

Consolidated Financial Results
for the 2nd Quarter of the Fiscal Year Ending March 31, 2019

1. Revenue

Revenue totaled ¥144.4 billion, which was an increase of ¥23.0 billion (18.9%) from the corresponding period of the previous fiscal (year-on-year).

Revenue of goods and products increased by ¥7.6 billion (7.9%) year-on-year to ¥105.0 billion, and royalty and other revenue increased by ¥15.3 billion (63.3%) year-on-year to ¥39.4 billion.

Royalty revenue included royalty of OPDIVO from Bristol-Myers Squibb with ¥28.1 billion, which was an increase of ¥10.1 billion (56.5%) year-on-year and the one related to the sales of KEYTRUDA® from Merck with ¥5.6 billion, which was an increase of ¥3.0 billion year-on-year.

Sales of main new products:

- Sales of OPDIVO Intravenous Infusion for malignant tumors increased by ¥4.8 billion (11.9%) year-on-year to ¥45.4 billion due to expanded use for the treatment of renal cell carcinoma and head & neck cancer (both approved in FY 2016) and gastric cancer (approved in FY 2017), although there was an impact of about 24% price cut in April 2018. There was more than 40% increase in volume terms.
- Sales of GLACTIV Tablets for type-2 diabetes were ¥13.7 billion which was almost equal to the previous period, while the competition with once-weekly preparations and combination drugs was intensified, in addition to an impact of drug price revision (- 4.2% to 50 mg tablet).
- Sales of ORENCIA Subcutaneous Injection for rheumatoid arthritis continued to steadily increase by ¥1.8 billion (26.8%) year-on-year to ¥8.6 billion.
- Sales of FORXIGA Tablets for type-2 diabetes continued to steadily increase by ¥1.7 billion (33.1%) year-on-year to ¥7.0 billion, which was more than expected.
- Sales of both EMEND Capsules and PROEMEND for Intravenous Injection for chemotherapy-induced nausea and vomiting increased by ¥0.3 billion (6.6%) year-on-year to ¥5.3 billion.
- Sales of RIVASTACH Patch for Alzheimer's disease were ¥4.5 billion which was almost equal to the previous period.
- Sales of KYPROLIS for Intravenous Infusion for multiple myeloma decreased by ¥0.1 billion year-on-year to ¥2.6 billion which was rather behind expectation.
- Sales of PARSABIV Intravenous Injection for Dialysis for secondary hyperparathyroidism in patients on hemodialysis continued to steadily increase by ¥1.3 billion (98.8%) year-on-year to ¥2.7 billion.

- Sales of ONOACT Intravenous Infusion for tachyarrhythmia decreased by ¥0.5 billion (-19.6%) year-on-year to ¥2.2 billion due to the impact of about 25% drug price cut, but the sales were steadily moving toward the initial estimation of ¥4.0 billion.
- Sales of STAYBLA Tablets for overactive bladder decreased by ¥0.2 billion (-9.0%) year-on-year to ¥1.9 billion.

Long-term listed products:

For long-term listed products, due to the impact of drug price revision and continuous generic drug use promotion policies, sales of OPALMON Tablets for peripheral circulatory disorder decreased by ¥2.0 billion year-on-year to ¥5.5 billion. Sales of RECALBON Tablets for osteoporosis decreased by ¥1.0 billion year-on-year to ¥4.4 billion. ONON Capsules for bronchial asthma and allergic rhinitis decreased by ¥0.5 billion year-on-year to ¥1.9 billion and ONON Dry Syrup for bronchial asthma and allergic rhinitis decreased by ¥0.3 billion year-on-year to ¥1.2 billion.

2. Operating profit

Operating profit was ¥35.2 billion, an increase of ¥8.4 billion (31.2%) year-on-year.

- Cost of sales was ¥41.6 billion, an increase of ¥11.1 billion (36.5%) year-on-year, due to the sales increase of goods and products and the impact in association with the application of IFRS 15 (¥5.2 billion).
- Research and development (R&D) costs increased by ¥1.6 billion (5.2%) year-on-year to ¥33.0 billion due to an increase of OPDIVO-related expenses and license fees associated with drug discovery alliance. (The progress rate was 47.1% against the full-year forecast of ¥70.0 billion.)
- Selling, general and administrative (SG&A) expenses except for R&D costs increased by ¥1.6 billion (5.0%) year-on-year to ¥34.2 billion due to an increase in operating costs related to main new products of OPDIVO, FORXIGA, etc. (The progress rate was 49.6% against the full-year forecast of ¥69.0 billion.)
- Other income was ¥0.5 billion and other expenses were ¥0.9 billion.

Therefore, operating profit increased by ¥8.4 billion (31.2%) year-on-year to ¥35.2 billion.

3. Profit for the period (attributable to owners of the parent company)

Profit for the period (attributable to owners of the parent company) increased by ¥7.6 billion (36.0%) year-on-year to ¥28.8 billion in association with the increase of the profit before tax.

Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2019

1. Revenue

In addition to the profit associated with a transfer of the long-listed products to Maruishi Pharmaceutical Co., Ltd., royalty revenue from Bristol-Myers Squibb and Merck is expected to exceed the initial forecast, and the forecast of royalty and other revenue was revised upward to ¥74.0 billion from ¥71.0 billion. In association with this factor, the forecast of revenue was revised upward by ¥3 billion from ¥277.0 billion of the initial forecast and expected to be ¥280.0 billion, an increase of ¥18.2 billion (6.9%) year-on-year.

Sales forecast of individual products:

Taking the progress in the 1st half period into account, the forecasts of sales of ORENCIA and FORXIGA were revised upward. The forecast of sales of ORENCIA was revised upward by ¥0.5 billion from ¥16.5 billion of the initial forecast to ¥17.0 billion, and the forecast of sales of FORXIGA was revised upward by ¥1.5 billion from ¥13.0 billion of the initial forecast to ¥14.5 billion.

For other new products, the sales forecast was almost within estimation and there was no change in the full-year forecast.

Regarding OPDIVO, the use of OPDIVO is expected to increase in volume terms due to expanded indications to malignant pleural mesothelioma and 1st line therapy of renal cell carcinoma in combination with ipilimumab approved in August 2018. However, the product prices of OPDIVO 20 mg and 100 mg were revised on November 1st, 2018, so the initial forecast of ¥90.0 billion was not changed.

The sales of other products are anticipated as follows:

- GLACTIV to decrease by ¥1.4 billion (-5.1%) year-on-year to ¥26.0 billion.
- EMEND and PROEMEND to increase by ¥0.6 billion (5.5%) to ¥10.5 billion.
- RIVASTACH to increase by ¥0.1 billion (1.3%) to ¥9.0 billion.
- KYPROLIS to increase by ¥1.0 billion (17.4%) to ¥6.5 billion.
- PARSABIV to increase by ¥2.1 billion (60.4%) to ¥5.5 billion.
- ONOACT to decrease by ¥1.6 billion (-28.8%) to ¥4.0 billion.
- STAYBLA to decrease by ¥0.6 billion (-15.3%) to ¥3.5 billion.

Long-term listed products:

Due to the impact of continuous generic drug use promotion policies, the sales are expected to decrease by about mid-20s%. Sales of OPALMON are forecasted to decrease by ¥3.9 billion (-26.9%) to ¥10.5 billion, sales of ONON Capsules are forecasted to decrease by ¥1.0 billion (-17.6%) to ¥4.5 billion, sales of ONON Dry Syrup are forecasted to decrease by ¥0.8 billion (-25.0%) to ¥2.5 billion, and sales of RECALBON are forecasted to decrease by ¥3.4 billion (-31.3%) to ¥7.5 billion.

2. Operating profit

The forecast of operating profit was revised upward by ¥2.0 billion from ¥61.5 of the initial forecast and is expected to be ¥63.5 billion, an increase of ¥2.8 billion (4.6%) year-on-year.

- Cost of sales is expected to increase by ¥1.0 billion from ¥76.0 billion of the initial forecast, an increase by ¥11.6 billion (17.8%) year-on-year to ¥77.0 billion.
- R&D costs are expected to be ¥70.0 billion, an increase of ¥1.2 billion (1.7%) year-on-year, providing for active investments to achieve sustainable growth, including the OPDIVO development investment. (There was no change from the initial forecast.)
- SG&A expenses except R&D costs are expected to be ¥69.0 billion, an increase of ¥0.9 billion (1.4%) year-on-year, mainly due to an increase of OPDIVO-related operating activity costs. (There was no change from the initial forecast.)
- Other income is forecasted to decrease by ¥2.3 billion (-69.3%) year-on-year to ¥1.0 billion, and other expenses are forecasted to decrease by ¥0.6 billion (-29.9%) year-on-year to ¥1.5 billion.

3. Profit for the period (attributable to owners of the parent company)

As tax expenses (e.g. corporate tax) are anticipated to increase by ¥1.4 billion to ¥14.9 billion in association with an increase of profit before tax, profit for the period (attributable to owners of the parent company) is anticipated to increase by ¥1.7 billion (3.4%) year-on-year to ¥52.0 billion.

Financial policy:

As a policy for cross-shareholdings, the company will promote reduction in shareholdings while obtaining understanding of investee companies through discussion, considering comprehensively benefits and risks associated with business relationships and holdings, as well as further improvement of capital efficiency and change in the environment surrounding corporate governance code.

To be more precise, in the next three years, the company plans to reduce about 30% of the cross-holdings stock against those at the end of March 2018.

As for policy for fund allocation, in order to achieve sustainable growth, the company will continuously promote stable dividends and flexible purchase of treasury stock, while focusing on growth investment, including research and development, capital investment, etc.

Dividend:

The company decided to pay an interim dividend of ¥22.5 per share for this fiscal year as initially planned, and also plans a year-end dividend of ¥22.5 per share.