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

November 12, 2024

Company name: TOWA PHARMACEUTICAL CO., LTD.
Stock exchange listing: Tokyo
Stock code: 4553 URL https://www.towayakuhin.co.jp/
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Scheduled date to file Semi-annual Securities Report: November 13, 2024
Scheduled date to commence dividend payments: December 2,2024
Preparation of supplementary material on financial results: Yes
Holding of financial results meeting: Yes (for analysts and institutional investors)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the six months ended September 30, 2024 (from April 1, 2024 to September 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	%
Six months ended September 30, 2024	123,404	14.9	10,513	50.1	10,338	1.0	6,555	(5.7)
Six months ended September 30, 2023	107,396	18.7	7,003	117.5	10,233	122.0	6,953	158.3

Note : Comprehensive income For the six months ended September 30, 2024 : ¥4,654 million [(59.4)%]
For the six months ended September 30, 2023 : ¥11,451 million [39.8%]

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2024	133.17	–
Six months ended September 30, 2023	141.26	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2024	442,839	159,110	35.9
As of March 31, 2024	430,653	155,893	36.2

Reference : Equity As of September 30, 2024 : ¥159,110 million
As of September 30, 2023 : ¥155,893 million

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	–	30.00			
Year ending March 31, 2025 (Forecast)			–	30.00	60.00

Note : Revisions to the forecasts of cash dividends most recently announced : None

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
Full year	262,100	15.0	23,300	32.0	22,700	(7.3)	15,000	(7.3)	304.72

Note : Revisions to the forecasts of consolidated financial results most recently announced : None

4. Notes

(1) Changes in significant subsidiaries during the six months ended September 30, 2024 (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Adoption of accounting treatment specific to the preparation of semi-annual consolidated financial statements: None

(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:	None
Changes in accounting estimates:	None
Restatement of prior period financial statements:	None

(4) Number of issued shares (common shares)

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

As of September 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 September 30, 2024	2,288,903 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)

Six months ended September 30, 2024	49,223,123 shares	Six months ended September 30, 2023	49,221,463 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 first half of the consolidated fiscal year under review.

(1) Overview of operating results during the period under review

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 PROACTIVE III" announced in June 2024.

As a result, operating results during the period under review are as follows.

Consolidated earnings (Millions of yen)

	Six months ended September 30, 2023	Six months ended September 30, 2024	Change	Change (%)
Net sales	107,396	123,404	16,008	14.9%
Cost of sales	69,155	78,490	9,335	13.5%
Gross profit	38,240	44,914	6,673	17.5%
Selling, general and administrative expenses	31,237	34,400	3,163	10.1%
Operating profit	7,003	10,513	3,510	50.1%
Ordinary profit	10,233	10,338	105	1.0%
Profit attributable to owners of parent	6,953	6,555	(397)	(5.7%)

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 123,404 million yen (up 14.9% year on year), operating profit came to 10,513 million yen (up 50.1% year on year), ordinary profit was 10,338 million yen (up 1.0% year on year), and profit attributable to owners of parent totaled 6,555 million yen (down 5.7% year on year).

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			
	Six months ended September 30, 2023	Six months ended September 30, 2024	Change	Change (%)	Six months ended September 30, 2023	Six months ended September 30, 2024	Change	Change (%)
Net sales	84,173	97,338	13,164	15.6%	23,297	26,180	2,882	12.4%
Segment profit (loss)	8,880	13,124	4,244	47.8%	253	(391)	(644)	−

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

(Domestic segment)

In the generic drug industry in Japan, the "Basic Policy on Economic and Fiscal Management and Reform 2021 (Big-Boned Policy 2021)" approved by the Cabinet in June 2021 set a goal to increase the volume share of generic drugs to 80% or more in all prefectures by the end of FY2023. In March 2024, the Medical Insurance Committee of the Social Security Council set a new secondary goal to increase the value share of generic drugs to 65% or more by the end of FY2029, along with the main goal of increasing the volume share of generic drugs to 80% or more in all prefectures by the end of FY2029 while maintaining a stable supply of drugs. As a result, the volume share in April-June 2024 reached 83.5% (according to the Japan Generic Medicines Association). In addition to that, a treatment option using long-listed drugs was introduced in October 2024. Choosing this option will require an additional co-payment for some brand-name drugs for which generic drugs are available.

In the meantime, annual drug price revisions since FY2021 have been making the situation extremely severe for the pharmaceutical industry. Furthermore, due to a series of supply concerns stemming from quality problems at multiple 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, the "Basic Policy on Economic and Fiscal Management and Reform 2024 (Big-Boned Policy 2024)" approved by the Cabinet in June 2024 states, "The government will work to resolve the current concerns about the supply of pharmaceuticals. Envisioning an ideal form of the generic drug industry while maintaining a stable supply of pharmaceuticals as a basis, we will promote structural reforms with a view to industry restructuring and will put in a place the relevant legal framework for a stable supply of pharmaceuticals."

