.5%))

Six months ended September 30, 2023: ¥5,582 million ((17.6%))

	Net income per share	Diluted net income per share
Six months ended September 30, 2024	(Yen) 58.71	(Yen) –
September 30, 2023	39.07	35.38

Note: Diluted net income per share in the six months ended September 30, 2024 are not stated because there are no outstanding potential shares.

(2) Consolidated financial condition

	Total assets	Net assets	Equity capital ratio
	(Million yen)	(Million yen)	%
As of September 30, 2024	362,218	142,227	38.8
As of March 31, 2024	387,562	142,226	36.0

Reference: Equity: the six months ended September 30, 2024: ¥140,417 million; FY ended March 2024: ¥139,527 million

Note: Provisional accounting treatment related to corporate combinations have been conducted in second quarter ending March 2025.

The consolidated financial condition in FY ended March 2024 reflects the finalized provisional accounting treatment.

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
FY ended March 2024	–	0.00	–	50.00	50.00
FY ending March 2025	–	0.00	–	–	–
FY ending March 2025 (forecast)	–	–	–	53.00	53.00

Note: Revisions made in most recently announced dividend forecasts: None

Note: Dividend breakdown for the fiscal year ended March 31, 2024

Ordinary dividend ¥45.00 Commemorative dividend ¥5.00

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2025
(April 1, 2024 – March 31, 2025)

(Percentages represent changes from previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	(Million yen)	%	(Million yen)	%	(Million yen)	%	(Million yen)	%	(Yen)
Full-year	640,000	1.4	26,000	6.0	26,000	3.1	15,000	8.7	158.98

Notes: Revisions made in most recently announced forecasts of business performance: None

Notes

- (1) Significant changes made in the scope of consolidation during the semi-annual period under review: Yes
New inclusion: 1 company (Note), Elimination: 2 companies (Note)
(Note) Details are in page 11 “Changes in the scope of consolidation or of application of equity method”
- (2) Special account processing applied in preparation of semi-annual consolidated financial statements: None
- (3) Changes made in accounting policies, accounting estimates, and/or restatements:
- (i) Changes in accounting policies associated with changes in accounting standards, etc.: Yes
 - (ii) Any changes in accounting policies other than those under (i) above: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatements: None

(4) Number of shares issued and outstanding (common stocks)

(i) Number of shares issued and outstanding at the end of the period (including treasury stock)

As of September 30, 2024	101,669,400 shares	As of March 31, 2024	101,669,400 shares
As of September 30, 2024	7,319,266 shares	As of March 31, 2024	7,319,175 shares
Six months ended September 30, 2024	94,350,186 shares	Six months ended September 30, 2023:	94,350,225 shares

(ii) Number of treasury stock at the end of the period

(iii) Average number of shares during the period

* Semi-annual financial results report is not subject to review by certified public accountant or audit firm.

* Information on appropriate use of financial forecasts and other special notes:

- The forecasts of financial results and other forward-looking statements provided herein are based on information available at the time this document was prepared, and certain assumptions considered reasonable. We don't intend to promise to achieve them. Actual results may differ significantly from forecasts due to various factors. For assumptions underlying forecasts of financial results, notes on use of forecasts of financial results, and other related information, please refer to “Information on consolidated financial forecasts and other forward-looking statements” on page 3 of the [attached materials].

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1. Outlook of financial results

(1) Outlook of financial results on semi-annual period.

The Japanese economy during the current semi-annual consolidated accounting period, showed signs of gradual recovery in business condition due to improvement in employment, income conditions and the impact of various policies. However, the future remains uncertain due to consumer price increases driven by persistent inflation and yen's depreciation.

Japanese healthcare industry in which the Group operates, various initiatives such as the 8th Medical Care Plan, the 4th phase of the Medicare Cost Optimization Plan and the reforms to improve working conditions for doctors have been launched, underscoring the ongoing need for effective and high-quality healthcare delivery system.

In the Group business under such conditions, this fiscal year marks the final term of the medium-term management plan "SHIP VISION 2024", the Group continued to promote 4 core strategies initially set forth "Further high growth of core business", "Further expand value", "Functional organization enhancement strategy", and "Activities for sustainability". While revenue increased as several new SPD facilities began operations, profitability declined due to an even more significant concentration for project-related revenue in the second half of the fiscal year than in previous years.

