Consolidated Financial Results for the Third Quarter of Fiscal Year 2020 (IFRS)

February 1, 2021

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: February 10, 2021

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, 2020 to December 31, 2020

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

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Comprehensive income	
	Millions of yen	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*
Nine months ended December 31, 2020	224,419	(11.9)	102,201	(4.2)	116,830	(5.5)	86,073	(8.7)	86,073	(8.7)	93,658	8.8
Nine months ended December 31, 2019	254,753	―	106,694	―	123,641	―	94,308	―	94,260	―	86,055	―

	Basic earnings per share	Diluted earnings per share
	Yen	*Yen*
Nine months ended December 31, 2020	279.90	279.80
Nine months ended December 31, 2019	303.79	303.41

Note: As the provisional accounting process related to business combinations was finalized in the third quarter of FY2020, the figures for the third quarter of the previous fiscal year were adjusted retrospectively.

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets
	Millions of yen	*Millions of yen*	*Millions of yen*	*%*
As of December 31, 2020	945,726	850,267	839,520	88.8
As of March 31, 2020	873,695	765,203	765,152	87.6

Note: As the provisional accounting process related to business combinations was finalized in the third quarter of FY2020, the figures for the previous fiscal year were adjusted retrospectively.

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, 2020	―	50.00	―	53.00	103.00
Year ending March 31, 2021	―	53.00	―		
Year ending March 31, 2021 (forecast)				53.00	106.00

Note: Revisions of the most recent dividend forecast: None

3. Consolidated financial forecast for the year ending March 31, 2021

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

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Millions of yen*	*%*	*Yen*
Year ending March 31, 2021	301,400	(9.6)	122,900	(5.9)	149,300	(5.8)	113,700	(7.0)	370.85

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

a) Changes in accounting policies required by IFRS: Yes

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

c) Changes in accounting estimates: None

(3) Number of shares issued (common stock)

a) Number of shares issued (including treasury stock)

As of December 31, 2020:	311,586,165 shares
As of March 31, 2020:	316,786,165 shares

b) Number of treasury stock

As of December 31, 2020:	4,994,223 shares
As of March 31, 2020:	13,002,082 shares

c) Average number of shares issued during the period

Nine months ended December 31, 2020:	307,515,149 shares
Nine months ended December 31, 2019:	310,283,585 shares

※ This report of financial results is unaudited.

※ Explanation Concerning the Appropriate Use of Financial Results Forecasts and Other Special Instructions

(Adoption of International Financial Reporting Standards (IFRS))

The Shionogi Group has voluntary applied International Financial Reporting Standards (IFRS) starting from the consolidated financial statements for the previous fiscal year (fiscal year ended March 31, 2020). The consolidated financial statements for the third quarter of the previous fiscal year are also restated in accordance with IFRS.

(Cautionary note concerning forward-looking statements)

The forecast of financial results and forward-looking statements contained in this report are based on information currently available to the Company as well as 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 (4) Outlook" on page 3 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, February 1, 2021. Plans are also in place to post explanatory details (Transcript) together with financial results explanatory materials distributed to analysts on February 1, 2021 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

The Shionogi Group has voluntary applied International Financial Reporting Standards (IFRS) starting from the consolidated financial statements for the previous fiscal year (fiscal year ended March 31, 2020). The consolidated financial statements for the third quarter of the previous fiscal year are also restated in accordance with IFRS.

(1) Operating Results for the Third Quarter of the Fiscal Year Ending March 31, 2021

For the nine months ended December 31, 2020 (April 1, 2020 to December 31, 2020), operating results were as follows.