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). Ten new products with six ingredients are scheduled to be added to the list in December 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 first half of the consolidated fiscal year, the domestic segment posted net sales of 97,338 million yen (up 15.6% year on year) and segment profit of 13,124 million yen (up 47.8% year on year), due to an increase in sales volume thanks to continued high 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 first half of the consolidated fiscal year, net sales in the overseas segment were 26,180 million yen (up 12.4% year on year) due to the depreciation of the yen and the favorable performance of both BtoB and BtoC in Europe. Segment loss amounted to 391 million yen due to an increase in R&D expenses (development of new products and response to nitrosamine impurities).

(2) Overview of financial position during the period under review

(i) Assets, Liabilities and Net Assets

Total assets at the end of the period under review were 442,839 million yen, an increase of 12,186 million yen from the end of the previous fiscal year. The main factors were an increase of 11,617 million yen in cash and deposits, an increase of 6,285 million yen in property, plant and equipment, and an increase of 4,456 million yen in inventories, despite a decrease of 9,864 million yen in notes and accounts receivable - trade.

Liabilities were 283,728 million yen, an increase of 8,968 million yen from the end of the previous fiscal year. The main factors included an increase of 8,916 million yen in long-term borrowings.

Net assets were 159,110 million yen, an increase of 3,217 million yen from the end of the previous fiscal year. The main factors included an increase of 5,094 million yen in retained earnings, despite a decrease of 1,883 million yen in foreign currency translation adjustments.

As a result, the equity ratio came to 35.9%.

(ii) Cash Flows

The balance of cash and cash equivalents at the end of the period under review was 41,247 million yen, an increase of 11,596 million yen from the end of the previous fiscal year.

The status of each cash flow in the period under review is as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was 8,654 million yen (4,524 million yen of net cash used in operating activities in the same period of the previous fiscal year). This was mainly due to profit before income taxes of 10,300 million yen (down 92 million yen year on year) and a decrease of 8,268 million yen in trade receivables (an increase of 6,307 million yen in trade receivables in the same period of the previous fiscal year), despite income taxes paid of 7,250 million yen (up 6,796 million yen year on year).

(Cash flows from investing activities)

Net cash used in investing activities was 12,444 million yen (down 5,369 million yen year on year). This was mainly due to purchase of property, plant and equipment of 11,568 million yen (down 6,479 million yen year on year).

(Cash flows from financing activities)

Net cash provided by financing activities was 14,203 million yen (down 6,926 million yen year on year). This was mainly due to proceeds from long-term borrowings of 16,900 million yen (down 9,099 million yen year on year) and proceeds from sales and leaseback transactions of 4,912 million yen (up 4,912 million yen year on year), despite repayments of long-term borrowings of 7,233 million yen (up 3,544 million yen year on year).

(3) Explanation of consolidated financial forecasts and other forward-looking information

There are no changes to the forecasts of consolidated financial results for the full year for the fiscal year ending March 31, 2025, announced in the ‘Notice of Revisions of Financial Forecasts’ on November 5, 2024.

2. Semi-annual Consolidated Financial Statements and Key Notes
(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2024	As of September 30, 2024
Assets		
Current assets		
Cash and deposits	29,650	41,268
Notes and accounts receivable - trade	62,916	53,052
Electronically recorded monetary claims - operating	8,854	9,589
Merchandise and finished goods	48,986	47,225
Work in process	13,906	16,704
Raw materials and supplies	38,180	41,600
Other	15,335	18,171
Allowance for doubtful accounts	(113)	(362)
Total current assets	217,718	227,249
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	57,219	74,387
Machinery, equipment and vehicles, net	18,017	17,965
Land	18,251	18,213
Leased assets, net	848	6,467
Construction in progress	55,917	39,337
Other, net	3,389	3,557
Total property, plant and equipment	153,642	159,927
Intangible assets		
Goodwill	32,568	30,235
Other	18,017	17,155
Total intangible assets	50,586	47,391
Investments and other assets		
Investment securities	641	593
Other	8,864	8,509
Allowance for doubtful accounts	(800)	(833)
Total investments and other assets	8,705	8,269
Total non-current assets	212,934	215,589
Total assets	430,653	442,839

(Millions of yen)

	As of March 31, 2024	As of September 30, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	15,652	15,007
Electronically recorded obligations - operating	10,720	11,103
Short-term borrowings	3,112	4,515
Current portion of long-term borrowings	10,120	10,846
Lease liabilities	238	776
Income taxes payable	7,926	3,918
Provisions	96	48
Other	32,249	28,494
Total current liabilities	80,118	74,710
Non-current liabilities		
Long-term borrowings	189,124	198,040
Lease liabilities	714	6,419
Retirement benefit liability	220	178
Other	4,581	4,378
Total non-current liabilities	194,641	209,017
Total liabilities	274,759	283,728
Net assets		
Shareholders' equity		
Share capital	4,717	4,717
Capital surplus	7,838	7,841
Retained earnings	134,452	139,547
Treasury shares	(5,606)	(5,586)
Total shareholders' equity	141,401	146,520
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	191	174
Foreign currency translation adjustment	14,300	12,416
Total accumulated other comprehensive income	14,491	12,590
Total net assets	155,893	159,110
Total liabilities and net assets	430,653	442,839

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

Consolidated statements of income (cumulative)

