Financial Results for the Second Quarter of Fiscal Year 2018(Consolidated)

October 29, 2018

Name of Listed Company: **SHIONOGI & CO., LTD.** Listed Exchanges: Section I of Tokyo
Code: 4507 URL: http://www.shionogi.co.jp
Representative: Isao Teshirogi, President and CEO
Contact responsibility: Yoshimasa Kyokawa, Vice President , Corporate Communications Department Tel.:(06)6202-2161
Scheduled date of quarterly securities report submission: November 7, 2018
Scheduled date of dividend payments: December 3, 2018
Preparation of supplemental material for the quarterly financial results: Yes
Holding of presentation for the quarterly financial results: Yes (for investment analysts)

(Note: All amounts are rounded down to the nearest million yen.)

1. Consolidated results for the period from April 1, 2018 to September 30, 2018

(1) Consolidated operating results *(% shows changes from the same period of the previous fiscal year)*

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*
Six months ended September 30, 2018	168,203	(2.3)	57,304	2.8	70,077	6.8	57,896	15.0
Six months ended September 30, 2017	172,172	11.0	55,756	25.9	65,592	55.6	50,336	61.3

Note: Comprehensive income Six months ended September 30, 2018: 65,195 million yen (6.4%)
Six months ended September 30, 2017: 61,249 million yen (702.1%)

	Earnings per share	Earnings per share (diluted)
	Yen	*Yen*
Six months ended September 30, 2018	184.28	181.64
Six months ended September 30, 2017	157.90	155.42

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	*Millions of yen*	*%*
As of September 30, 2018	745,079	649,988	86.6
As of March 31, 2018	711,463	604,840	84.5

Reference: Shareholders' equity As of September 30, 2018: 645,050 million yen As of March 31, 2018: 600,847 million yen

2. Dividends

	Dividends per share				
(Date of record)	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	Yen	*Yen*	*Yen*	*Yen*	*Yen*
Year ended March 31, 2018	—	38.00	—	44.00	82.00
Year ending March 31, 2019	—	44.00			
Year ending March 31, 2019 (forecast)			—	44.00	88.00

Note: Revisions of the most recent dividend forecast: None

3. Consolidated financial forecast for the year ending March 31, 2019

(% shows changes from the same period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Millions of yen	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Yen*
Year ending March 31, 2019	354,000	2.7	124,500	8.1	148,500	7.1	118,500	8.8	376.79

Note: Revisions of the most recent consolidated financial forecast: Yes

※ Notes

(1) Significant changes in subsidiaries during the period (changes in specified subsidiaries involving changes in scope of consolidation): None

(2) Adoption of accounting methods specific to the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes/restatements of accounting estimates

a) Changes in accounting policies in connection with amendments to accounting standards, etc.: None

b) Changes in accounting policies other than a) above: None

c) Changes in accounting estimates: None

d) Restatements: None

(4) Number of shares issued (common stock)

a) Number of shares issued (including treasury stock)

As of September 30, 2018:	324,136,165 shares
As of March 31, 2018:	324,136,165 shares

b) Number of treasury stock

As of September 30, 2018:	9,633,508 shares
As of March 31, 2018:	9,780,027 shares

c) Average number of shares issued during the period

Six months ended September 30, 2018:	314,179,065 shares
Six months ended September 30, 2017:	318,791,785 shares

※ *This report of financial results is unaudited.*

※ *Notes to consolidated financial forecasts and other items*

(Cautionary note concerning forward-looking statements)

The forecasts and other forward-looking statements contained in this document are based on the information currently available and certain assumptions that it judges to be reasonable. Actual results may differ materially due to a variety of factors.
For the assumptions used in forecasts and precautionary statements regarding the use of the forecasts, please refer to "1. Overview of Operating Results and Financial Position (3) Outlook" on page 3 of the supplemental materials for the Financial Results for the Second Quarter of Fiscal Year 2018 (Consolidated).

(Method of Obtaining Financial Results Supplementary Materials and Details of Results Briefing Meeting)

Financial results supplementary materials are posted via TDnet on the date of disclosure. The Company plans to hold a results briefing meeting for analysts on Tuesday, October 30, 2018. Plans are also in place to post audio explanatory details together with financial results explanatory materials distributed to analysts on October 30, 2018 on the Company's website in a timely manner after the results briefing.

