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

October 30, 2019

Name of Listed Company: **SHIONOGI & CO., LTD.** Listed Exchanges: Section I of Tokyo
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Scheduled date of quarterly securities report submission: November 11, 2019
Scheduled date of dividend payments: December 2, 2019
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 September 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*	*%*
Six months ended September 30, 2019	160,877	(4.4)	58,161	1.5	65,305	(6.8)	51,616	(10.8)
Six months ended September 30, 2018	168,203	(2.3)	57,304	2.8	70,077	6.8	57,896	15.0

Note: Comprehensive income Six months ended September 30, 2019: 34,893 million yen ((46.5)%)
Six months ended September 30, 2018: 65,195 million yen (6.4%)

	Earnings per share	Earnings per share (diluted)
	Yen	*Yen*
Six months ended September 30, 2019	165.78	165.56
Six months ended September 30, 2018	184.28	181.64

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	*Millions of yen*	*%*
As of September 30, 2019	778,467	692,137	88.3
As of March 31, 2019	778,741	672,429	85.7

Reference: Shareholders' equity As of September 30, 2019: 687,439 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	—	50.00			
Year ending March 31, 2020 (forecast)			—	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*
Year ending March 31, 2020	367,000	0.9	150,000	8.3	171,500	3.0	135,000	1.7	433.52

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, 2019:	316,786,165 shares
As of March 31, 2019:	316,786,165 shares

b) Number of treasury stock

As of September 30, 2019:	5,381,488 shares
As of March 31, 2019:	5,498,751 shares

c) Average number of shares issued during the period

Six months ended September 30, 2019:	311,355,826 shares
Six months ended September 30, 2018:	314,179,065 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.

(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 Thursday, October 31, 2019. Plans are also in place to post audio explanatory details together with financial results explanatory materials distributed to analysts on October 31, 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 Second Quarter of the Fiscal Year Ending March 31, 2020

For the six months ended September 30, 2019 (April 1, 2019 to September 30, 2019), net sales were ¥160,877 million, operating income was ¥58,161 million, ordinary income was ¥65,305 million, and profit attributable to owners of parent was ¥51,616 million.

Net sales decreased 4.4 percent compared with the same period of the previous fiscal year. Domestic sales of prescription drugs increased 4.9 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 13.9 percent. In the United States, in addition to the sales contribution of Mulpleta, Shionogi received a one-time payment during the period in connection with a licensing agreement with BioDelivery Sciences International, Inc. for the co-commercialization of Symproic, but sales decreased 8.0 percent, reflecting the substantial impact of the absence of the one-time payment received from Purdue Pharma L.P. for Symproic in the same period of the previous fiscal year. In China, sales increased 42.7 percent as a result of steady expansion in sales of Rabeprazole. Sales from contract manufacturing increased 75.7 percent compared with the same period of the previous fiscal year, mainly due to an increase in orders for Xofluza from Roche. Royalty income from ViiV Healthcare Ltd. (“ViiV”) increased 7.1 percent, reflecting ViiV’s expansion in global sales of Tivicay, Triumeq and Juluca, although certain royalty income was impacted by exchange rate fluctuations. However, royalty income overall decreased 18.7 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 Xofluza.

Although domestic sales of prescription drugs and royalty income from ViiV increased, gross profit decreased 7.3 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, in addition to an increase in cost of sales as a result of an increase in contract manufacturing. Operating income increased 1.5 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 6.8 percent due to a decrease in dividend income received from ViiV and fluctuations in foreign exchange rates. Profit attributable to owners of parent decreased 10.8 percent.

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

1) Assets,Liabilities and Net Assets

As of September 30, 2019, total assets were ¥778,467 million, a decrease of ¥273 million from the end of the previous fiscal year. Current assets increased ¥18,556 million to ¥480,300 million because cash and deposits increased, although notes and accounts receivable-trade decreased due to factors including progress in collection of accounts receivable mainly related to seasonal products including Xofluza. Non-current assets decreased ¥18,830 million to ¥298,167 million, largely because of a decrease in investment securities due to sales of securities and fluctuations in foreign exchange rates.

Total liabilities decreased ¥19,981 million from the end of the previous fiscal year to ¥86,329 million. Current liabilities decreased ¥19,595 million to ¥69,511 million, mainly because income taxes payable decreased. Non-current liabilities decreased ¥385 million to ¥16,818 million.