Millions of yen

	Nine months ended December 31, 2020	Nine months ended December 31, 2019	Change	Percentage change (%)
Revenue	224,419	254,753	(30,334)	(11.9)
Operating profit	102,201	106,694	(4,492)	(4.2)
Core operating profit *	79,974	104,443	(24,469)	(23.4)
Profit before tax	116,830	123,641	(6,810)	(5.5)
Profit attributable to owners of parent	86,073	94,260	(8,186)	(8.7)

* In conjunction with the change in accounting standard, the Company has established “core operating profit” as a profit indicator to present ordinary profitability. This has been adopted as the Company’s proprietary earnings management indicator. Core operating profit is an adjusted profit in which non-recurring items (impairment losses, gain on sale of property, plant, and equipment, etc.) are deducted from operating profit.

Revenue decreased 11.9 percent year on year. In domestic sales of prescription drugs, revenue for Cymbalta and Intuniv expanded steadily, but changes in the operating environment in the pharmaceutical market, including a decline in doctor visits due to the COVID-19 pandemic and a sharp decline in many infectious diseases, including influenza, due to enforcement of measures to prevent infection, together with the impact of drug price revisions, mainly for long-term listed items, resulted in a 10.5 percent decrease in revenue. Overseas subsidiary sales and exports were also impacted by the COVID-19 pandemic, resulting in a decrease in revenue from certain products, including Rabeprazole, which is sold in China, although Fetroja, which has demonstrated effectiveness in multidrug-resistant gram-negative bacterial infections, performed well in the United States. In addition, in the United States, revenue declined significantly mainly due to the absence of a one-time payment that was received in the third quarter of the previous fiscal year in connection with a co-commercialization agreement for Symproic with BioDelivery Sciences International. As a result, revenue from overseas subsidiary sales and exports decreased 27.2 percent. In contract manufacturing, despite an increase from the acquisition and consolidation of Nagase Medicals Co., Ltd., which provides contract pharmaceutical manufacturing services, revenue decreased 14.3 percent mainly due to a temporary decrease in orders as improvements will be made to the manufacturing method of the Dolutegravir active pharmaceutical ingredient, as well as lower orders for Xofluza due to influenza season forecasts. With regard to royalty income, ViiV’s global sales of anti-HIV drugs Tivicay, Triumeq, Juluca and Dovato remained strong, but the effects of foreign exchange rates resulted in a 2.8 percent decrease in royalty income from ViiV. In addition, royalty income decreased due to the absence of milestone payments from Roche received in the same period of the previous year in connection with progress in global development of Xofluza. As a result, total royalty income decreased 11.5 percent.

Selling, general and administrative expenses decreased as we refrained from visiting medical institutions as part of our response to the COVID-19 pandemic, and realized a gain on exchange from redevelopment of the Shionogi Shibuya Building (included in “Other income”). However, operating profit decreased 4.2 percent year on year as a result of an increase in research and development investments for COVID-19-related projects and priority projects, and the substantial impact of the decrease in gross profit. Core operating profit decreased 23.4 percent because it excludes the aforementioned gain on exchange from redevelopment of the Shionogi Shibuya Building, a non-recurring item. Profit before tax and profit attributable to owners of parent decreased 5.5 percent and 8.7 percent, respectively, due to the decrease in operating profit.

(2) Financial Position for the Third Quarter of the Fiscal Year Ending March 31, 2021

As of December 31, 2020, total assets were ¥945,726 million, an increase of ¥72,030 million from the end of the previous fiscal year.

Non-current assets increased ¥43,930 million from the end of the previous fiscal year, mainly reflecting an increase in goodwill due to the acquisition of shares of Tetra Therapeutics, making it a consolidated subsidiary, and an increase in investment properties due to the redevelopment of the Shionogi Shibuya Building. Current assets increased ¥28,099

