Consolidated Financial Results for the Nine Months Ended December 31, 2024 (Based on Japanese GAAP)

February 13, 2025

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 commence dividend payments: ―
Preparation of supplementary material on 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 nine months ended December 31, 2024 (from April 1, 2024 to December 31, 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	%
Nine months ended December 31, 2024	193,737	15.1	18,611	40.9	21,756	26.7	14,624	27.0
Nine months ended December 31, 2023	168,325	19.9	13,204	146.7	17,169	270.0	11,518	480.4

Note : Comprehensive income For the nine months ended December 31, 2024 : ¥16,043 million [7.8%]
For the nine months ended December 31, 2023 : ¥14,879 million [71.3%]

	Earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended December 31, 2024	297.10	–
Nine months ended December 31, 2023	234.03	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2024	459,004	169,023	36.8
As of March 31, 2024	430,653	155,893	36.2

Reference : Equity As of December 31, 2024 : ¥169,023 million
As of December 31, 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)				40.00	70.00

Note : Revisions to the forecasts of cash dividends most recently announced : Yes
Please refer to “Notice of Revision of Dividend Forecast for the Fiscal Year Ending March 31, 2025” released on February 13, 2025.

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 nine months ended December 31, 2024 (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Adoption of accounting treatment specific to the preparation of quarterly 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 December 31, 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 December 31, 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)

Nine months ended December 31, 2024	49,224,315 shares	Nine months ended December 31, 2023	49,220,794 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 PROACTIVE III" announced in June 2024.

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

Consolidated earnings (Millions of yen)

	Nine months ended December 31, 2023	Nine months ended December 31, 2024	Change	Change (%)
Net sales	168,325	193,737	25,411	15.1%
Cost of sales	107,916	122,993	15,076	14.0%
Gross profit	60,408	70,743	10,335	17.1%
Selling, general and administrative expenses	47,203	52,132	4,928	10.4%
Operating profit	13,204	18,611	5,406	40.9%
Ordinary profit	17,169	21,756	4,586	26.7%
Profit attributable to owners of parent	11,518	14,624	3,105	27.0%

Sales were strong due to the continued 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 193,737 million yen (up 15.1% year on year), operating profit came to 18,611 million yen (up 40.9% year on year), ordinary profit was 21,756 million yen (up 26.7% year on year) due to a gain of 1,730 million yen on valuation of derivatives, and profit attributable to owners of parent totaled 14,624 million yen (up 27.0% year on year).

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

Results by segment (Millions of yen)

	Domestic segment				Overseas segment			
	Nine months ended December 31, 2023	Nine months ended December 31, 2024	Change	Change (%)	Nine months ended December 31, 2023	Nine months ended December 31, 2024	Change	Change (%)
Net sales	132,840	154,713	21,872	16.5%	35,565	39,164	3,598	10.1%
Segment profit (loss)	16,320	22,301	5,981	36.6%	82	(368)	(451)	−

(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 July-September 2024 reached 84.7% (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, 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." Based on these policies, in the 2025 drug price revision, companies will be evaluated for their stable supply system using all of the corporate indicators that were under consideration. In addition, the minimum drug prices will be increased for the first time since 2000.

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. 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 increase the annual production capacity of the three plants from 14 billion tablets at the end of March 2024 to 17.5 billion tablets 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 introduced a QMS (Quality Management System) 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, we started selling seven new products with three ingredients in June 2024 and ten new products with six ingredients in December 2024, bringing the total number of our generic drugs to 759 products with 326 ingredients (as of 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.

For the consolidated cumulative third quarter of the current fiscal year, the domestic segment posted net sales of 154,713 million yen (up 16.5% year on year) and segment profit of 22,301 million yen (up 36.6% 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.

For the consolidated cumulative third quarter of the current fiscal year, net sales in the overseas segment were 39,164 million yen (up 10.1% 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 368 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

(i) Assets, Liabilities and Net Assets

Total assets at the end of the period were 459,004 million yen, an increase of 28,351 million yen from the end of the previous fiscal year. The main factors were an increase of 12,221 million yen in property, plant and equipment, and an increase of 8,031 million yen in inventories, and an increase of 5,801 million yen in notes and accounts receivable - trade.

Liabilities were 289,981 million yen, an increase of 15,222 million yen from the end of the previous fiscal year. The main factors were an increase of 9,874 million yen in lease liabilities, an increase of 7,958 million yen in long-term borrowings, and an increase of 3,684 million yen in notes and accounts payable - trade, despite a decrease of 4,749 million yen in income taxes payable.

