November 13, 2018

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

(Six Months Ended September 30, 2018)

[Japanese GAAP]

Company name: ROHTO Pharmaceutical Co., Ltd.
Stock code: 4527
Representative: Kunio Yamada, Chairman and President
Contact: Masaya Saito, Vice President and Director
Telephone: 81-(0) 6-6758-8223

Stock Exchange listing: TSE, First Section
URL: https://www.rohto.co.jp/

Scheduled date of filing of Quarterly Report: November 14, 2018
Scheduled date of dividend payment: December 7, 2018
Supplementary materials for quarterly financial results: Yes
Quarterly financial results meeting: Yes (for institutional investors and analysts)

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

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2019 (April 1, 2018 – September 30, 2018)

(1) Consolidated results of operations

(Percentages represent year-on-year changes.)

	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 Sep. 30, 2018	87,259	11.2	10,710	23.7	11,082	26.6	7,317	29.6
Six months ended Sep. 30, 2017	78,498	10.1	8,655	33.9	8,754	28.3	5,647	34.8

Note: Comprehensive income (Millions of yen): Six months ended Sep. 30, 2018: 7,101 (14.4%)
Six months ended Sep. 30, 2017: 6,209 (-%)

	Basic net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 30, 2018	64.22	63.96
Six months ended Sep. 30, 2017	49.58	49.37

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Sep. 30, 2018	204,155	134,091	65.1
As of Mar. 31, 2018	198,166	128,440	64.2

Reference: Shareholders' equity (Millions of yen): As of Sep. 30, 2018: 132,894 As of Mar. 31, 2018: 127,124

Note: Rohto Pharmaceutical Co., Ltd. (the Company) has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) from the beginning of the first quarter of the current fiscal year. Consolidated financial position for the year ended March 31, 2018 was reclassified retrospectively in accordance with this accounting standard.

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2018	-	11.00	-	11.00	22.00
Fiscal year ending Mar. 31, 2019	-	11.00			
Fiscal year ending Mar. 31, 2019 (forecast)			-	12.00	23.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2019 (April 1, 2018 – March 31, 2019)

(Percentages represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	183,300	6.7	21,400	12.1	21,800	15.7	13,300	43.2	116.71

Note: Revisions to the most recently announced consolidated forecast: Yes

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specific subsidiaries resulting in change in scope of consolidation): None

(2) Application of special accounting methods for preparation of quarterly consolidated financial statements: Yes

Note: Please refer to page 11 of the attachments “2. Quarterly Consolidated Financial Statements and Major Notes, (4) Notes to Quarterly Consolidated Financial Statements” for further information.

(3) Changes in accounting policies and accounting estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Restatements: None

(4) Number of common shares issued

1) Number of shares outstanding at the end of the period (including treasury shares):

As of Sep. 30, 2018:	117,980,805 shares	As of Mar. 31, 2018:	117,936,284 shares

2) Number of shares of treasury shares at the end of the period:

As of Sep. 30, 2018:	4,018,884 shares	As of Mar. 31, 2018:	4,018,851 shares

3) Average number of shares outstanding during the period:

Six months ended Sep. 30, 2018:	113,942,850 shares	Six months ended Sep. 30, 2017:	113,917,155 shares

Note 1: This summary report is not subject to the quarterly review conducted by certified public accountants or audit firms.

Note 2: Cautionary statement with respect to forward-looking statements and other special items

Forecasts regarding future performance in these materials are based on assumptions judged to be valid and information available to the Company at the time the materials were created. These materials are not promises by the Company regarding future performance. Actual results of operations may differ significantly from the forecasts depending on various factors. For discussion of the assumptions and other factors considered by the Company in preparing the above projections, please refer to page 4 of the attachments “1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements.”

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first half of the current fiscal year, the Japanese economy continued its recovery at a moderate pace supported by improved corporate profits and the employment situation. However, the future remained uncertain due to concerns over governmental policies in the United States, political risks in Europe, economic trends in Asian countries and other factors.

The Rohto Group has moved into new fields with customer-oriented product development and marketing activities. In its existing categories, the Group has developed high value-added products in response to changing consumer needs and endeavored to reinvigorate markets.