For the current semi-annual consolidated accounting period, the various factors noted above resulted in net sales of 310,032 million yen (up 4.5% YoY), operating profit of 7,743 million yen (down 16.2% YoY), ordinary profit of 8,414 million yen (down 16.8% YoY), and profit attributable to owners of the parent of 5,539 million yen (up 50.3% YoY).

The Company conducted provisional accounting treatment related to a corporate combination, which has now been finalized during the current semi-annual consolidated accounting period. Accordingly, for comparisons and analysis with the previous fiscal year, the Company has used the revised figures reflecting this finalized treatment.

Business results by segment are summarized below.

(i) Total Pack Produce business

In Total Pack Produce business, revenue and profit declined compared to the same period of the last fiscal year. This was due to the projects tend to be biased toward the second half of the fiscal year than previous year, along with the impact of maintenance and constructions concentrated at the end of the previous fiscal year in certain manufacturers.

As a result, this segment recorded net sales of 48,083 million yen (down 15.1% YoY) and segment profit (operating profit) of 2,498 million yen (down 27.4% YoY).

(ii) Medical Supply business

In Medical Supply business, revenue increased as several new large-scale SPD contracted facilities commenced operation. However, profitability declined due to the upfront expenses such as labor cost and equipment costs associated with these new operations.

As a result, this segment recorded net sales of 227,091 million yen (up 10.3% YoY) and segment profit (operating profit) of 2,536 million yen (down 9.4% YoY).

(iii) Lifecare business

In Lifecare business, the Company revised administration fees in the nursing care business and successfully passed on cost increase from rising raw material prices while maintaining high occupancy rates. Additionally, strategic restructuring and cost pass-through in the food provision service helped the Company achieve profit growth despite rising food prices. Nevertheless, due to upfront expenses related to Greenlife Nakaikegami (123 beds, newly opened in July 2024), in collaboration project with CHARM CARE CORPORATION, INC., the overall business experienced a decline in profitability.

As a result, this segment recorded net sales of 18,268 million yen (up 1.4% YoY) and segment profit (operating profit) of 1,155 million yen (down 10.7% YoY).

(iv) Dispensing Pharmacy business

In Dispensing Pharmacy business, the Company focused on new store opening and operational efficiency improvements. However, profits decreased due to factors such as the impact of drug price revisions and rising procurement costs.

As a result, this segment recorded net sales of 16,589 million yen (up 2.6% YoY) and segment profit (operating profit) of 1,546 million yen (down 7.7% YoY).

(2) Analysis of financial position on semi-annual period

(i) Assets, liabilities, and net assets

Assets at the end of the semi-annual consolidated period under review stood at 362,218 million yen, down 25,343 million yen from the end of the previous consolidated fiscal year. The primary reasons for this decrease included decrease of 20,390 million yen in notes, accounts receivable, and contract asset, 4,722 million yen in cash and deposits, 3,293 million yen in long-term loans receivable, despite increases of 2,360 million yen in work in process, 1,945 million yen in merchandise and finished goods.

Liabilities stood at 219,991 million yen, down 25,343 million yen from the end of the previous consolidated fiscal year. The primary reasons for this decrease included decrease of 10,978 million yen in notes and accounts payable – trade, 8,208 million yen in electronically recorded obligations - operating, 4,876 million yen in long-term loans payable.

Net assets stood at 142,227 million yen, up 0 million yen from the end of the previous consolidated fiscal year. The primary reasons for this increase included increases of 5,539 million yen in retained earnings from profit attributable to owners of parents, despite decrease of 4,717 million yen in retained earnings due to cash dividends paid, 889 million yen in non-controlling interests.

As a result of all these factors, equity capital ratio at the end of the semi-annual consolidated period stood at 38.8% (up 2.8% from the end of the previous consolidated fiscal year)

(ii) Cash flow

Cash flow proceeded by operating activities during the semi-annual consolidated cumulative period under review totaled 6,388 million yen (proceeds down 9,240 million yen from the same period in the previous consolidated fiscal year). Major contributing factors include decrease of 21,467 million yen in notes and accounts receivable - trade, 8,388 million yen in profit before income taxes, despite the payment of 19,203 million yen of in notes and accounts payable, 4,400 million yen in increase in inventory, 2,623 million yen for income taxes.