million, mainly reflecting increases in inventories and in fixed term deposits of more than three months (included in "Other financial assets" in current assets).
Equity was ¥850,267 million, an increase of ¥85,063 million from the end of the previous fiscal year, mainly due to recording of profit, cash dividends paid, disposal of treasury shares by third-party allotment, and an increase in non-controlling interests in connection with the establishment of a joint venture with Ping An Group.
Liabilities totaled ¥95,458 million, a decrease of ¥13,033 million from the end of the previous fiscal year. Non-current liabilities decreased ¥4,310 million. Current liabilities decreased ¥8,723 million.
A provisional accounting treatment has been used for Tetra Therapeutics and Nagase Medicals, which became consolidated subsidiaries during the fiscal year ending March 31, 2021, as the purchase price allocations have not yet been completed. The purchase price allocation for UMN Pharma, for which a provisional accounting treatment has been used since the third quarter of the fiscal year ended March 31, 2020, was completed in the third quarter of the fiscal year ending March 31, 2021, and consequently the provisional fair value of the assets acquired and liabilities assumed was retroactively adjusted.

(3) Cash Flows for the Third Quarter of the Fiscal Year Ending March 31, 2021

Net cash provided by operating activities during the nine months ended December 31, 2020 was ¥58,640 million, a decrease of ¥26,042 million year on year. Factors included a decrease in profit before tax and a decrease in cash due to a decrease in trade and other receivables.
Net cash used in investing activities was ¥47,973 million, an increase of ¥28,065 million year on year. Factors included time deposits and acquisition and sale of securities for investment of surplus, and payments for acquisition of subsidiaries.
Net cash used in financing activities was ¥13,342 million, a decrease of ¥54,501 million year on year. Factors included dividends paid, purchase of treasury shares, disposal of treasury shares by third-party allotment, and proceeds from issuance of shares related to the establishment of a joint venture with Ping An Group.
As a result, cash and cash equivalents at the end of the third quarter totaled ¥204,788 million, a decrease of ¥4,072 million from the end of the previous fiscal year.

(4) Outlook

Based on recent performance trends, the Shionogi Group has revised its financial forecast for the fiscal year ending March 31, 2021, released on October 30, 2020, as follows.

1) Revisions of Financial Forecast

Revised forecasts for the year ending March 31, 2021

	Revenue	Operating profit	Profit before tax	Profit attributable to owners of parent	Basic earnings per share
	Millions of yen	*Millions of yen*	*Millions of yen*	*Millions of yen*	*Yen*
Previous forecast (A)	318,100	133,200	159,600	119,700	390.42
New forecast (B)	301,400	122,900	149,300	113,700	370.85
Change (B-A)	(16,700)	(10,300)	(10,300)	(6,000)	—
Percentage change (%)	(5.2)	(7.7)	(6.5)	(5.0)	—
(Reference) For the year ended March 31, 2020	333,371	130,628	158,516	122,193	395.71

* Based on a resolution by the Board of Directors on October 30, 2020, Shionogi is repurchasing treasury shares during the third quarter. "Basic earnings per share" in the previously announced forecast takes into account the effect of this repurchase of treasury shares.

2) Reasons for Revision of Financial Forecast

Revenue for the fiscal year is projected to be lower than the previous forecast, despite an expected increase due to the impact of order adjustments for Xofluza and other factors. The lower revenue forecast is due to slower progress in the development of prescription drugs, including treatments for infectious diseases, in the first three quarters of the fiscal year and a decrease in royalty income from ViiV due to the effect of exchange rates. As for profits, selling, general and administrative expenses are forecast to decrease as a result of further optimization of resources, but operating profit is projected to be lower than the previous forecast due to the decrease in revenue. In addition, profit before tax and profit attributable to owners of parent are each expected to be lower than the previous forecast as a result of the decrease in operating profit.