CONTENTS

1. Overview of Operating Results and Financial Position…… 2
(1) Operating Results for the Second Quarter of the Fiscal Year Ending March 31, 2019…… 2
(2) Financial Position for the Second Quarter of the Fiscal Year Ending March 31, 2019…… 2
(3) Outlook…… 3
2. Consolidated Financial Statements and Notes…… 4
(1) Consolidated balance sheets…… 4
(2) Consolidated statements of income and Consolidated statements of comprehensive income 6
Consolidated statements of income…… 6
Consolidated statements of comprehensive income…… 7
(3) Consolidated statements of cash flows…… 8
(4) Notes…… 9
Going concern assumption…… 9
Significant changes in shareholders' equity…… 9
Additional information…… 9

1. Overview of Operating Results and Financial Position

(1) Operating Results for the Second Quarter of the Fiscal Year Ending March 31, 2019

For the six months ended September 30, 2018 (April 1, 2018 to September 30, 2018), net sales were ¥168,203 million, operating income was ¥57,304 million, ordinary income was ¥70,077 million, and profit attributable to owners of parent was ¥57,896 million.

Domestic sales of prescription drugs decreased 31.7 percent compared with the same period of the previous fiscal year. In the domestic prescription drug market, sales of strategic products Cymbalta, Intuniv and Symproic expanded steadily from the previous fiscal year, but sales of Crestor and Irbetan were significantly impacted by generic competition. Despite a decrease in royalty income associated with the drop in sales of authorized generics in the United States, overseas subsidiary sales and exports increased 26.2 percent because Shionogi received a one-time payment in connection with the termination of the alliance with Purdue Pharma L.P. for the U.S. co-commercialization of Symproic. Royalty income increased 24.9 percent compared with the same period of the previous fiscal year as royalty income from ViiV Healthcare Ltd. (ViiV) grew with the steady expansion of global sales of anti-HIV drugs Tivicay and Triumeq by ViiV, and Shionogi received milestone payments from Roche in connection with the global development and filing for approval of anti-flu drug Xofluza.

Gross profit increased 8.3 percent compared with the same period of the previous fiscal year, mainly due to the aforementioned increase in royalty income. Selling, general and administrative expenses increased 12.3 percent due to an increase in research and development expenses in connection with strategic business investments. However, operating income increased 2.8 percent because of the increase in gross profit. Ordinary income increased 6.8 percent due to the increase in dividends received from ViiV. Profit attributable to owners of parent increased 15.0 percent. During the six months ended September 30, 2018, Shionogi recorded an extraordinary gain on the sale of the Nanjing Plant of C&O Pharmaceutical Technology (Holdings) Limited. In addition, Shionogi recorded an extraordinary loss related to an earthquake centered in northern Osaka Prefecture that occurred in June 2018.

(2) Financial Position for the Second Quarter of the Fiscal Year Ending March 31, 2019

1) Assets,Liabilities and Net Assets

As of September 30, 2018, total assets were ¥745,079 million, an increase of ¥33,615 million from the end of the previous fiscal year. Current assets increased ¥26,869 million to ¥406,373 million mainly because of an increase in cash and deposits. Non-current assets increased ¥6,746 million to ¥338,705 million, largely because of an increase in investment securities reflecting higher stock prices.

Total liabilities decreased ¥11,532 million from the end of the previous fiscal year to ¥95,090 million. Current liabilities increased ¥24 million to ¥72,590 million. Non-current liabilities decreased ¥11,556 million to ¥22,500 million, mainly due to the conversion of bonds (convertible bonds with warrants).

Net assets increased ¥45,147 million from the end of the previous fiscal year to ¥649,988 million. Shareholders' equity increased ¥37,239 million to ¥616,497 million as a result of factors including an increase from profit attributable to owners of parent and a decrease due to cash dividends paid. Accumulated other comprehensive income increased ¥6,963 million to ¥28,553 million, mainly due to an increase in valuation difference on available-for-sale securities reflecting higher stock prices. Subscription rights to shares stood at ¥527 million, and non-controlling interests increased ¥943 million to ¥4,410 million.

2) Cash Flows

Net cash provided by operating activities during the six months ended September 30, 2018 was ¥68,196 million. Principal factors providing cash included income before income taxes of ¥72,172 million, depreciation and amortization of ¥8,312 million, amortization of goodwill of ¥1,499 million, and dividend income received. Uses of cash included income taxes paid. As a result, net cash provided by operating activities increased ¥25,379 million compared with the same period of the previous fiscal year.

Net cash used in investing activities was ¥36,899 million, mainly due to payments into time deposits with terms of more than three months, but this was a decrease of ¥5,442 million compared with the same period of the previous fiscal year because there were payments for purchase of intangible assets in the same period of the previous fiscal year.