In total, net sales increased 11.2% year-on-year to 87,259 million yen. In Japan, high value-added products sold well while new products including sunscreen “Skin Aqua Tone Up UV Essence” and color lip balm “Lip the Color” performed strongly. Demand from foreign tourists in Japan also remained high. A license agreement we entered into with Shionogi & Co., Ltd in September also advanced revenue growth. The license agreement is about development and sale of liver cirrhosis treatment currently under research using our regenerative medicine technology. Overseas, sales in Asia continued to recover and America and Europe segments also contributed to the increase in sales.
Regarding profits, due to strong growth of sales, operating income rose by 23.7% year-on-year to 10,710 million yen, ordinary income rose by 26.6% to 11,082 million yen and profit attributable to owners of parent increased 29.6% to 7,317 million yen.

Results by reportable segment are as follows.

Japan

Sales to customers increased 9.2% year-on-year to 56,637 million yen.

Among the core eye care products, the high-performance ophthalmic remedy “V Rohto Active Premium” and “Rohto Shinryokusui” performed well. The “Rohto Lycée” series in collaboration with Pretty Guardian Sailor Moon also sold well. In addition, the new contact lens product “1 DAY Fresh View” also contributed to increased sales. Regarding skincare products, new items such as color lip balm “Lip the Color” with an oil tint formula sold steadily while the sunscreen “Skin Aqua Tone Up UV Essence” also sold well due in part to high temperatures nationwide. Furthermore, growing demand from foreign tourists in Japan for products such as “Melano CC medicated intensive spot correcting serum” contributed to higher sales. Moreover, for internal medicines, products such as new “Rohto Bofu-Tsusho-Sanjo ZII,” launched from the Chinese herbal medicine brand “Wakansen” and effective for obese people with a large amount of subcutaneous fat and frequent constipation and “Rohto V5 Grain,” contributed to higher sales.

Segment profit (operating income) increased 19.0% year-on-year to 7,633 million yen due to strong sales.

America

Sales to customers increased 25.6% year-on-year to 4,228 million yen.

The U.S. economy experienced a mild recovery trend due to a steady rise in personal consumption. Eye drops including “Rohto Dry Aid” and “Rohto Cool Max” performed well. In addition, Ophthalmos S.A. of Brazil, newly consolidated from the end of the previous fiscal year, also contributed to higher sales.

Segment loss (operating loss) improved to 98 million yen (compared with 156 million yen loss in prior second quarter) due to strong sales.

Europe

Sales to customers increased 6.4% year-on-year to 4,347 million yen.

The main anti-inflammatory analgesic “Deep Heat” series sold well. In addition, Dax Cosmetics contributed to higher sales.

Segment profit (operating income) increased 0.2% year-on-year to 292 million yen due to strong sales.

Asia

Sales to customers increased 15.8% year-on-year to 21,058 million yen.

Lip balm, sunscreen and eye drops performed well. By country, China sales remained steady and ASEAN countries including Indonesia also performed strongly.

Segment profit (operating income) increased 33.6% year-on-year to 2,503 million yen due to an effective use of advertising and sales promotion expenses as well as strong sales.

Others

In “Others,” excluded from reportable segments, sales to customers decreased 3.5% year-on-year to 987 million yen.

Segment profit (operating income) decreased 6.7% year-on-year to 77 million yen.

Note: The above amounts do not include consumption taxes.

(2) Explanation of Financial Position

1) Balance sheets position

Total assets at the end of the second quarter increased 5,988 million yen from the end of the previous fiscal year to 204,155 million yen. This was mainly due to increases of 4,268 million yen in merchandise and finished goods, 2,283 million yen in investment securities, 1,244 million yen in raw materials and supplies and 497 million yen in work in process, while there was a decrease of 4,283 million yen in notes and accounts receivable-trade.

Total liabilities increased 337 million yen from the end of the previous fiscal year to 70,063 million yen. This was mainly due to increases of 1,188 million yen in notes and accounts payable-trade, 651 million yen in short-term loans payable and 644 million yen in electronically recorded obligations-operating, while there was a decrease of 2,167 million yen in accrued expenses.

Net assets increased 5,650 million yen from the end of the previous fiscal year to 134,091 million yen. This was mainly due to increases of 6,064 million yen in retained earnings and 556 million yen in valuation difference on available-for-sale securities, while there was a decrease of 764 million yen in foreign currency translation adjustment.

The Company has applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) from the beginning of the first quarter of the current fiscal year. The comparisons are made with prior fiscal year end balance sheets reclassified retrospectively in accordance with this accounting standard.

2) Consolidated cash flow position

During the first half of the current fiscal year, there was a net increase of 138 million yen in cash and cash equivalents to 30,202 million yen.