Net assets increased ¥19,707 million from the end of the previous fiscal year to ¥692,137 million. Shareholders’ equity increased ¥36,519 million to ¥688,890 million as a result of factors including profit attributable to owners of parent and cash dividends paid. Accumulated other comprehensive income decreased ¥16,582 million to a loss of ¥1,451 million, mainly because of 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 decreased ¥140 million to ¥4,259 million.

2) Cash Flows

Net cash provided by operating activities during the six months ended September 30, 2019 was ¥61,141 million. Principal factors providing cash included income before income taxes of ¥67,386 million, depreciation and amortization of ¥8,220 million, decrease in notes and accounts receivable-trade of ¥21,804 million, and interest and dividends income received of ¥16,644 million. Uses of cash included income taxes paid of ¥28,758 million. As a result, net cash provided by operating activities decreased ¥7,055 million compared with the same period of the previous fiscal year.

Net cash used in investing activities was ¥611 million, an increase of ¥37,511 million. Expenditures including payments into time deposits of ¥101,644 million were partially offset by proceeds from sales of investment securities of ¥9,931 million.

Net cash used in financing activities was ¥15,765 million, a decrease of ¥19,737 million compared with the same period of the previous fiscal year. Uses of cash included cash dividends paid of ¥15,558 million.

As a result, cash and cash equivalents at the end of the second quarter totaled ¥240,332 million, an increase of ¥44,531 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, 2020, released on May 9, 2019, as follows.

1) Revisions of Financial Forecast

Revised forecasts for the year ending March 31, 2020

	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)	365,500	147,000	170,500	133,000	427.26
New forecast (B)	367,000	150,000	171,500	135,000	433.52
Change (B-A)	1,500	3,000	1,000	2,000	—
Percentage change (%)	0.4	2.0	0.6	1.5	—
(reference) For the year ended March 31, 2019	363,721	138,537	166,575	132,759	424.31

2) Reasons for Revision of Financial Forecast

Despite the negative impact of exchange rate fluctuations, net sales are expected to exceed the previous forecast, taking into account the solid performance of the contract manufacturing business and other operations. As for profits, Shionogi will continue to focus resources on initiatives for growth based on control of total costs, including cost of sales. As a result of this, combined with the increase in net sales, operating income is projected to be higher than the previous forecast. 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, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	193,549	226,075
Notes and accounts receivable-trade	65,918	44,269
Short-term investment securities	133,264	139,883
Merchandise and finished goods	18,741	18,137
Work in process	7,272	11,742
Raw materials and supplies	14,097	11,613
Other	28,942	28,624
Allowance for doubtful accounts	(43)	(46)
Total current assets	461,743	480,300
Non-current assets		
Property, plant and equipment	74,653	75,045
Intangible assets		
Goodwill	19,258	17,850
Other	35,511	32,742
Total intangible assets	54,769	50,593
Investments and other assets		
Investment securities	151,851	133,712
Other	35,765	38,858
Allowance for doubtful accounts	(42)	(42)
Total investments and other assets	187,574	172,528
Total non-current assets	316,997	298,167
Total assets	778,741	778,467
Liabilities		
Current liabilities		
Notes and accounts payable-trade	9,442	8,581
Current Portion of bonds	920	740
Income taxes payable	35,870	22,984
Provision for bonuses	9,058	7,420
Provision for sales returns	1,428	1,085
Other provision	166	—
Other	32,219	28,699
Total current liabilities	89,107	69,511
Non-current liabilities		
Net defined benefit liability	11,930	10,816
Other	5,272	6,002
Total non-current liabilities	17,203	16,818
Total liabilities	106,311	86,329

Millions of yen

	As of March 31, 2019	As of September 30, 2019
Net assets		
Shareholders' equity		
Capital stock	21,279	21,279
Capital surplus	20,512	20,512
Retained earnings	639,461	675,364
Treasury stock	(28,882)	(28,266)
Total shareholders' equity	652,371	688,890
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	28,927	24,606
Deferred gains or losses on hedges	747	2,980
Foreign currency translation adjustment	(18,370)	(32,522)
Remeasurements of defined benefit plans	3,826	3,484
Total accumulated other comprehensive income	15,130	(1,451)
Subscription rights to shares	527	438
Non-controlling interests	4,400	4,259
Total net assets	672,429	692,137
Total liabilities and net assets	778,741	778,467