Cash flow used in investing activities totaled 2,468 million yen (expenses up 840 million yen from the same period in the previous consolidated fiscal year). Major contributing factors include expense of 1,739 million yen for purchase of property, plant, and equipment, 293 million yen for purchase of investment securities, despite proceeds of 275 million yen from withdrawal of time deposits.

Cash flow used in financing activities totaled 9,157 million yen (proceeds up 2,156 million yen from the same period in the previous consolidated fiscal year). Major contributing factors include payment of 4,717 million yen for cash dividends paid, and expense of 4,189 million yen for repayments of long-term loans payable.

As a result of the above factors, the balance of cash and cash equivalents at the end of the semi-annual consolidated period stood at 77,867 million yen, down 5,261 million yen from the end of the previous consolidated fiscal year.

(3) Information on consolidated financial forecasts and other forward-looking statements

In general, business performance matched financial forecasts made at the start of the period. The consolidated financial forecasts for the fiscal year remain unchanged from the forecasts announced on May 10, 2024.

2. Semi-annual consolidated financial statements and notes thereto

(1) Semi-annual consolidated balance sheet

(Unit: Million yen)

	As of March 31, 2024	As of September 30, 2024
Assets		
Current assets		
Cash and deposits	85,072	80,349
Notes, accounts receivable, and contract asset	124,457	104,066
Electronically recorded monetary claims – operating	6,230	5,193
Lease investment assets	2,953	2,872
Merchandise and finished goods	21,032	22,978
Work in process	3,763	6,123
Raw materials and supplies	1,979	2,075
Other	14,585	15,415
Allowance for doubtful accounts	(49)	(144)
Total current assets	260,023	238,929
Non-current assets		
Property, plant, and equipment		
Buildings and structures, net	22,984	22,242
Land	18,163	18,100
Real estate for rent, net	10,899	10,624
Other, net	11,257	11,076
Total property, plant, and equipment	63,305	62,044
Intangible assets		
Goodwill	9,121	8,330
Other	5,734	5,494
Total intangible assets	14,855	13,824
Investments and other assets		
Investment securities	29,414	30,836
Long-term loans receivable	9,775	6,481
Other	11,967	11,859
Allowance for doubtful accounts	(1,780)	(1,758)
Total investments and other assets	49,377	47,419
Total non-current assets	127,538	123,288
Total assets	387,562	362,218

(Unit: Million yen)

	As of March 31, 2024	As of September 30, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	109,144	98,165
Electronically recorded obligations - operating	37,959	29,751
Short-term loans payable	708	823
Income taxes payable	4,728	2,799
Provision for bonuses	2,990	2,757
Other	25,633	26,109
Total current liabilities	181,165	160,406
Non-current liabilities		
Long-term loans payable	50,459	45,583
Net defined benefit liability	3,462	3,527
Asset retirement obligations	1,175	1,185
Other	9,072	9,289
Total non-current liabilities	64,170	59,584
Total liabilities	245,335	219,991
Net assets		
Shareholders' equity		
Capital stock	15,553	15,553
Capital surplus	23,585	23,575
Retained earnings	109,996	110,817
Treasury stock	(15,526)	(15,527)
Total shareholders' equity	133,607	134,419
Accumulated other comprehensive income		
Valuation differences on available-for-sale securities	5,863	6,181
Deferred gains or losses on hedges	2	2
Foreign currency translation adjustments	(42)	(273)
Remeasurements of defined benefit plans	95	87
Total accumulated other comprehensive income	5,919	5,997
Non-controlling interests	2,699	1,809
Total net assets	142,226	142,227
Total liabilities and net assets	387,562	362,218

(2) Semi-annual consolidated statement of income and consolidated statement of comprehensive income

