Consolidated Financial Results for the Three Months Ended June 30, 2024 (Based on Japanese GAAP)

August 8, 2024

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Stock exchange listing: Tokyo
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Scheduled date to commence dividend payments: –
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results meeting: Yes (for analysts and institutional investors)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the three months ended June 30, 2024 (from April 1, 2024 to June 30, 2024)

(1) Consolidated operating results (cumulative) Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2024	62,566	14.7	5,672	38.5	8,593	23.5	5,495	15.7
Three months ended June 30, 2023	54,548	20.2	4,096	123.1	6,959	181.8	4,750	245.8

	Earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2024	111.64	–
Three months ended June 30, 2023	96.51	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2024	451,229	162,992	36.1
As of March 31, 2024	430,653	155,893	36.2

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2024	–	30.00	–	30.00	60.00
Year ending March 31, 2025	–				
Year ending March 31, 2025 (Forecast)		30.00	–	30.00	60.00

3. Forecast of consolidated financial results for the year ending March 31, 2025 (from April 1, 2024 to March 31, 2025)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		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, 2024	122,800	14.3	6,800	(2.9)	6,800	(33.6)	4,100	(41.0)	83.30
Full year	261,500	14.7	19,600	11.1	19,200	(21.6)	12,600	(22.1)	255.99

Note: Revision to forecast of consolidated results announced most recently: Yes

4. Notes

(1) Changes in significant subsidiaries during the three months ended June 30, 2024 (changes in specified subsidiaries resulting in the change in scope of consolidation): No

(2) Application of special accounting methods for preparing quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

Changes in accounting policies due to revisions to accounting standards and other regulations:	Yes
Changes in accounting policies due to other reasons:	No
Changes in accounting estimates:	No
Restatement of prior period financial statements:	No

(4) Number of issued shares (common shares)

Total number of issued shares at the end of the period (including treasury shares)

As of June 30, 2024	51,516,000 shares	As of March 31, 2024	51,516,000 shares

Number of treasury shares at the end of the period

As of June 30, 2024	2,295,857 shares	As of March 31, 2024	2,295,857 shares

Average number of shares during the period (cumulative from the beginning of the fiscal year)

Three months ended June 30, 2024	49,220,143 shares	Three months ended June 30, 2023	49,221,833 shares

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1. Overview of Operating Results and Financial Position

The forward-looking statements in this document are those determined as of the end of the quarterly consolidated accounting period.

(1) Overview of operating results during the period

With the corporate philosophy of "Contribute to people's health and dedicate ourselves to people's genuine smiles", the Group has been working on various issues. The aim is to establish a foundation in new markets and new businesses and realize group synergies with each subsidiary while making the domestic generic drug business its core business in accordance with the "6th Medium-term Business Plan 2024–2026 PROACTIVEIII" announced in June 2024.

As a result, operating results for the consolidated first quarter are as follows.

Consolidated earnings (Millions of yen)

	2024/03 Q1	2025/03 Q1	Change	Change (%)
Net sales	54,548	62,566	8,018	14.7%
Cost of sales	34,539	39,223	4,684	13.6%
Gross profit	20,008	23,342	3,334	16.7%
Selling, general and administrative expenses	15,912	17,670	1,757	11.0%
Operating profit	4,096	5,672	1,576	38.5%
Ordinary profit	6,959	8,593	1,633	23.5%
Profit attributable to owners of parent	4,750	5,495	744	15.7%

Sales were strong due to the good performance of the Company in the domestic segment and mainly due to a weaker yen in the overseas segment.

In terms of business results, net sales were 62,566 million yen, operating profit came to 5,672 million yen, ordinary profit was 8,593 million yen due to a 2,223 million yen in gain on valuation of derivatives, and profit attributable to owners of parent posted 5,495 million yen.

Results by segment are as follows. Segment profit of the reporting segments is the figure before amortization of goodwill.

Results by segment (Millions of yen)

	Domestic segment				Overseas segment			
	2024/03 Q1	2025/03 Q1	Change	Change (%)	2024/03 Q1	2025/03 Q1	Change	Change (%)
Net sales	43,005	48,833	5,828	13.6%	11,579	13,779	2,199	19.0%
Segment profit (loss)	5,191	7,116	1,925	37.1%	(28)	(330)	(301)	―

(Note) Segment profit (loss) is based on operating profit.