Net cash used in financing activities was ¥35,503 million, an increase of ¥23,232 million from the same period of the previous fiscal year, due to factors including cash dividends paid of ¥13,815 million and purchase of treasury stock of ¥22,654 million.

As a result, cash and cash equivalents at the end of the second quarter totaled ¥170,733 million, a decrease of ¥1,666 million from the end of the previous fiscal year.

(3) Outlook

Based on recent performance trends, the Shionogi Group has revised its financial forecast for the fiscal year ending March 31, 2019, released on July 23, 2018, as follows.

1) Revisions of Financial Forecast

Revised forecasts for the year ending March 31, 2019

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Earnings per share
	Millions of yen	*Millions of yen*	*Millions of yen*	*Millions of yen*	*Yen*
Previous forecast (A)	348,000	120,000	144,000	114,500	364.24
New forecast (B)	354,000	124,500	148,500	118,500	376.79
Change (B-A)	6,000	4,500	4,500	4,000	—
Percentage change (%)	1.7	3.8	3.1	3.5	—
(reference) For the year ended March 31, 2018	344,667	115,219	138,692	108,866	342.71

2) Reasons for Revision of Financial Forecast

Net sales are expected to exceed the previous forecast in part because Shionogi expects to receive further payments from Roche related to the development progress of anti-flu drug Xofluza in the second half of the fiscal year. As for profits, although Shionogi plans to make additional investments to strengthen marketing of new products and other products, operating income is projected to be higher than the previous forecast due to the increase in net sales. Ordinary income and profit attributable to owners of parent for the fiscal year are also projected to exceed the previous forecast because of the increase in operating income.

2. Consolidated Financial Statements and Notes

(1) Consolidated balance sheets

Millions of yen

	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	140,106	194,400
Notes and accounts receivable-trade	53,240	48,855
Short-term investment securities	124,300	103,712
Merchandise and finished goods	14,716	16,671
Work in process	6,993	7,525
Raw materials and supplies	12,926	14,672
Other	27,257	20,571
Allowance for doubtful accounts	(36)	(35)
Total current assets	379,504	406,373
Non-current assets		
Property, plant and equipment	75,956	73,578
Intangible assets		
Goodwill	32,852	32,742
Other	42,207	39,772
Total intangible assets	75,060	72,515
Investments and other assets		
Investment securities	155,675	166,117
Other	25,309	26,535
Allowance for doubtful accounts	(42)	(42)
Total investments and other assets	180,942	192,610
Total non-current assets	331,959	338,705
Total assets	711,463	745,079
Liabilities		
Current liabilities		
Notes and accounts payable-trade	8,016	9,167
Current portion of long-term loans payable	10,000	10,000
Income taxes payable	19,513	20,848
Provision for bonuses	8,741	7,564
Provision for sales returns	1,360	1,474
Other provision	105	—
Other	24,829	23,535
Total current liabilities	72,565	72,590
Non-current liabilities		
Bonds payable	18,491	3,173
Net defined benefit liability	8,096	7,953
Other	7,468	11,372
Total non-current liabilities	34,056	22,500
Total liabilities	106,622	95,090

Millions of yen

	As of March 31, 2018	As of September 30, 2018
Net assets		
Shareholders' equity		
Capital stock	21,279	21,279
Capital surplus	20,227	20,512
Retained earnings	574,392	617,597
Treasury stock	(36,641)	(42,892)
Total shareholders' equity	579,257	616,497
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	35,856	42,012
Deferred gains or losses on hedges	1,174	461
Foreign currency translation adjustment	(15,330)	(14,620)
Remeasurements of defined benefit plans	(111)	699
Total accumulated other comprehensive income	21,589	28,553
Subscription rights to shares	527	527
Non-controlling interests	3,466	4,410
Total net assets	604,840	649,988
Total liabilities and net assets	711,463	745,079

(2) Consolidated statements of income and Consolidated statements of comprehensive income

Consolidated statements of income

Millions of yen

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	172,172	168,203
Cost of sales	39,671	24,724
Gross profit	132,500	143,478
Selling, general and administrative expenses	76,744	86,173
Operating income	55,756	57,304
Non-operating income		
Interest income	499	1,009
Dividends income	10,867	12,150
Other	335	1,403
Total non-operating income	11,703	14,563
Non-operating expenses		
Interest expenses	204	173
Contribution	425	370
Loss on retirement of non-current assets	235	565
Other	1,001	679
Total non-operating expenses	1,867	1,790
Ordinary income	65,592	70,077
Extraordinary income		
Gain on sales of non-current assets	—	2,920
Total extraordinary income	—	2,920
Extraordinary losses		
Loss on disaster	—	826
Loss on valuation of investment securities	685	—
Total extraordinary losses	685	826
Income before income taxes	64,907	72,172
Income taxes-current	15,930	12,801
Income taxes-deferred	(1,313)	987
Total income taxes	14,617	13,789
Profit	50,289	58,382
Profit (loss) attributable to non-controlling interests	(46)	486
Profit attributable to owners of parent	50,336	57,896