Semi-annual consolidated statement of income

(Unit: Million yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Net sales	296,771	310,032
Cost of sales	267,232	282,025
Gross profit	29,538	28,007
Sales, general, and administrative expenses	20,300	20,263
Operating profit	9,238	7,743
Non-operating profit		
Interest income	163	155
Dividend income	147	137
Equity gains of affiliated companies	549	980
Foreign exchange gain	32	-
Other	291	193
Total non-operating profit	1,183	1,467
Non-operating expenses		
Interest expenses	221	250
Foreign exchange loss	-	490
Other	84	55
Total non-operating expenses	305	796
Ordinary profit	10,116	8,414
Extraordinary profit		
Gains on sales of non-current assets	44	2
Other	6	-
Total extraordinary profit	50	2
Extraordinary losses		
Impairment loss	2,635	-
Losses on retirement of non-current assets	7	3
Business structure improvement expenses	-	21
Losses on sale of affiliated company shares	129	-
Other	1	2
Total extraordinary losses	2,773	27
Profit before income taxes	7,392	8,388
Income taxes - current	3,539	2,632
Income taxes - deferred	168	437
Total income taxes	3,707	3,069
Profit	3,684	5,318
Losses attributable to non-controlling interests	(1)	(220)
Profit attributable to owners of parent	3,686	5,539

Semi-annual consolidated statement of comprehensive income

(Unit: Million yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Net income	3,684	5,318
Other comprehensive income		
Valuation differences on available-for-sale securities	935	317
Foreign currency translation adjustments	970	(409)
Remeasurements of defined benefit plans	2	(5)
Share of other comprehensive income of entities accounted for using equity method	(10)	(2)
Total other comprehensive income	1,897	(100)
Comprehensive income	5,582	5,218
(Breakdown)		
Comprehensive income attributable to owners of parent	5,416	5,617
Comprehensive income attributable to non-controlling interests	165	(398)

(3) Semi-annual consolidated statement of cash flows

(Unit: Million yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Cash flows from operating activities		
Profit before income taxes	7,392	8,388
Depreciation and amortization	2,653	2,718
Impairment loss	2,635	-
Amortization of goodwill	1,066	910
Share of loss (profit) of entities accounted for using equity method	(549)	(980)
Increase (decrease) in provision for bonuses	(88)	(234)
Increase (decrease) in allowance for doubtful accounts	89	73
Increase (decrease) in net defined benefit liability	71	59
Loss (profit) on sales of affiliated company shares	129	-
Interest and dividend income	(310)	(292)
Interest expenses	221	250
Decrease (increase) in notes and accounts receivable – trade	15,301	21,467
Decrease (increase) in inventories	(3,109)	(4,400)
Increase (decrease) in notes and accounts payable – trade	(6,104)	(19,203)
Decrease (increase) in lease investment assets	102	80
Other	1,079	68
Subtotal	20,580	8,905
Interest and dividend income received	512	360
Interest expenses paid	(219)	(253)
Income taxes paid	(5,245)	(2,623)
Net cash provided by operating activities	15,628	6,388
Cash flows from investing activities		
Payments into time deposits	(222)	(814)
Proceeds from withdrawal of time deposits	249	275
Purchase of property, plant, and equipment	(1,698)	(1,739)
Proceeds from sales of property, plant, and equipment	340	164
Purchase of intangible assets	(72)	(133)
Payments of short-term loans receivable	(17)	(92)
Collection of long-term loans receivable	218	167
Purchase of investment securities	(91)	(293)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(232)	(120)
Sales of shares of subsidiaries resulting in change in scope of consolidation	(172)	-
Other	71	117
Net cash used in investing activities	(1,627)	(2,468)

(Unit: Million yen)

	For the six months ended September 30, 2023	For the six months ended September 30, 2024
Cash flows from financing activities		
Increase (decrease) in short-term loans-net	185	114
Proceeds from long-term loans payable	62	261
Repayments of long-term loans payable	(3,142)	(4,189)
Cash dividends paid	(3,962)	(4,717)
Cash dividends paid to non-controlling interests	(25)	(46)
Payment with purchase of shares of subsidiaries with no change in scope of consolidation	-	(454)
Repayments of lease obligations	(117)	(125)
Other	-	(0)
Net cash used in financing activities	(7,001)	(9,157)
Effect of exchange rate change on cash and cash equivalents	154	(23)
Net increase (decrease) in cash and cash equivalents	7,154	(5,261)
Cash and cash equivalents at the beginning of the period	79,020	83,128
Cash and cash equivalents at the end of the period	86,175	77,867

(4) Notes on semi-annual consolidated financial statements

(Notes on the going concern assumption)

Not applicable

(Notes on marked changes to shareholders' equity)

Not applicable

(Changes of accounting policy)

Accounting Standard for Corporate, Inhabitant and Enterprise Taxes (corporate accounting standards No.27, October 28, 2022), Accounting Standard for Presentation of Comprehensive Income (corporate accounting standards No.25, October 28, 2022), and Guidance on Accounting Standard for Tax Effect Accounting (corporate accounting standards No.28, October 28, 2022) have applied since the start of the semi-annual consolidated accounting period. There are no impacts to the semi-annual consolidated financial statements with the changes of accounting policy.