(Domestic segment)

In the generic drug industry in Japan, as a result of efforts to expand the production system and ensure a stable supply of generic drugs, we achieved an 83.6% share of the volume in the January–March 2024 period (according to the Japan Generic Medicines Association) in line with the 2017 Cabinet decision to "increase the use of generic drugs to 80% or more by September 2020." On the other hand, in 2020, the Cabinet decided to make regular drug price revisions every year from FY2021 onward, which used to be conducted every two years, making the situation extremely severe for the pharmaceutical industry. Furthermore, due to a series of supply concerns stemming from quality problems at generic drug companies that came to light in 2020, confidence in generic drugs has declined and the environment facing the generic drug industry has become increasingly tough.

Under these circumstances, in the drug price revisions in FY2024, in order to ensure a stable supply of drugs, mainly generics, the use of corporate indicators to evaluate a company's stable supply system and evaluation results for drug price revisions was partially introduced on a trial basis. The "Report of the Study Group on Industrial Structure for Achieving Stable Supply of Generic Drugs" published by the Ministry of Health, Labour and Welfare in May 2024 showed that the government will "establish an intensive reform period of about five years to ensure a manufacturing management and quality control system, secure stable supply capacity, and realize a sustainable industrial structure." In addition, in the "Basic Policy on Economic and Fiscal Management and Reform 2024 (Big-Boned Policy 2024)" approved by the Cabinet in June 2024, it was stated that the government will "promote structural reforms with a view to industry restructuring and develop a legal framework for stable supply, with an eye to an ideal generic drug industry based on stable supply."

Under these circumstances, in order to fulfill our responsibility for a stable supply, we have introduced new facilities and increased the number of employees in the domestic generics business for increased production. As of the end of March 2024, our annual production capacity reached 14 billion tablets. In addition, the construction of Solid Formulation Facility No. 3 and Sterile Formulation Facility No. 2 at the Yamagata Plant was completed in November 2023, and shipments of products manufactured at Solid Formulation Facility No. 3 began in April 2024. We are working to achieve an annual production capacity of 17.5 billion tablets at the three plants by the end of FY2026.

In terms of manufacturing control and quality control, we not only comply with the GMP Ordinance, which is the standard for manufacturing control and quality control of pharmaceuticals, and other related laws and regulations, but also actively adopt international standards such as PIC/S GMP and ICH Guidelines, and work to ensure appropriate quality and safety of pharmaceuticals through our own systems and education and training. In addition to the MES (Manufacturing Execution System) and LIMS (Laboratory Information Management System) already in place, we have decided to introduce MasterControl Quality Excellence, a QMS (Quality Management System) from MasterControl Solutions, Inc., to further improve manufacturing control and quality control. Furthermore, in order to maintain and strengthen our stable supply system, we are striving to switch to multiple purchases of APIs and audit manufacturing sites, and are continuing to strengthen governance and ensure thorough compliance throughout the entire Group, from API manufacturing to formulation manufacturing, distribution and sales.

In terms of sales, in June 2024, seven new products with three ingredients were added to the National Health Insurance drug price list, bringing the total number of our generic drugs to 749 products with 322 ingredients (as of June 2024).

As for the development of health-related businesses, in order to respond to the new medical system such as the community-based integrated care system, we will focus on the "Healthcare Passport" (that enables local medical professionals and residents to share health and medical information in both directions). We will realize diversified development of health-related businesses by forming synergies between each subsidiary and existing businesses from the viewpoint of treatment, prevention and nursing care support, and increasing products and services for maintaining and promoting health.

In the consolidated first quarter, the domestic segment posted net sales of 48,833 million yen (up 13.6% year on year) and segment profit of 7,116 million yen (up 37.1% year on year), due to an increase in sales volume thanks to stronger demand for our products.