(Millions of yen)

	Six months ended September 30, 2023	Six months ended September 30, 2024
Net sales	107,396	123,404
Cost of sales	69,155	78,490
Gross profit	38,240	44,914
Selling, general and administrative expenses	31,237	34,400
Operating profit	7,003	10,513
Non-operating income		
Interest income	22	118
Dividend income	4	5
Foreign exchange gains	446	1,406
Gain on valuation of derivatives	3,080	―
Other	369	318
Total non-operating income	3,923	1,848
Non-operating expenses		
Interest expenses	412	776
Loss on valuation of derivatives	―	1,227
Other	280	19
Total non-operating expenses	693	2,023
Ordinary profit	10,233	10,338
Extraordinary income		
Gain on sale of non-current assets	192	0
Other	1	―
Total extraordinary income	194	0
Extraordinary losses		
Loss on disposal of non-current assets	35	5
Loss on valuation of investment securities	―	27
Loss on impairment of non-current assets	―	6
Total extraordinary losses	35	39
Profit before income taxes	10,392	10,300
Income taxes	3,439	3,744
Profit	6,953	6,555
Profit attributable to owners of parent	6,953	6,555

Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Six months ended September 30, 2023	Six months ended September 30, 2024
Profit	6,953	6,555
Other comprehensive income		
Valuation difference on available-for-sale securities	50	(16)
Foreign currency translation adjustment	4,447	(1,883)
Total other comprehensive income	4,498	(1,900)
Comprehensive income	11,451	4,654
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	11,451	4,654
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated statements of cash flows

(Millions of yen)

	Six months ended September 30, 2023	Six months ended September 30, 2024
Cash flows from operating activities		
Profit before income taxes	10,392	10,300
Depreciation	6,554	7,383
Amortization of goodwill	2,104	2,217
Increase (decrease) in allowance for doubtful accounts	(131)	283
Increase (decrease) in other provisions	(94)	(85)
Loss (gain) on sale of non-current assets	(192)	(0)
Loss (gain) on disposal of non-current assets	35	5
Interest and dividend income	(26)	(123)
Interest expenses	412	776
Loss (gain) on valuation of derivatives	(3,080)	1,227
Decrease (increase) in trade receivables	(6,307)	8,268
Decrease (increase) in inventories	(5,620)	(4,803)
Increase (decrease) in trade payables	(10,287)	(205)
Other, net	1,988	(8,782)
Subtotal	(4,252)	16,461
Interest and dividends received	27	124
Interest paid	(399)	(720)
Compensation received	504	—
Subsidies received	49	40
Income taxes refund (paid)	(454)	(7,250)
Net cash provided by (used in) operating activities	(4,524)	8,654
Cash flows from investing activities		
Purchase of property, plant and equipment	(18,047)	(11,568)
Purchase of intangible assets	(510)	(731)
Other, net	744	(144)
Net cash provided by (used in) investing activities	(17,814)	(12,444)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	390	1,428
Proceeds from long-term borrowings	25,999	16,900
Repayments of long-term borrowings	(3,689)	(7,233)
Redemption of straight bonds	—	(65)
Purchase of treasury shares	—	(0)
Dividends paid	(1,476)	(1,423)
Repayments of lease liabilities	(87)	(338)
Proceeds from sales and leaseback transactions	—	4,912
Other, net	(7)	22
Net cash provided by (used in) financing activities	21,129	14,203
Effect of exchange rate change on cash and cash equivalents	913	971
Net increase (decrease) in cash and cash equivalents	(296)	11,384
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	23,960	41,247

(4) Notes to the semi-annual 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 half 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 semi-annual consolidated financial statements.

The Group has also adopted the Revised Implementation Guidance of 2022 effective as of the beginning of the first half 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 semi-annual consolidated financial statements for the same period of the previous fiscal year 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 semi-annual consolidated financial statements and the consolidated financial statements of the previous fiscal year.

(Notes on segment information)

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

For six months ended September 30, 2023

(Millions of yen)

	Reportable segment			Adjustment (Note 1)	Total (Note 2)
	Domestic	Overseas	Subtotal		
Sales					
Sales to outside customers	84,173	23,222	107,396	–	107,396
Sales or transfers between segments	–	75	75	(75)	–
Total	84,173	23,297	107,471	(75)	107,396
Segment profit	8,880	253	9,133	(2,130)	7,003

Notes: 1. Adjustment in segment profit represents goodwill amortization of (2,104) million yen, and elimination of internal transactions between segments of (26) million yen.

2. Segment profit matches operating profit on the consolidated statements of income.

For six months ended September 30, 2024

(Millions of yen)

	Reportable segment			Adjustment (Note 1)	Total (Note 2)
	Domestic	Overseas	Subtotal		
Sales					
Sales to outside customers	97,338	26,066	123,404	–	123,404
Sales or transfers between segments	–	114	114	(114)	–
Total	97,338	26,180	123,518	(114)	123,404
Segment profit (loss)	13,124	(391)	12,733	(2,219)	10,513

Notes: 1. Adjustment in segment profit (loss) represents goodwill amortization of (2,217) 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.