Consolidated statements of comprehensive income

Millions of yen

	Six months ended September 30, 2017	Six months ended September 30, 2018
Profit	50,289	58,382
Other comprehensive income		
Valuation difference on available-for-sale securities	4,358	6,155
Deferred gains or losses on hedges	(2,327)	(713)
Foreign currency translation adjustment	7,409	559
Remeasurements of defined benefit plans	1,518	810
Total other comprehensive income	10,959	6,812
Comprehensive income	61,249	65,195
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	61,365	64,860
Comprehensive income attributable to non-controlling interests	(116)	335

(3) Consolidated statements of cash flows

Millions of yen

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net cash provided by (used in) operating activities		
Income before income taxes	64,907	72,172
Depreciation and amortization	7,827	8,312
Amortization of goodwill	1,521	1,499
Loss (gain) on disposal of property, plant and equipment	232	(2,378)
Loss (gain) on sales of investment securities	—	(21)
Loss (gain) on valuation of investment securities	685	67
Interest and dividends income	(11,367)	(13,159)
Interest expenses	204	173
Foreign exchange losses (gains)	46	(4,266)
Decrease (increase) in notes and accounts receivable-trade	(9,985)	4,410
Decrease (increase) in inventories	997	(4,108)
Increase (decrease) in notes and accounts payable-trade	(2,118)	1,051
Other, net	(7,548)	(2,879)
Subtotal	45,402	60,873
Interest and dividends income received	19,547	19,517
Interest expenses paid	(92)	(173)
Income taxes (paid) refund	(22,039)	(12,021)
Net cash provided by (used in) operating activities	42,817	68,196
Net cash provided by (used in) investing activities		
Payments into time deposits	(42,503)	(69,136)
Proceeds from withdrawal of time deposits	17,367	36,900
Purchase of short-term investment securities	(5,000)	(2,200)
Proceeds from redemption of short-term investment securities	—	288
Purchase of property, plant and equipment	(3,533)	(2,987)
Proceeds from sales of property, plant and equipment	84	4,231
Purchase of intangible assets	(10,094)	(1,675)
Purchase of investment securities	(500)	(192)
Proceeds from sales of investment securities	2,296	0
Purchase of shares of subsidiaries and associates	(100)	(1,800)
Other, net	(359)	(327)
Net cash provided by (used in) investing activities	(42,341)	(36,899)
Net cash provided by (used in) financing activities		
Cash dividends paid	(12,116)	(13,815)
Purchase of treasury shares	(9)	(22,654)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	1,020
Other, net	(144)	(53)
Net cash provided by (used in) financing activities	(12,270)	(35,503)
Effect of exchange rate change on cash and cash equivalents	855	2,539
Net increase (decrease) in cash and cash equivalents	(10,940)	(1,666)
Cash and cash equivalents at beginning of period	149,324	172,400
Cash and cash equivalents at end of period	138,384	170,733

(4) Notes

Going concern assumption

None

Significant changes in shareholders' equity

Repurchase of Shares

By resolution of the Board of Directors on July 30, 2018, Shionogi is repurchasing up to 8,600,000 shares of common stock, at a cost up to ¥50,000 million in total, during the period from July 31, 2018 through December 20, 2018. Based on this resolution, Shionogi repurchased 3,591,600 shares during the second quarter at a cost of ¥22,608 million.

In addition, treasury stock increased by ¥6,250 million in the second quarter, partly due to the conversion of convertible bonds. The amount of treasury stock held as of September 30, 2018 was ¥42,892 million.

Additional information

Application of Partial Amendments to Accounting Standard for Tax-Effect Accounting, Etc.

Shionogi has adopted the "Partial Amendments to Accounting Standard for Tax-Effect Accounting" (Accounting Standards Board of Japan Statement No. 28, February 16, 2018), etc. as of the first quarter of the fiscal year ending March 31, 2019. Accordingly, deferred tax assets are classified under investments and other assets, and deferred tax liabilities are classified under non-current liabilities.