(Overseas segment)

In the overseas segment of the Group, we are engaged in the generic drug business in Europe and the U.S. through Towa Pharma International Holdings, S. L. (hereinafter referred to as "Towa INT") to strengthen and expand the overseas drug business. By leveraging Towa INT's sales network in multiple countries in Europe and the U.S. and its manufacturing bases in Europe that comply with standards in Europe and the U.S., we will establish a global business foundation that can provide high-quality, value-added generic drugs to patients worldwide from three regions: Japan, the U.S. and Europe. In addition, by maintaining and strengthening the existing business in Towa INT and further expanding the market and region, we aim to gain scale and secure net sales and segment profit.

In the consolidated first quarter, net sales in the overseas segment were 13,779 million yen (up 19.0% year on year) due to the depreciation of the yen and the favorable performance of both BtoB and BtoC in Europe. As

for segment profit, although the cost of sales ratio decreased due to an improvement in the sales mix, we recorded a segment loss of 330 million yen due to an increase in R&D expenses related to the development of new products and the handling of nitrosamines.

(2) Overview of financial position during the period

(i) Assets, Liabilities and Net Assets

Total assets at the end of the first quarter were 451,229 million yen, an increase of 20,576 million yen from the end of the previous fiscal year. The main factors were an increase of 5,385 million yen in cash and deposits, an increase of 4,931 million yen in property, plant and equipment, and an increase of 3,739 million yen in inventories, despite a decrease of 634 million yen in notes and accounts receivable - trade.

Liabilities were 288,237 million yen, an increase of 13,477 million yen from the end of the previous fiscal year. The main factors were an increase of 8,932 million yen in long-term borrowings, an increase of 4,682 million yen in other in non-current liabilities, and an increase of 1,855 million yen in short-term borrowings, despite a decrease of 5,312 million yen in income taxes payable.

Net assets were 162,992 million yen, an increase of 7,099 million yen from the end of the previous fiscal year. The main factors included an increase of 4,034 million yen in retained earnings and an increase of 3,052 million yen in foreign currency translation adjustments.

As a result, the equity ratio came to 36.1%.

(ii) Cash Flows

The balance of cash and cash equivalents at the end of the first quarter was 35,015 million yen, an increase of 5,364 million yen from the end of the previous fiscal year.

The status of each cash flow in the consolidated first quarter is as follows.

(Cash flows from operating activities)

Net cash used in operating activities was 5,892million yen (down 2,434 million yen year on year). This was mainly due to payments of income taxes of 7,303 million yen (up 6,765 million yen year on year), an increase of 2,809 million yen in inventories (down 693 million yen year on year), and gain on valuation of derivatives of 2,223 million yen (down 482 million yen year on year), despite the profit before income taxes of 8,584 million yen (up 1,443 million yen year on year) and depreciation of 3,624 million yen (up 407 million yen year on year).

(Cash flows from investing activities)

Net cash used in investing activities was 1,613 million yen (down 1,952 million yen year on year). This was mainly due to purchase of property, plant and equipment of 1,242 million yen (down 2,814 million yen year on year).

(Cash flows from financing activities)

Net cash provided by financing activities was 11,403 million yen (down 6,668 million yen year on year). This was mainly due to proceeds from long-term borrowings of 13,400 million yen (down 7,601 million yen year on year), despite repayments of long-term borrowings of 4,559 million yen (up 2,832 million yen year on year).

(3) Explanation of Consolidated Financial Forecasts and Other Forward-looking Information

The Company has revised the first-half and full-year consolidated earnings forecasts for the fiscal year ending March 31, 2025, announced on May 14, 2024. For details, please refer to “Notice of Revisions of Financial Forecasts” released on August 8, 2024.

2. Quarterly Consolidated Financial Statements and Key Notes
(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2024	As of June 30, 2024
Assets		
Current assets		
Cash and deposits	29,650	35,036
Notes and accounts receivable - trade	62,916	62,282
Electronically recorded monetary claims - operating	8,854	9,638
Merchandise and finished goods	48,986	48,882
Work in process	13,906	15,467
Raw materials and supplies	38,180	40,462
Other	15,335	23,396
Allowance for doubtful accounts	(113)	(385)
Total current assets	217,718	234,780
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	57,219	75,891
Machinery, equipment and vehicles, net	18,017	17,860
Land	18,251	18,401
Construction in progress	55,917	37,141
Other, net	4,237	9,279
Total property, plant and equipment	153,642	158,574
Intangible assets		
Goodwill	32,568	31,772
Other	18,017	18,136
Total intangible assets	50,586	49,909
Investments and other assets		
Investment securities	641	666
Other	8,864	8,118
Allowance for doubtful accounts	(800)	(819)
Total investments and other assets	8,705	7,965
Total non-current assets	212,934	216,449
Total assets	430,653	451,229