Net assets were 169,023 million yen, an increase of 13,129 million yen from the end of the previous fiscal year. The main factors included an increase of 11,687 million yen in retained earnings and an increase of 1,399 million yen in foreign currency translation adjustment.

As a result, the equity ratio came to 36.8%.

(ii) Cash Flows

The balance of cash and cash equivalents at the end of the period was 29,231 million yen, a decrease of 419 million yen from the end of the previous fiscal year.

The status of each cash flow in the nine months is as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was 5,695 million yen (1,623 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 21,831 million yen (up 4,541 million yen year on year) and depreciation of 11,441 million yen (up 1,390 million yen year on year), despite income taxes paid of 10,819 million yen (up 8,879 million yen year on year), an increase of 7,374 million yen in trade receivables (down 5,613 million yen year on year), and an increase of 7,623 million yen in inventories (up 1,860 million yen year on year).

(Cash flows from investing activities)

Net cash used in investing activities was 23,873 million yen (down 534 million yen year on year). This was mainly due to purchase of property, plant and equipment of 21,909 million yen (down 765 million yen year on year).

(Cash flows from financing activities)

Net cash provided by financing activities was 15,582 million yen (down 15,931 million yen year on year). This was mainly due to proceeds from long-term borrowings of 18,416 million yen (down 21,816 million yen year on year) and proceeds from sales and leaseback transactions of 8,907 million yen (up 8,907 million yen year on year), despite repayments of long-term borrowings of 9,722 million yen (up 3,862 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. Quarterly Consolidated Financial Statements and Key Notes
(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2024	As of December 31, 2024
Assets		
Current assets		
Cash and deposits	29,650	29,252
Notes and accounts receivable - trade	62,916	68,718
Electronically recorded monetary claims - operating	8,854	10,705
Merchandise and finished goods	48,986	45,275
Work in process	13,906	18,408
Raw materials and supplies	38,180	45,420
Other	15,335	20,395
Allowance for doubtful accounts	(113)	(400)
Total current assets	217,718	237,775
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	57,219	75,218
Machinery, equipment and vehicles, net	18,017	17,729
Land	18,251	18,299
Leased assets, net	848	9,728
Construction in progress	55,917	41,044
Other, net	3,389	3,842
Total property, plant and equipment	153,642	165,864
Intangible assets		
Goodwill	32,568	29,306
Other	18,017	17,986
Total intangible assets	50,586	47,292
Investments and other assets		
Investment securities	641	846
Other	8,864	8,087
Allowance for doubtful accounts	(800)	(862)
Total investments and other assets	8,705	8,071
Total non-current assets	212,934	221,228
Total assets	430,653	459,004

(Millions of yen)

	As of March 31, 2024	As of December 31, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	15,652	19,337
Electronically recorded obligations - operating	10,720	11,224
Short-term borrowings	3,112	4,700
Current portion of long-term borrowings	10,120	10,869
Lease liabilities	238	1,151
Income taxes payable	7,926	3,176
Provisions	96	67
Other	32,249	28,161
Total current liabilities	80,118	78,689
Non-current liabilities		
Long-term borrowings	189,124	197,083
Lease liabilities	714	9,676
Retirement benefit liability	220	170
Other	4,581	4,362
Total non-current liabilities	194,641	211,292
Total liabilities	274,759	289,981
Net assets		
Shareholders' equity		
Share capital	4,717	4,717
Capital surplus	7,838	7,841
Retained earnings	134,452	146,140
Treasury shares	(5,606)	(5,586)
Total shareholders' equity	141,401	153,112
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	191	210
Foreign currency translation adjustment	14,300	15,699
Total accumulated other comprehensive income	14,491	15,910
Total net assets	155,893	169,023
Total liabilities and net assets	430,653	459,004

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

Consolidated statements of income (cumulative)

(Millions of yen)