2. Consolidated Financial Statements and Notes

(1) Consolidated statement of profit or loss and Consolidated statement of comprehensive income

Consolidated statement of profit or loss

Millions of yen

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Revenue	254,753	224,419
Cost of sales	(40,711)	(35,947)
Gross profit	214,042	188,471
Selling, general and administrative expenses	(70,661)	(66,232)
Research and development expenses	(34,852)	(39,234)
Amortization of intangible assets associated with products	(2,437)	(2,406)
Other income	2,961	23,315
Other expenses	(2,357)	(1,712)
Operating profit	106,694	102,201
Finance income	18,478	15,884
Finance costs	(1,531)	(1,256)
Profit before tax	123,641	116,830
Income tax expense	(29,332)	(30,756)
Profit	94,308	86,073

Profit (loss) attributable to		
Owners of parent	94,260	86,073
Non-controlling interests	48	(0)
Profit	94,308	86,073

Earnings per share		
Basic earnings per share	303.79	279.90
Diluted earnings per share	303.41	279.80

Consolidated statement of comprehensive income

Millions of yen

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Profit	94,308	86,073
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	(5,179)	(1,190)
Remeasurements of defined benefit plans	767	2,293
Total of items that will not be reclassified to profit or loss	(4,411)	1,102
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(4,445)	9,561
Effective portion of cash flow hedges	603	(3,079)
Total of items that may be reclassified to profit or loss	(3,842)	6,481
Total other comprehensive income, net of tax	(8,253)	7,584
Comprehensive income	86,055	93,658

Comprehensive income attributable to		
Owners of parent	86,221	93,658
Non-controlling interests	(166)	(0)
Comprehensive income	86,055	93,658

(2) Consolidated statement of financial position

Millions of yen

	As of March 31, 2020	As of December 31, 2020
Assets		
Non-current assets		
Property, plant and equipment	71,350	74,770
Goodwill	7,854	25,397
Intangible assets	51,705	52,251
Right-of-use assets	4,657	4,251
Investment property	2,496	26,496
Other financial assets	202,161	207,322
Deferred tax assets	3,048	4,822
Other non-current assets	14,394	6,287
Total non-current assets	357,669	401,600
Current assets		
Inventories	33,818	40,897
Trade receivables	79,804	83,733
Other financial assets	171,157	189,918
Income taxes receivable	192	90
Other current assets	22,191	24,697
Cash and cash equivalents	208,861	204,788
Total current assets	516,026	544,126
Total assets	873,695	945,726

Millions of yen

	As of March 31, 2020	As of December 31, 2020
Equity and liabilities		
Equity		
Share capital	21,279	21,279
Capital surplus	21,025	21,326
Treasury shares	(77,292)	(28,422)
Retained earnings	708,291	728,684
Other components of equity	91,848	96,651
Equity attributable to owners of parent	765,152	839,520
Non-controlling interests	51	10,747
Total equity	765,203	850,267
Liabilities		
Non-current liabilities		
Lease liabilities	4,791	4,100
Other financial liabilities	4,179	3,488
Retirement benefit liability	16,089	13,241
Deferred tax liabilities	1,949	1,902
Other non-current liabilities	362	328
Total non-current liabilities	27,372	23,062
Current liabilities		
Lease liabilities	3,361	3,321
Trade payables	10,763	10,327
Other financial liabilities	17,557	13,886
Income taxes payable	21,886	21,524
Other current liabilities	27,551	23,337
Total current liabilities	81,119	72,396
Total liabilities	108,492	95,458
Total equity and liabilities	873,695	945,726

(3) Consolidated statement of changes in equity

Nine months ended December 31, 2019

Millions of yen

	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of April 1, 2019	21,279	21,277	(28,882)	613,483	181,616	808,774	4,313	813,087
Profit				94,260		94,260	48	94,308
Total other comprehensive income, net of tax					(8,038)	(8,038)	(214)	(8,253)
Comprehensive income	-	-	-	94,260	(8,038)	86,221	(166)	86,055
Purchase of treasury shares			(30,728)			(30,728)		(30,728)
Disposal of treasury shares		(509)	1,602			1,093		1,093
Dividends				(31,134)		(31,134)		(31,134)
Increase (decrease) by business combination						-	682	682
Changes in ownership interest in subsidiaries		778				778	(4,145)	(3,366)
Transfer from other components of equity to retained earnings				2,620	(2,620)	-		-
Other		420		(420)		-	49	49
Balance as of December 31, 2019	21,279	21,966	(58,008)	678,810	170,956	835,004	733	835,737