(Millions of yen)

	As of March 31, 2024	As of June 30, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	15,652	16,500
Electronically recorded obligations - operating	10,720	10,724
Short-term borrowings	3,112	4,968
Current portion of long-term borrowings	10,120	10,092
Income taxes payable	7,926	2,614
Provisions	96	21
Other	32,488	35,068
Total current liabilities	80,118	79,990
Non-current liabilities		
Long-term borrowings	189,124	198,057
Retirement benefit liability	220	210
Other	5,296	9,978
Total non-current liabilities	194,641	208,246
Total liabilities	274,759	288,237
Net assets		
Shareholders' equity		
Share capital	4,717	4,717
Capital surplus	7,838	7,838
Retained earnings	134,452	138,487
Treasury shares	(5,606)	(5,606)
Total shareholders' equity	141,401	145,436
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	191	203
Foreign currency translation adjustment	14,300	17,353
Total accumulated other comprehensive income	14,491	17,556
Total net assets	155,893	162,992
Total liabilities and net assets	430,653	451,229

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

Consolidated statements of income (cumulative)

(Millions of yen)

	Three months ended June 30, 2023	Three months ended June 30, 2024
Net sales	54,548	62,566
Cost of sales	34,539	39,223
Gross profit	20,008	23,342
Selling, general and administrative expenses	15,912	17,670
Operating profit	4,096	5,672
Non-operating income		
Interest income	7	59
Dividend income	2	3
Foreign exchange gains	104	797
Gain on valuation of derivatives	2,705	2,223
Other	253	171
Total non-operating income	3,073	3,255
Non-operating expenses		
Interest expenses	192	331
Other	16	3
Total non-operating expenses	209	334
Ordinary profit	6,959	8,593
Extraordinary income		
Gain on sale of non-current assets	189	0
Other	2	–
Total extraordinary income	192	0
Extraordinary losses		
Loss on disposal of non-current assets	11	3
Loss on impairment of non-current assets	–	6
Total extraordinary losses	11	9
Profit before income taxes	7,140	8,584
Income taxes	2,390	3,089
Profit	4,750	5,495
Profit attributable to owners of parent	4,750	5,495

Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Three months ended June 30, 2023	Three months ended June 30, 2024
Profit	4,750	5,495
Other comprehensive income		
Valuation difference on available-for-sale securities	16	12
Foreign currency translation adjustment	3,812	3,052
Total other comprehensive income	3,828	3,064
Comprehensive income	8,579	8,560
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	8,579	8,560
Comprehensive income attributable to non-controlling interests	–	–

(3) Consolidated statements of cash flows

(Millions of yen)

	Three months ended June 30, 2023	Three months ended June 30, 2024
Cash flows from operating activities		
Profit before income taxes	7,140	8,584
Depreciation	3,217	3,624
Amortization of goodwill	1,046	1,111
Increase (decrease) in allowance for doubtful accounts	(130)	282
Increase (decrease) in other provisions	(81)	(97)
Loss (gain) on sale of non-current assets	(189)	(0)
Loss (gain) on disposal of non-current assets	11	3
Interest and dividend income	(10)	(62)
Interest expenses	192	331
Loss (gain) on valuation of derivatives	(2,705)	(2,223)
Decrease (increase) in trade receivables	(4,120)	525
Decrease (increase) in inventories	(3,503)	(2,809)
Increase (decrease) in trade payables	(7,768)	672
Other, net	(834)	(8,281)
Subtotal	(7,735)	1,659
Interest and dividends received	11	63
Interest paid	(190)	(326)
Compensation received	94	―
Subsidies received	29	13
Income taxes refund (paid)	(537)	(7,303)
Net cash provided by (used in) operating activities	(8,327)	(5,892)
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,056)	(1,242)
Purchase of intangible assets	(138)	(381)
Other, net	629	10
Net cash provided by (used in) investing activities	(3,565)	(1,613)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	193	1,761
Proceeds from long-term borrowings	21,001	13,400
Repayments of long-term borrowings	(1,727)	(4,559)
Redemption of straight bonds	―	(65)
Dividends paid	(1,304)	(1,405)
Other, net	(91)	2,273
Net cash provided by (used in) financing activities	18,072	11,403
Effect of exchange rate change on cash and cash equivalents	380	1,254
Net increase (decrease) in cash and cash equivalents	6,559	5,152
Cash and cash equivalents at beginning of period	24,257	29,650
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	―	212
Cash and cash equivalents at end of period	30,817	35,015