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

Consolidated statements of income

Millions of yen

	Six months ended September 30, 2018	Six months ended September 30, 2019
Net sales	168,203	160,877
Cost of sales	24,724	27,898
Gross profit	143,478	132,978
Selling, general and administrative expenses	86,173	74,816
Operating income	57,304	58,161
Non-operating income		
Interest income	1,009	1,540
Dividends income	12,150	8,150
Other	1,403	257
Total non-operating income	14,563	9,949
Non-operating expenses		
Interest expenses	173	51
Foreign exchange losses	—	1,077
Other	1,616	1,676
Total non-operating expenses	1,790	2,805
Ordinary income	70,077	65,305
Extraordinary income		
Gain on sales of investment securities	—	2,672
Gain on sales of non-current assets	2,920	—
Total extraordinary income	2,920	2,672
Extraordinary losses		
Loss on valuation of investment securities	—	590
Loss on disaster	826	—
Total extraordinary losses	826	590
Income before income taxes	72,172	67,386
Income taxes-current	12,801	17,204
Income taxes-deferred	987	(1,389)
Total income taxes	13,789	15,814
Profit	58,382	51,572
Profit (loss) attributable to non-controlling interests	486	(43)
Profit attributable to owners of parent	57,896	51,616

Consolidated statements of comprehensive income

Millions of yen

	Six months ended September 30, 2018	Six months ended September 30, 2019
Profit	58,382	51,572
Other comprehensive income		
Valuation difference on available-for-sale securities	6,155	(4,321)
Deferred gains or losses on hedges	(713)	2,232
Foreign currency translation adjustment	559	(14,248)
Remeasurements of defined benefit plans	810	(342)
Total other comprehensive income	6,812	(16,678)
Comprehensive income	65,195	34,893
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	64,860	35,033
Comprehensive income attributable to non-controlling interests	335	(140)

(3) Consolidated statements of cash flows

Millions of yen

	Six months ended September 30, 2018	Six months ended September 30, 2019
Net cash provided by (used in) operating activities		
Income before income taxes	72,172	67,386
Depreciation and amortization	8,312	8,220
Amortization of goodwill	1,499	890
Loss (gain) on disposal of property, plant and equipment	(2,378)	183
Loss (gain) on sales of investment securities	(21)	(2,677)
Loss (gain) on valuation of investment securities	67	592
Interest and dividends income	(13,159)	(9,691)
Interest expenses	173	51
Foreign exchange losses (gains)	(4,266)	978
Decrease (increase) in notes and accounts receivable-trade	4,410	21,804
Decrease (increase) in inventories	(4,108)	(1,534)
Increase (decrease) in notes and accounts payable-trade	1,051	(1,007)
Other, net	(2,879)	(11,890)
Subtotal	60,873	73,306
Interest and dividends income received	19,517	16,644
Interest expenses paid	(173)	(51)
Income taxes (paid) refund	(12,021)	(28,758)
Net cash provided by (used in) operating activities	68,196	61,141
Net cash provided by (used in) investing activities		
Payments into time deposits	(69,136)	(101,644)
Proceeds from withdrawal of time deposits	36,900	89,598
Purchase of short-term investment securities	(2,200)	(49,636)
Proceeds from redemption of short-term investment securities	288	61,742
Purchase of property, plant and equipment	(2,987)	(5,255)
Proceeds from sales of property, plant and equipment	4,231	7
Purchase of intangible assets	(1,675)	(1,713)
Purchase of investment securities	(192)	(1,730)
Proceeds from sales of investment securities	0	9,931
Purchase of shares of subsidiaries and associates	(1,800)	—
Other, net	(327)	(688)
Net cash provided by (used in) investing activities	(36,899)	611
Net cash provided by (used in) financing activities		
Cash dividends paid	(13,815)	(15,558)
Purchase of treasury shares	(22,654)	(5)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	1,020	—
Other, net	(53)	(202)
Net cash provided by (used in) financing activities	(35,503)	(15,765)
Effect of exchange rate change on cash and cash equivalents	2,539	(1,455)
Net increase (decrease) in cash and cash equivalents	(1,666)	44,531
Cash and cash equivalents at beginning of period	172,400	195,800
Cash and cash equivalents at end of period	170,733	240,332

(4) Notes

Going concern assumption

None

Significant changes in shareholders' equity

None