Financial Review

Results for Fiscal Year Ended March 31, 2020

(billions of Yen)

	2017.3	2018.3	2019.3	2020.3	Change rate: Mar. 2019/Mar. 2020
Revenue	244.8	261.8	288.6	292.4	+1.3%
Operating profit	72.3	60.7	62.0	77.5	+25.0%
Profit for the year (attributable to owners of the parent company)	55.8	50.3	51.5	59.7	+15.8%

Revenue

Revenue increased by ¥3.8 billion (1.3%) from the previous consolidated fiscal year to ¥292.4 billion.

- Despite the expanded use of OPDIVO Intravenous Infusion for malignant tumors for the treatment of renal cell carcinoma etc., its sales were affected by the revision of the National Health Insurance (NHI) drug price reduction in November 2018 and intensifying competition with competitors' products, resulting in sales of ¥87.3 billion, a decrease of ¥3.3 billion (3.6%) year-on-year.

- Sales of our key new products: GLACTIV Tablets for type-2 diabetes decreased by 3.1% year-on-year to ¥26.1 billion, ORENCIA for rheumatoid arthritis increased by 13.8% year-on-year to ¥19.8 billion, FORXIGA Tablets for diabetes increased by 24.7% year-on-year to ¥18.1 billion, the combined sales of EMEND Capsules and PROEMEND for Intravenous Injection for chemotherapy induced nausea and vomiting increased by 1.0% year-on-year to ¥10.7 billion, RIVASTACH Patch for Alzheimer's disease decreased by 4.2% year-on-year to ¥8.5 billion, PARSABIV Intravenous Injection for Dialysis for secondary hyperparathyroidism in patients on hemodialysis increased by 23.6% year-on-year to ¥7.1 billion, and KYPROLIS for Intravenous Injection for multiple myeloma increased by 21.9% year-on-year to ¥6.0 billion.

- Sales of the main long-term listed products were affected by the new generics use promotion measures. OPALMON Tablets for peripheral circulatory disorder decreased by 19.5% year-on-year to ¥8.3 billion, and RECALBON Tablets for osteoporosis decreased by 35.4% year-on-year to ¥4.7 billion respectively.

- Royalty and other revenue increased by ¥7.1 billion (8.9%) year-on-year to ¥86.8 billion, mainly due to increase of the royalty from Bristol-Myers Squibb (BMS) and Merck.

Profit and Loss

Operating profit for the current consolidated fiscal year totaled ¥77.5 billion, an increase by ¥15.5 billion (25.0%) from the previous consolidated fiscal year.

- Cost of sales decreased by ¥4.8 billion (5.7%) year-on-year to ¥79.1 billion. This was mainly due to the absence of the one-time cost burden during the period under review, which was incurred in the previous fiscal year, as it was necessary to receive a stable supply of ingredients for OPDIVO.

- Research and development costs decreased by ¥3.5 billion (5.0%) year-on-year to ¥66.5 billion mainly due to decrease in clinical trial costs caused by the revision of clinical trial plans and the discontinuation of some clinical trials etc., as well as due to decrease in license fees associated with drug discovery.

- Selling, general, and administrative expenses (except for research and development costs) decreased by ¥2.4 billion (3.4%) year-on-year to ¥67.7 billion mainly due to delayed launches of new products expected in the fiscal year ended March 31, 2020, and the decrease in operating expenses caused by cancellation or postponement of academic lectures and refraining from visiting medical institutions by MRs due to the novel coronavirus infectious disease (COVID-19).

(billions of Yen)

	2019.3	2020.3	Year-to-year comparison
Cost of sales	83.8	79.1	-5.7%
R&D costs	70.0	66.5	-5.0%
Selling, general, and administrative expenses	70.0	67.7	-3.4%

Profit of the current fiscal year (attributable to owners of the parent company) increased by ¥8.2 billion (15.8%) from the previous consolidated fiscal year to ¥59.7 billion in association with increases in profit before tax.

Cash Flows

Cash and cash equivalents at the end of current consolidated fiscal year increased by ¥9 billion (15.0%) to ¥69 billion, from those at the end of previous consolidated fiscal year of ¥60 billion, thanks to cash flow from operations activities, which ended in a positive balance of ¥74.2 billion despite cash flow from investment activities, which ended in a negative balance of ¥10.2 billion, and cash flow from financial activities, which ended in a negative balance of ¥54.7 billion.

〈Cash Flows from Operating Activities〉

Cash flows from operating activities for the current consolidated fiscal year ended in a positive cash flow balance of ¥74.2 billion (The cash flows for the previous consolidated fiscal year ended in a positive balance of ¥66.8 billion). The main factor was profit before tax ended in a positive balance of ¥79.7 billion.