(4) Notes to consolidated financial statements

(Notes on changes in accounting policies)

(Adoption of Accounting Standard for Current Income Taxes, etc.)

The Group has adopted the Accounting Standard for Current Income Taxes (ASBJ Statement No. 27, October 28, 2022, hereinafter referred to as the "Revised Accounting Standard of 2022") and relevant ASBJ regulations effective as of the beginning of the first quarter of the current fiscal year.

Revisions related to the accounting classification of income taxes (taxation on other comprehensive income) are in accordance with the transitional treatment set forth in the proviso to paragraph 20-3 of the Revised Accounting Standard of 2022 and the transitional treatment set forth in the proviso to paragraph 65-2 (2) of the Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, October 28, 2022, hereinafter referred to as the "Revised Implementation Guidance of 2022"). The change in accounting policy has no effect on the quarterly consolidated financial statements.

The Group has also adopted the Revised Implementation Guidance of 2022 effective as of the beginning of the first quarter of the current fiscal year for revisions related to the change in the treatment in consolidated financial statements when deferring, for tax purposes, gains or losses on sales of shares of subsidiaries and other securities arising from sales between consolidated companies. The change in accounting policy has been applied retrospectively, and the quarterly consolidated financial statements for the previous quarter and the consolidated financial statements for the previous fiscal year are presented on a retrospective basis. The change in accounting policy has no effect on the quarterly consolidated financial statements and the consolidated financial statements of the previous fiscal year.

(Adoption of Accounting for and Disclosure of Current Taxes Related to the Global Minimum Tax Rules)

The Group has adopted the Accounting for and Disclosure of Current Taxes Related to the Global Minimum Tax Rules (ASBJ Practical Solution No. 46, March 22, 2024, hereinafter referred to as "Practical Solution No. 46") effective as of the beginning of the first quarter of the current fiscal year.

Due to the adoption of paragraph 7 of Practical Solution No. 46, the consolidated financial statements for the first quarter do not include income taxes related to the global minimum tax rules.

(Notes on segment information)

Information concerning net sales and profit (loss) by reportable segment

For three months ended June 30, 2023

(Millions of yen)

	Reportable segment			Adjustment (Note 1)	Total (Note 2)
	Domestic	Overseas	Subtotal		
Sales					
Sales to outside customers	43,005	11,543	54,548	–	54,548
Sales or transfers between segments	–	36	36	(36)	–
Total	43,005	11,579	54,584	(36)	54,548
Segment profit (loss)	5,191	(28)	5,162	(1,066)	4,096

Notes: 1. Adjustment in segment profit (loss) represents goodwill amortization of (1,046) million yen, and elimination of internal transactions between segments of (19) million yen.
2. Segment profit (loss) matches operating profit on the consolidated statements of income.

For three months ended June 30, 2024

(Millions of yen)

	Reportable segment			Adjustment (Note 1)	Total (Note 2)
	Domestic	Overseas	Subtotal		
Sales					
Sales to outside customers	48,833	13,733	62,566	–	62,566
Sales or transfers between segments	–	46	46	(46)	–
Total	48,833	13,779	62,612	(46)	62,566
Segment profit (loss)	7,116	(330)	6,785	(1,113)	5,672

Notes: 1. Adjustment in segment profit (loss) represents goodwill amortization of (1,111) million yen, and elimination of internal transactions between segments of (1) million yen.
2. Segment profit (loss) matches operating profit on the consolidated statements of income.

(Notes on significant changes in the amount of shareholders' equity)

Not applicable.

(Notes on going concern assumption)

Not applicable.