# Financial Results for the First Quarter of Fiscal Year 2019(Consolidated)

July 29, 2019

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

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Scheduled date of quarterly securities report submission: August 7, 2019

Scheduled date of dividend payments: －

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, 2019 to June 30, 2019

(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* | *%* |
| Three months ended June 30, 2019 | 79,225 | (10.5) | 28,957 | 4.7 | 32,401 | (14.6) | 24,418 | (23.4) |
| Three months ended June 30, 2018 | 88,524 | 18.0 | 27,646 | 72.9 | 37,941 | 80.1 | 31,892 | 99.2 |

*Note: Comprehensive income Three months ended June 30, 2019: 15,071 million yen ( (57.6)%)*
*Three months ended June 30, 2018: 35,562 million yen ( 66.5%)*

| | Earnings per share | Earnings per share (diluted) |
|---|---|---|
| | *Yen* | *Yen* |
| Three months ended June 30, 2019 | 78.43 | 78.33 |
| Three months ended June 30, 2018 | 101.45 | 99.95 |

(2) Consolidated financial position

| | Total assets | Net assets | Shareholders' equity ratio |
|---|---|---|---|
| | *Millions of yen* | *Millions of yen* | *%* |
| As of June 30, 2019 | 754,631 | 671,954 | 88.4 |
| As of March 31, 2019 | 778,741 | 672,429 | 85.7 |

*Reference: Shareholders' equity As of June 30, 2019: 667,092 million yen As of March 31, 2019: 667,502 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, 2019 | － | 44.00 | － | 50.00 | 94.00 |
| Year ending March 31, 2020 | － | | | | |
| Year ending March 31, 2020 (forecast) | | 50.00 | － | 50.00 | 100.00 |

*Note: Revisions of the most recent dividend forecast: None*

## 3. Consolidated financial forecast for the year ending March 31, 2020

*(% 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* |
| Six months ending September 30, 2019 | 159,000 | (5.5) | 52,000 | (9.3) | 63,000 | (10.1) | 49,000 | (15.4) | 157.41 |
| Year ending March 31, 2020 | 365,500 | 0.5 | 147,000 | 6.1 | 170,500 | 2.4 | 133,000 | 0.2 | 427.26 |

*Note: Revisions of the most recent consolidated financial forecast: None*

## ※ 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 June 30, 2019: | 316,786,165 shares |
| As of March 31, 2019: | 316,786,165 shares |

b) Number of treasury stock

| | |
|---|---|
| As of June 30, 2019: | 5,453,360 shares |
| As of March 31, 2019: | 5,498,751 shares |

c) Average number of shares issued during the period

| | |
|---|---|
| Three months ended June 30, 2019: | 311,329,640 shares |
| Three months ended June 30, 2018: | 314,355,784 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 2 of the accompanying materials.*

*(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 Monday, July 29, 2019. Plans are also in place to post audio explanatory details together with financial results explanatory materials distributed to analysts on July 29, 2019 on the Company's website in a timely manner after the results briefing.*

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# 1. Overview of Operating Results and Financial Position

## (1) Operating Results for the First Quarter of the Fiscal Year Ending March 31, 2020

For the three months ended June 30, 2019 (April 1, 2019 to June 30, 2019), net sales were ¥79,225 million, operating income was ¥28,957 million, ordinary income was ¥32,401 million, and profit attributable to owners of parent was ¥24,418 million.

Net sales decreased 10.5 percent compared with the same period of the previous fiscal year. Domestic sales of prescription drugs increased 5.0 percent compared with the same period of the previous fiscal year as a result of steady expansion in sales of strategic products Cymbalta and Intuniv. Overseas subsidiary sales and exports increased 7.4 percent. In the United States, Shionogi received a one-time payment in connection with a licensing agreement with BioDelivery Sciences International, Inc. for the co-commercialization of Symproic, but sales decreased 14.0 percent, reflecting the absence of the one-time payment received from Purdue Pharma L.P. in the same period of the previous fiscal year due to the termination of the alliance for Symproic. In China, sales increased 61.1 percent as a result of steady expansion in sales of Rabeprazole. Royalty income from ViiV Healthcare Ltd. ("ViiV") increased 21.4 percent, reflecting ViiV's steady expansion in global sales of anti-HIV drugs Tivicay, Triumeq and Juluca. However, royalty income overall decreased 23.6 percent compared with the same period of the previous fiscal year because Shionogi received milestone payments from Roche in the same period of the previous fiscal year in connection with the global development of anti-flu drug Xofluza.