	Nine months ended December 31, 2023	Nine months ended December 31, 2024
Net sales	168,325	193,737
Cost of sales	107,916	122,993
Gross profit	60,408	70,743
Selling, general and administrative expenses	47,203	53,132
Operating profit	13,204	18,611
Non-operating income		
Interest income	48	168
Dividend income	7	9
Foreign exchange gains	768	1,600
Gain on valuation of derivatives	3,615	1,730
Other	498	822
Total non-operating income	4,938	4,330
Non-operating expenses		
Interest expenses	674	1,162
Other	298	23
Total non-operating expenses	973	1,186
Ordinary profit	17,169	21,756
Extraordinary income		
Gain on sale of non-current assets	196	141
Total extraordinary income	196	141
Extraordinary losses		
Loss on disposal of non-current assets	53	26
Loss on valuation of investment securities	—	27
Loss on impairment of non-current assets	21	11
Total extraordinary losses	75	66
Profit before income taxes	17,290	21,831
Income taxes	5,771	7,207
Profit	11,518	14,624
Profit attributable to owners of parent	11,518	14,624

Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Nine months ended December 31, 2023	Nine months ended December 31, 2024
Profit	11,518	14,624
Other comprehensive income		
Valuation difference on available-for-sale securities	26	19
Foreign currency translation adjustment	3,334	1,399
Total other comprehensive income	3,360	1,418
Comprehensive income	14,879	16,043
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	14,879	16,043
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated statements of cash flows

(Millions of yen)

	Nine months ended December 31, 2023	Nine months ended December 31, 2024
Cash flows from operating activities		
Profit before income taxes	17,290	21,831
Depreciation	10,050	11,441
Amortization of goodwill	3,165	3,321
Increase (decrease) in allowance for doubtful accounts	(123)	346
Increase (decrease) in other provisions	(103)	(81)
Loss (gain) on sale of non-current assets	(196)	(141)
Loss (gain) on disposal of non-current assets	53	26
Interest and dividend income	(55)	(177)
Interest expenses	674	1,162
Loss (gain) on valuation of derivatives	(3,615)	(1,730)
Decrease (increase) in trade receivables	(12,987)	(7,374)
Decrease (increase) in inventories	(5,762)	(7,623)
Increase (decrease) in trade payables	(9,013)	4,141
Other, net	1,447	(7,947)
Subtotal	825	17,195
Interest and dividends received	52	174
Interest paid	(656)	(1,119)
Subsidies received	95	265
Income taxes refund (paid)	(1,940)	(10,819)
Net cash provided by (used in) operating activities	(1,623)	5,695
Cash flows from investing activities		
Purchase of property, plant and equipment	(22,674)	(21,909)
Purchase of intangible assets	(797)	(1,713)
Other, net	(936)	(250)
Net cash provided by (used in) investing activities	(24,408)	(23,873)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings	258	1,570
Proceeds from long-term borrowings	40,232	18,416
Repayments of long-term borrowings	(5,860)	(9,722)
Redemption of straight bonds	—	(110)
Purchase of treasury shares	(0)	(0)
Dividends paid	(2,886)	(2,892)
Repayments of lease liabilities	(133)	(610)
Proceeds from sales and leaseback transactions	—	8,907
Other, net	(96)	23
Net cash provided by (used in) financing activities	31,514	15,582
Effect of exchange rate change on cash and cash equivalents	962	1,964
Net increase (decrease) in cash and cash equivalents	6,444	(631)
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	30,701	29,231

(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.

(Notes on segment information)

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

For nine months ended December 31, 2023

(Millions of yen)

	Reportable segment			Adjustment (Note 1)	Total (Note 2)
	Domestic	Overseas	Subtotal		
Sales					
Sales to outside customers	132,840	35,484	168,325	–	168,325
Sales or transfers between segments	–	81	81	(81)	–
Total	132,840	35,565	168,406	(81)	168,325
Segment profit	16,320	82	16,403	(3,198)	13,204

Notes: 1. Adjustment in segment profit represents goodwill amortization of (3,165) million yen, and elimination of internal transactions between segments of (33) million yen.
2. Segment profit matches operating profit on the consolidated statements of income.

For nine months ended December 31, 2024

(Millions of yen)

	Reportable segment			Adjustment (Note 1)	Total (Note 2)
	Domestic	Overseas	Subtotal		
Sales					
Sales to outside customers	154,713	39,023	193,737	–	193,737
Sales or transfers between segments	–	140	140	(140)	–
Total	154,713	39,164	193,877	(140)	193,737
Segment profit (loss)	22,301	(368)	21,932	(3,321)	18,611

Notes: 1. Adjustment in segment profit (loss) represents goodwill amortization of (3,321) million yen, and elimination of internal transactions between segments of 0 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.