Operating activities

Net cash provided by operating activities increased 2,376 million yen year-on-year to 8,222 million yen. Profit before income taxes was 10,569 million yen, and there were inflow factors of a decrease of 3,929 million yen in notes and accounts receivable-trade, depreciation of 2,876 million yen and an increase of 2,225 million yen in notes and accounts payable-trade, while there were outflow factors of an increase of 6,250 million yen in inventories, income tax paid of 3,420 million yen and a decrease of 2,674 million yen in accrued expenses.

Investing activities

Net cash used in investing activities increased 1,674 million yen year-on-year to 6,847 million yen. This was mainly due to the purchase of property, plant and equipment of 4,597 million yen, and purchase of investment securities of 1,668 million yen.

Financing activities

Net cash used in financing activities increased 607 million yen year-on-year to 910 million yen. This was mainly due to cash dividends paid of 1,253 million yen, repayments of long-term loans payable of 470 million yen while there was a net increase in short-term loans payable of 951 million yen.

(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements

(Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2019)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Net income per share
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
Previous forecast (A)	176,000	19,500	19,600	11,900	104.42
Revised forecast (B)	183,300	21,400	21,800	13,300	116.71
Change (B – A)	7,300	1,900	2,200	1,400	-
Percentage change (%)	4.1	9.7	11.2	11.8	-

In the first half, our performance improved significantly as a result of strong sales. Nevertheless, while the current economic situation is generally favorable, we have various uncertain factors including trade tensions and the outlook remains still uncertain.

Under such circumstances, the Rohto Group will adapt to the changes in the business environment, aiming to expand business further and improve earnings by creating new products and brands that respond appropriately to changing customer needs. The Group is also taking on the challenge of a range of innovations including alliances with a wide range of companies.

Taking into account the first half results, we are revising upward the Consolidated Earnings Forecast for net sales, operating income, ordinary income, and profit attributable to owners of parent released on May 11, 2018 as indicated in the above table.

The Company has revised the exchange rate from 105 yen to the U.S. dollar to 110 yen for the full-year consolidated earnings forecast.

Note: The forecasts are based on information available at the time this report was prepared. Actual results of operations may differ from the forecasts depending on various factors.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Prior Fiscal Year End (As of Mar. 31, 2018)	Current Second Quarter End (As of Sep. 30, 2018)
Assets		
Current assets		
Cash and deposits	30,532	30,799
Notes and accounts receivable-trade	37,042	32,759
Electronically recorded monetary claims-operating	13,305	13,333
Merchandise and finished goods	14,918	19,186
Work in process	2,620	3,118
Raw materials and supplies	8,690	9,934
Other	3,322	4,050
Allowance for doubtful accounts	(383)	(521)
Total current assets	110,050	112,661
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	20,547	20,369
Other, net	26,645	28,235
Total property, plant and equipment	47,193	48,604
Intangible assets		
Goodwill	1,503	1,210
Other	2,604	2,437
Total intangible assets	4,108	3,647
Investments and other assets		
Investment securities	32,328	34,611
Other	7,049	7,433
Allowance for doubtful accounts	(2,562)	(2,804)
Total investments and other assets	36,815	39,241
Total non-current assets	88,116	91,493
Total assets	198,166	204,155

(Millions of yen)

	Prior Fiscal Year End (As of Mar. 31, 2018)	Current Second Quarter End (As of Sep. 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	12,098	13,287
Electronically recorded obligations-operating	2,974	3,619
Short-term loans payable	4,151	4,803
Accrued expenses	24,599	22,431
Income taxes payable	3,827	3,677
Provision for bonuses	2,285	2,430
Provision for directors' bonuses	30	20
Provision for sales returns	696	735
Provision for sales rebates	2,742	2,313
Other	7,926	8,143
Total current liabilities	61,332	61,463
Non-current liabilities		
Long-term loans payable	1,702	1,570
Net defined benefit liability	3,968	3,776
Provision for loss on guarantees	1,491	1,709
Other	1,231	1,543
Total non-current liabilities	8,393	8,599
Total liabilities	69,725	70,063
Net assets		
Shareholders’ equity		
Capital stock	6,415	6,441
Capital surplus	5,737	5,586
Retained earnings	112,696	118,761
Treasury shares	(4,935)	(4,935)
Total shareholders’ equity	119,915	125,853
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,220	8,777
Foreign currency translation adjustment	463	(300)
Remeasurements of defined benefit plans	(1,474)	(1,435)
Total accumulated other comprehensive income	7,209	7,040
Subscription rights to shares	560	508
Non-controlling interests	755	688
Total net assets	128,440	134,091
Total liabilities and net assets	198,166	204,155