(Segment information, etc.)

I. Previous semi-annual consolidated accounting period (April 1, 2023 – September 30, 2023)

1 Net sales and profit (loss) by reportable segments

(Unit: Million yen)

	Reportable segments					Adjustments*1	Amount recorded on semi-annual consolidated financial statements*2
	Total Pack Produce business	Medical Supply business	Lifecare business	Dispensing Pharmacy business	Total		
Net sales							
(1) Sales to outside customers	56,665	205,922	18,010	16,173	296,771	—	296,771
(2) Intersegment sales or transfers	1,592	598	22	47	2,261	(2,261)	—
Subtotal	58,257	206,520	18,033	16,220	299,032	(2,261)	296,771
Segment profit	3,443	2,800	1,293	1,676	9,213	25	9,238

Notes: 1 The figure of 25 million yen in adjustments to segment profit includes (57) million yen in cancellation of intersegment transactions and 81 million yen in companywide costs not allocated among reportable segments. These companywide costs consist mainly of parent company's operating expenses and sales, general, and administrative expenses not attributable to individual reportable segments.

2 Segment profit is adjusted against the operating profit reported on the semi-annual consolidated statement of income.

2 Information on impairment loss on non-current assets or goodwill, per reportable segments

(Significant impairment loss on non-current assets)

In the Total Pack Produce business, considering the progress of the Myanmar operations compared to the initial business plan and the outlook for future performance, it has been determined that the originally anticipated excess earning power cannot be expected. As a result, an impairment loss has been recognized for goodwill. The amount of the impairment loss recognized for goodwill due to this event is 2,635 million yen for the semi-annual cumulative period.

(Significant fluctuations in the amount of goodwill)

As mentioned above (significant impairment loss related to non-current assets), the Company has impaired the goodwill in the Total Pack Produce business.

(Significant gain on negative goodwill)

Not applicable

II. Semi-annual consolidated cumulative under review (April 1, 2024 – September 30, 2024)

1 Net sales and profit (loss) by reportable segments

(Unit: Million yen)

	Reportable segments					Adjustments*1	Amount recorded on consolidated financial statements*2
	Total Pack Produce business	Medical Supply business	Lifecare business	Dispensing Pharmacy business	Total		
Net sales							
(1) Sales to outside customers	48,083	227,091	18,268	16,589	310,032	—	310,032
(2) Intersegment sales or transfers	1,033	905	24	58	2,021	(2,021)	—
Subtotal	49,116	227,996	18,292	16,648	312,054	(2,021)	310,032
Segment profit	2,498	2,536	1,155	1,546	7,736	6	7,743

Notes: 1 The figure of 6 million yen in adjustments to segment profit includes (62) million yen in cancellation of intersegment transactions and 60 million yen in companywide costs not allocated among reportable segments. These companywide costs consist mainly of parent company's operating expenses and sales, general, and administrative expenses not attributable to individual reportable segments.

2 Segment profit is adjusted against the operating profit reported on the quarterly consolidated statement of income.

2 Information on impairment loss on non-current assets or goodwill, per reportable segments

(Significant impairment loss on non-current assets)

Not applicable

(Significant fluctuations in the amount of goodwill)

Not applicable

(Significant gain on negative goodwill)

Not applicable

(Changes in the scope of consolidation or of application of equity method)

(Significant changes in the scope of consolidation)

In the semi-annual consolidated accounting period, SHIP HEALTHCARE PHARMACY EAST CO., LTD., which is consolidated subsidiary company merged C.M.J Ltd. and FRIENDS Ltd., which were consolidated subsidiary companies. In addition, it contains MONAKA CO., LTD. in the scope of consolidation by newly purchase of shares.