Nine months ended December 31, 2020

Millions of yen

	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of April 1, 2020	21,279	21,025	(77,292)	708,291	91,848	765,152	51	765,203
Profit				86,073		86,073	(0)	86,073
Total other comprehensive income, net of tax					7,584	7,584		7,584
Comprehensive income	-	-	-	86,073	7,584	93,658	(0)	93,685
Purchase of treasury shares			(20,446)			(20,446)		(20,446)
Disposal of treasury shares		(4,705)	38,404			33,698		33,698
Cancellation of treasury shares		(30,912)	30,912			-		-
Dividends				(32,543)		(32,543)		(32,543)
Change in scope of consolidation						-	10,696	10,696
Transfer from other components of equity to retained earnings				2,292	(2,292)	-		-
Other		35,919		(35,430)	(488)	(0)		(0)
Balance as of December 31, 2020	21,279	21,326	(28,422)	728,684	96,651	839,520	10,747	850,267

(4) Consollidated statement of cash flows

Millions of yen

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Cash flows from operating activities		
Profit before tax	123,641	116,830
Depreciation and amortization	10,467	10,987
Finance income and finance costs	(17,823)	(14,951)
Decrease (increase) in trade and other receivables	16,154	(2,830)
Decrease (increase) in inventories	(1,387)	(6,491)
Increase (decrease) in trade and other payables	(9,117)	(1,255)
Other	(10,185)	(35,916)
Subtotal	111,748	66,372
Interest and dividends received	21,195	24,785
Interest paid	(115)	(71)
Income taxes paid	(48,145)	(32,446)
Net cash provided by (used in) operating activities	84,682	58,640
Cash flows from investing activities		
Payments into time deposits	(143,936)	(170,592)
Proceeds from withdrawal of time deposits	122,576	139,070
Purchase of property, plant and equipment	(8,502)	(10,077)
Purchase of intangible assets	(2,361)	(4,329)
Payments for acquisition of subsidiaries	(4,525)	(3,636)
Purchase of investments	(77,350)	(86,349)
Proceeds from sale of investments	93,570	91,576
Other	622	(3,634)
Net cash provided by (used in) investing activities	(19,907)	(47,973)

Millions of yen

	Nine months ended December 31, 2019	Nine months ended December 31, 2020
Cash flows from financing activities		
Repayments of lease liabilities	(2,597)	(2,688)
Purchase of treasury shares	(30,762)	(20,468)
Proceeds from disposal of treasury shares	—	33,534
Dividends paid	(31,136)	(32,545)
Capital contribution from non-controlling interests	49	10,401
Payments for acquisition of interests in subsidiaries from non-controlling interests	(3,367)	(1,575)
Other	(30)	(0)
Net cash provided by (used in) financing activities	(67,844)	(13,342)
Effect of exchange rate changes on cash and cash equivalents	(613)	(1,396)
Net increase (decrease) in cash and cash equivalents	(3,683)	(4,072)
Cash and cash equivalents at beginning of period	195,800	208,861
Cash and cash equivalents at end of period	192,117	204,788

(5) Notes

Going concern assumption

None

Change in accounting policies

Shionogi group has applied the following standard from the first quarter of the fiscal year ending March 31, 2021. The adoption does not have a significant impact on the consolidated financial statements.

IFRS		Overview of new standards and revisions
IFRS 3	Business Combinations	Amendments to the definition of a business in Business Combinations

Segment information

Shionogi group has a single business segment related to prescription drugs. The group operates research, development, purchase, manufacturing, and distributing prescription drugs and related businesses. While analysis of each product sales and profits or expenses of each subsidiary are made, decision of business strategy and allocation of the management resources, especially allocation of R&D expenses, are made on a company-wide basis. Therefore disclosure of segment information is omitted.