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income
(For the Six-month Period)

(Millions of yen)

	Prior Second Quarter (Apr. 1, 2017 – Sep. 30, 2017)	Current Second Quarter (Apr. 1, 2018 – Sep. 30, 2018)
Net sales	78,498	87,259
Cost of sales	33,202	35,283
Gross profit	45,295	51,976
Provision for sales returns	60	39
Gross profit-net	45,235	51,937
Selling, general and administrative expenses	36,580	41,226
Operating income	8,655	10,710
Non-operating income		
Interest income	115	176
Dividend income	180	215
Share of profit of entities accounted for using equity method	-	19
Other	233	170
Total non-operating income	529	582
Non-operating expenses		
Interest expenses	69	68
Share of loss of entities accounted for using equity method	286	-
Loss on sales of fixed assets	0	49
Other	73	92
Total non-operating expenses	429	210
Ordinary income	8,754	11,082
Extraordinary losses		
Loss on valuation of investment securities	2	121
Loss on valuation of shares of subsidiaries and associates	0	-
Provision for doubtful accounts	170	170
Provision for doubtful accounts for subsidiaries and associates	3	3
Provision for loss on guarantees	295	218
Total extraordinary losses	470	512
Profit before income taxes	8,284	10,569
Income taxes	2,633	3,233
Profit	5,650	7,335
Profit attributable to non-controlling interests	2	18
Profit attributable to owners of parent	5,647	7,317

Quarterly Consolidated Statements of Comprehensive Income

(For the Six-month Period)

(Millions of yen)

	Prior Second Quarter (Apr. 1, 2017 – Sep. 30, 2017)	Current Second Quarter (Apr. 1, 2018 – Sep. 30, 2018)
Profit	5,650	7,335
Other comprehensive income		
Valuation difference on available-for-sale securities	634	559
Foreign currency translation adjustment	(98)	(733)
Remeasurements of defined benefit plans, net of tax	55	38
Share of other comprehensive income of entities accounted for using equity method	(33)	(99)
Total other comprehensive income	559	(234)
Comprehensive income	6,209	7,101
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	6,216	7,148
Comprehensive income attributable to non-controlling interests	(7)	(46)

(3) Quarterly Consolidated Statements of Cash Flows

(For the Six-month Period)

(Millions of yen)

	Prior Second Quarter (Apr. 1, 2017 – Sep. 30, 2017)	Current Second Quarter (Apr. 1, 2018 – Sep. 30, 2018)
Cash flows from operating activities		
Income before income taxes and non-controlling interests	8,284	10,569
Depreciation	2,646	2,876
Amortization of goodwill	104	127
Increase (decrease) in allowance for doubtful accounts	91	186
Increase (decrease) in provision for bonuses	146	147
Increase (decrease) in net defined benefit liability	(320)	(185)
Increase (decrease) in provision for sales returns	60	39
Increase (decrease) in provision for sales rebates	(100)	(429)
Increase (decrease) in provision for loss on guarantees	295	218
Provision for doubtful accounts	170	170
Provision for doubtful accounts for subsidiaries and associates	3	3
Loss (gain) on valuation of investment securities	2	121
Loss on valuation of shares of subsidiaries and associates	0	-
Interest and dividend income	(296)	(392)
Interest expenses	69	68
Share of (profit) loss of entities accounted for using equity method	286	(19)
Decrease (increase) in notes and accounts receivable - trade	88	3,929
Decrease (increase) in inventories	(2,432)	(6,250)
Increase (decrease) in notes and accounts payable - trade	2,500	2,225
Increase (decrease) in accrued expenses	(3,208)	(2,674)
Other, net	(241)	531
Subtotal	8,151	11,262
Interest and dividend income received	312	407
Interest expenses paid	(42)	(35)
Income taxes paid	(2,596)	(3,420)
Income taxes refund	22	8
Net cash provided by (used in) operating activities	5,846	8,222
Cash flows from investing activities		
Payments into time deposits	(493)	(548)
Proceeds from withdrawal of time deposits	450	399
Purchase of property, plant and equipment	(2,604)	(4,597)
Purchase of intangible assets	(139)	(167)
Purchase of investment securities	(2,071)	(1,668)
Proceeds from sales and redemption of investment securities	7	-
Net decrease (increase) in short-term loans receivable	30	(42)
Payments of long-term loans receivable	(351)	(278)
Other, net	(0)	54
Net cash provided by (used in) investing activities	(5,172)	(6,847)