Although domestic sales of prescription drugs and royalty income from ViiV increased, gross profit decreased 13.2 percent compared with the same period of the previous fiscal year because of the substantial impact in the previous fiscal year of the milestone payments from Roche mentioned above. Operating income increased 4.7 percent as a result of a decrease in research and development expenses, reflecting the absence of the strategic business investments made in the previous fiscal year. Ordinary income decreased 14.6 percent due to a decrease in dividend income received from ViiV and fluctuations in foreign exchange rates. Profit attributable to owners of parent decreased 23.4 percent.

## (2) Financial Position for the First Quarter of the Fiscal Year Ending March 31, 2020

As of June 30, 2019, total assets were ¥754,631 million, a decrease of ¥24,109 million from the end of the previous fiscal year. Current assets decreased ¥18,207 million to ¥443,535 million due to factors including progress in collection of accounts receivable related to anti-flu drug Xofluza and other seasonal products. Non-current assets decreased ¥5,901 million to ¥311,096 million, largely because of a decrease in investment securities reflecting lower stock prices and the effect of foreign currency translation.

Total liabilities decreased ¥23,633 million from the end of the previous fiscal year to ¥82,677 million. Current liabilities decreased ¥24,252 million to ¥64,855 million, mainly because income taxes payable decreased. Non-current liabilities increased ¥618 million to ¥17,822 million.

Net assets decreased ¥475 million from the end of the previous fiscal year to ¥671,954 million. Shareholders' equity increased ¥8,960 million to ¥661,332 million as a result of factors including profit attributable to owners of parent and cash dividends paid. Accumulated other comprehensive income decreased ¥9,370 million to ¥5,760 million, mainly due to a decrease in valuation difference on available-for-sale securities reflecting lower stock prices and a decrease in foreign currency translation adjustment due to the effect of currency translation. Subscription rights to shares decreased ¥88 million to ¥438 million and non-controlling interests increased ¥23 million to ¥4,423 million.

## (3) Outlook

There are no revisions to the consolidated financial forecast announced on May 9, 2019.

## 2. Consolidated Financial Statements and Notes

(1) Consolidated balance sheets

*Millions of yen*

| | As of March 31, 2019 | As of June 30, 2019 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 193,549 | 194,995 |
| Notes and accounts receivable-trade | 65,918 | 44,240 |
| Short-term investment securities | 133,264 | 135,409 |
| Merchandise and finished goods | 18,741 | 18,963 |
| Work in process | 7,272 | 10,332 |
| Raw materials and supplies | 14,097 | 11,589 |
| Other | 28,942 | 28,056 |
| Allowance for doubtful accounts | (43) | (52) |
| Total current assets | 461,743 | 443,535 |
| Non-current assets | | |
| Property, plant and equipment | 74,653 | 74,166 |
| Intangible assets | | |
| Goodwill | 19,258 | 18,466 |
| Other | 35,511 | 34,587 |
| Total intangible assets | 54,769 | 53,053 |
| Investments and other assets | | |
| Investment securities | 151,851 | 146,500 |
| Other | 35,765 | 37,418 |
| Allowance for doubtful accounts | (42) | (42) |
| Total investments and other assets | 187,574 | 183,875 |
| Total non-current assets | 316,997 | 311,096 |
| Total assets | 778,741 | 754,631 |
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 9,442 | 10,020 |
| Current Portion of bonds | 920 | 900 |
| Income taxes payable | 35,870 | 14,040 |
| Provision for bonuses | 9,058 | 10,776 |
| Provision for sales returns | 1,428 | 1,292 |
| Other provision | 166 | — |
| Other | 32,219 | 27,823 |
| Total current liabilities | 89,107 | 64,855 |
| Non-current liabilities | | |
| Net defined benefit liability | 11,930 | 12,080 |
| Other | 5,272 | 5,742 |
| Total non-current liabilities | 17,203 | 17,822 |
| Total liabilities | 106,311 | 82,677 |