〈Cash Flows from Investing Activities〉

Cash flows from investing activities for the current consolidated fiscal year ended in a negative balance of ¥10.2 billion (The cash flows for the previous consolidated fiscal year ended in a negative balance of ¥49.8 billion). The main factors were proceeds from sales and redemption of investments of ¥31.4 billion, payments into time deposits (net amount) of ¥20.0 billion, purchases of intangible assets of ¥15.0 billion, and purchases of tangible fixed assets of ¥7.5 billion.

〈Cash Flows from Financing Activities〉

Cash flows from financing activities for the current consolidated fiscal year ended in a negative balance of ¥54.7 billion (The cash flows for the previous consolidated fiscal year ended in a negative balance of ¥22.3 billion). The main factors were purchases of treasury shares of ¥29.6 billion, and the dividends paid to owners of the parent company of ¥22.8 billion.

(billions of Yen)

	2019.3	2020.3
Cash flows from operating activities	66.8	74.2
Cash flows from investing activities	(49.8)	(10.2)
Cash flows from financing activities	(22.3)	(54.7)
Cash and cash equivalents at the end of the year	60.0	69.0

Investment in Plant and Equipment

Plant and equipment investment during the current consolidated fiscal year totaled ¥9.5 billion. This included investment in enhancement and maintenance of manufacturing facilities (¥4.5 billion), business facilities (¥3.2 billion), and research facilities (¥1.9 billion).
The main investment in plant and equipment during the current consolidated fiscal year was facilities of the plant that started operation in Yamaguchi Prefecture and manufacturing machines and equipment.

Future Outlook

For the next fiscal year, the severe business environment is expected to continue due to the impact of drug price revisions in April 2020 and the intensifying competition for market share with competing products. Although the use of OPDIVO Intravenous Infusion is expected to decrease in the treatment of renal cell carcinoma, head and neck cancer, and gastric cancer due to entry of competing products, and in the second-line treatment of non-small cell lung cancer due to a decrease in the number of new patients using the drug, as we expect the expanded use in the treatment of esophageal cancer and entry into first-line treatment for non-small cell lung cancer, the sales are expected to increase by ¥2.7 billion (3.1%) compared to the current consolidated fiscal year to ¥90.0 billion. In other main new products, sales of FORXIGA Tablets, ORENCIA SC, PARSABIV Intravenous Injection for Dialysis, KYPROLIS for Intravenous Infusion etc. are expected to increase, and several new products are expected to be released. Furthermore, royalty and other revenue is expected to increase by ¥6.2 billion (7.1%) compared to the current consolidated fiscal year to ¥93.0 billion due to continued growth in royalty revenue from Bristol-Myers Squibb Company and Merck & Co., Inc. Therefore, revenue is expected to be ¥303.0 billion, an increase of ¥10.6 billion (3.6%) compared to the current consolidated fiscal year.
Cost of sales is expected to be ¥81.5 billion, an increase of ¥2.4 billion (3.1%) compared to the current consolidated fiscal year, mainly due to the start of production at the Yamaguchi Plant in March 2020.
Research and development costs are expected to be ¥69.0 billion, an increase of ¥2.5 billion (3.8%) compared to the current consolidated fiscal year, providing for active investments to achieve sustainable growth, despite delays or suspensions of registrations of subjects for new or continuing clinical trials due to the impact of COVID-19. Selling, general, and administrative expenses (except for research and development costs) are expected to be ¥70.0 billion, an increase of ¥2.3 billion (3.4%) compared to the current consolidated fiscal year, mainly due to temporary increase in operating expenses due to several new products to be launched and additional effects, despite the decrease in operating expenses caused by cancellation or postponement of academic lectures and refraining from visiting medical institutions by MRs due to COVID-19.
Consequently, operating profit is forecasted to be ¥80.0 billion, an increase of ¥2.5 billion (3.2%) compared to the current consolidated fiscal year, and profit attributable to owners of the parent company is forecasted to be ¥61.0 billion, an increase of ¥1.3 billion (2.2%) compared to the current consolidated fiscal year.

(billions of Yen)

	2021.3 (Forecast)	Comparison with current fiscal year
Revenue	303.0	+3.6%
Operating profit	80.0	+3.2%
Profit for the year (attributable to owners of the parent company)	61.0	+2.2%

Note: At this time, it is difficult to accurately predict when the COVID-19 pandemic will be under control. Accordingly, the above financial forecasts reflect the effects of continuing to refrain from visiting medical institutions and other activities until the end of June 2020. If the restrictions on the activities continue in the second quarter and thereafter, although revenue is expected to decline slightly due to refraining from activities, restraints on consultations, etc., the impact on operating profit is estimated to be immaterial as expenditures will be controlled due to the decrease in business activities. Going forward, if any revisions to the financial forecasts are necessary, we will promptly announce them.