(Millions of yen)

	Prior Second Quarter (Apr. 1, 2017 – Sep. 30, 2017)	Current Second Quarter (Apr. 1, 2018 – Sep. 30, 2018)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	592	951
Proceeds from long-term loans payable	540	85
Repayments of long-term loans payable	(165)	(470)
Cash dividends paid	(1,253)	(1,253)
Purchase of shares of subsidiaries resulting in no change in scope of consolidation	-	(202)
Other, net	(16)	(20)
Net cash provided by (used in) financing activities	(302)	(910)
Effect of exchange rate change on cash and cash equivalents	(125)	(325)
Net increase (decrease) in cash and cash equivalents	244	138
Cash and cash equivalents at beginning of period	23,466	30,063
Increase in cash and cash equivalents from newly consolidated subsidiary	103	-
Cash and cash equivalents at end of period	23,814	30,202

(4) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

No reportable information.

Significant Changes in Shareholders' Equity

No reportable information.

Application of Special Accounting Methods for Preparation of Quarterly Consolidated Financial Statements

Calculation of tax expense

Tax expense was calculated by first reasonably estimating the effective tax rate after the application of tax effect accounting with respect to income before income taxes for the fiscal year, and multiplying that rate by the quarterly income before income taxes.

Additional Information

The Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the first quarter of the current fiscal year. Accordingly, deferred tax assets and deferred tax liabilities are reclassified under Investments and other assets and Non-current liabilities, respectively.

Segment Information

I. Prior Second Quarter (Apr. 1, 2017 – Sep. 30, 2017)

1. Information related to net sales and profit or loss for each reportable segment (Millions of yen)

	Reportable segment (Note 1)					Others (Note 2)	Total	Adjustment (Note 3)	Reported in quarterly consolidated statement of income (Note 4)
	Japan	America	Europe	Asia	Subtotal				
Net sales									
(1) Sales to customers	51,843	3,367	4,085	18,178	77,474	1,023	78,498	-	78,498
(2) Inter-segment sales and transfers	1,252	585	9	1,314	3,162	44	3,207	(3,207)	-
Total	53,096	3,952	4,095	19,493	80,637	1,068	81,705	(3,207)	78,498
Segment profit (loss)	6,413	(156)	291	1,874	8,423	83	8,507	148	8,655

Notes: 1. "America" includes the business activities of overseas entities in the U.S. and Canada, and others; "Europe" those in the U.K., Poland and South Africa; and "Asia" those in China, Taiwan, Vietnam, and others.
2. "Others" is the business that is excluded from reportable segments, and includes the business activities of entities in Australia.
3. "Adjustment" to segment profit (loss) of 148 million yen indicates elimination for intersegment transactions.
4. Segment profit (loss) is adjusted with operating income reported in the quarterly consolidated statement of income.

II. Current Second Quarter (Apr. 1, 2018 – Sep. 30, 2018)

1. Information related to net sales and profit or loss for each reportable segment (Millions of yen)

	Reportable segment (Note 1)					Others (Note 2)	Total	Adjustment (Note 3)	Reported in quarterly consolidated statement of income (Note 4)
	Japan	America	Europe	Asia	Subtotal				
Net sales									
(1) Sales to customers	56,637	4,228	4,347	21,058	86,271	987	87,259	-	87,259
(2) Inter-segment sales and transfers	1,753	583	17	1,565	3,920	36	3,956	(3,956)	-
Total	58,390	4,812	4,365	22,623	90,192	1,024	91,216	(3,956)	87,259
Segment profit (loss)	7,633	(98)	292	2,503	10,331	77	10,409	301	10,710

Notes: 1. “America” includes the business activities of overseas entities in the U.S. and Brazil, and others; “Europe” those in the U.K., Poland and South Africa; and “Asia” those in China, Taiwan, Vietnam, and others.
2. “Others” is the business that is excluded from reportable segments, and includes the business activities of entities in Australia.
3. “Adjustment” to segment profit (loss) of 301 million yen indicates elimination for intersegment transactions.
4. Segment profit (loss) is adjusted with operating income reported in the quarterly consolidated statement of income.

** This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*