*Millions of yen*

| | As of March 31, 2019 | As of June 30, 2019 |
|---|---|---|
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 21,279 | 21,279 |
| Capital surplus | 20,512 | 20,512 |
| Retained earnings | 639,461 | 648,183 |
| Treasury stock | (28,882) | (28,643) |
| Total shareholders' equity | 652,371 | 661,332 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 28,927 | 26,635 |
| Deferred gains or losses on hedges | 747 | 3,513 |
| Foreign currency translation adjustment | (18,370) | (28,043) |
| Remeasurements of defined benefit plans | 3,826 | 3,655 |
| Total accumulated other comprehensive income | 15,130 | 5,760 |
| Subscription rights to shares | 527 | 438 |
| Non-controlling interests | 4,400 | 4,423 |
| Total net assets | 672,429 | 671,954 |
| Total liabilities and net assets | 778,741 | 754,631 |

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

Consolidated statements of income

*Millions of yen*

| | Three months ended June 30, 2018 | Three months ended June 30, 2019 |
|---|---|---|
| Net sales | 88,524 | 79,225 |
| Cost of sales | 11,913 | 12,735 |
| Gross profit | 76,610 | 66,489 |
| Selling, general and administrative expenses | 48,964 | 37,532 |
| Operating income | 27,646 | 28,957 |
| Non-operating income | | |
| Interest income | 445 | 807 |
| Dividends income | 9,756 | 4,907 |
| Other | 684 | 147 |
| Total non-operating income | 10,887 | 5,861 |
| Non-operating expenses | | |
| Interest expenses | 89 | 22 |
| Foreign exchange losses | — | 1,272 |
| Other | 502 | 1,122 |
| Total non-operating expenses | 591 | 2,417 |
| Ordinary income | 37,941 | 32,401 |
| Extraordinary lincome | | |
| Gain on sales of non-current assets | 2,462 | — |
| Total extraordinary income | 2,462 | — |
| Extraordinary loss | | |
| Loss on valuation of investment securities | — | 530 |
| Loss on disaster | 331 | — |
| Total extraordinary losses | 331 | 530 |
| Income before income taxes | 40,072 | 31,871 |
| Income taxes-current | 12,573 | 8,641 |
| Income taxes-deferred | (4,980) | (1,136) |
| Total income taxes | 7,593 | 7,504 |
| Profit | 32,478 | 24,366 |
| Profit (loss) attributable to non-controlling interests | 586 | (52) |
| Profit attributable to owners of parent | 31,892 | 24,418 |

Consolidated statements of comprehensive income

*Millions of yen*

| | Three months ended June 30, 2018 | Three months ended June 30, 2019 |
|---|---|---|
| Profit | 32,478 | 24,366 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 5,270 | (2,292) |
| Deferred gains or losses on hedges | 1,383 | 2,766 |
| Foreign currency translation adjustment | (3,975) | (9,598) |
| Remeasurements of defined benefit plans | 405 | (171) |
| Total other comprehensive income | 3,084 | (9,295) |
| Comprehensive income | 35,562 | 15,071 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 35,120 | 15,048 |
| Comprehensive income attributable to non-controlling interests | 441 | 23 |

## (3) Notes

Going concern assumption

None

Significant changes in shareholders' equity

None

Business combination

Transactions under common control

1. Overview of the transaction

(1) Name of business covered and description of its business

Name of business: Pharmaceutical manufacturing operations

Business description: Manufacturing and contract manufacturing of pharmaceutical products

(2) Date of business combination

April 1, 2019

(3) Legal form of business combination

Simplified absorption-type split with Shionogi as the splitting company and Shionogi Pharma Co., Ltd., a wholly owned subsidiary of Shionogi as the successor company

(4) Name of entity after combination

Shionogi Pharma Co., Ltd.

(5) Other information about the transaction

The transaction is for the purpose of providing stable supplies of products with high quality and at competitive prices to domestic and overseas markets, with Shionogi responsible for the Shionogi Group's production-related functions and making innovative developments in production technology.

2. Summary of accounting treatment

The transaction is treated as a transaction under common control based on the Accounting Standard for Business Combinations and the Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.

3. Other significant items

On the same date, Shionogi Pharma Co., Ltd., the successor company, carried out an absorption-type merger of Shionogi Pharma Chemicals Co., Ltd. and Shionogi Analysis Center Co., Ltd, which were wholly owned subsidiaries of Shionogi.