



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

October 30, 2020

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: November 12, 2020

Scheduled date of dividend payments: December 1, 2020

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 September 30, 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	%
Six months ended September 30, 2020	148,452	(9.3)	55,308	(12.5)	67,189	(4.9)	49,382	(9.3)	49,381	(9.2)	54,313	105.1
Six months ended September 30, 2019	163,635	—	63,196	—	70,656	—	54,420	—	54,382	—	26,483	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2020	160.83	160.77
Six months ended September 30, 2019	174.66	174.43

(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 September 30, 2020	930,846	836,516	836,463	89.9
As of March 31, 2020	871,526	764,611	764,560	87.7

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	318,100	(4.6)	133,200	2.0	159,600	0.7	119,700	(2.0)	385.83

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 September 30, 2020:	311,586,165 shares
As of March 31, 2020:	316,786,165 shares
 - b) Number of treasury stock

As of September 30, 2020:	1,343,670 shares
As of March 31, 2020:	13,002,082 shares
 - c) Average number of shares issued during the period

Six months ended September 30, 2020:	307,037,868 shareszm
Six months ended September 30, 2019:	311,355,826 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 voluntarily 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 second 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, November 2, 2020. Plans are also in place to post explanatory details (Transcript) together with financial results explanatory materials distributed to analysts on November 2, 2020 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 voluntarily 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 second quarter of the previous fiscal year are also restated in accordance with IFRS.

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

For the six months ended September 30, 2020 (April 1, 2020 to September 30, 2020), operating results were as follows.

Millions of yen

	Six months ended September 30, 2020	Six months ended September 30, 2019	Change	Percentage change (%)
Revenue	148,452	163,635	(15,183)	(9.3)
Operating profit	55,308	63,196	(7,887)	(12.5)
Core operating profit *	55,804	63,454	(7,649)	(12.1)
Profit before tax	67,189	70,656	(3,466)	(4.9)
Profit attributable to owners of parent	49,381	54,382	(5,001)	(9.2)

* 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, gain on sales of property, plant, and equipment, etc.) are deducted from operating profit.

Revenue decreased 9.3 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, together with the impact of drug price revisions, mainly for long-term listed items, resulted in an 8.3 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. In addition, in the United States, revenue declined significantly mainly due to the absence of a one-time payment that was received in the first half 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 37.3 percent. In contract manufacturing, revenue decreased 33.7 percent mainly due to a temporary decrease in orders as improvements will be made to the manufacturing method of Dolutegravir active pharmaceutical ingredient, as well as adjustments to orders for Xofluza based on 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 and the company’s shipment adjustments in response to the COVID-19 pandemic resulted in a 1.6 percent decrease in royalty income from ViiV. Total royalty income decreased 2.2 percent.

Although selling, general and administrative expenses decreased as we refrained from visiting medical institutions as part of our response to the COVID-19 pandemic, an increase in research and development investments for priority issues such as potential treatments and vaccines for COVID-19 and other key projects resulted in a decrease in operating profit of 12.5 percent year on year. Core operating profit decreased 12.1 percent, basically in line with the decrease in operating profit. Profit before tax decreased 4.9 percent due to an increase in dividend income received from ViiV and a decrease in foreign exchange losses. Furthermore, profit attributable to owners of parent decreased 9.2 percent.

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

As of September 30, 2020, total assets were ¥930,846 million, an increase of ¥59,319 million from the end of the previous fiscal year.

Non-current assets increased ¥12,961 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. Current assets increased ¥46,358 million, mainly reflecting increases in cash and cash equivalents and in fixed term deposits of more than three months (included in “Other financial assets” in current assets).

Equity was ¥836,516 million, an increase of ¥7,195 million from the end of the previous fiscal year, mainly due to recording of profit, cash dividends paid, and disposal of treasury shares by third-party allotment.

Liabilities totaled ¥94,329 million, a decrease of ¥12,585 million from the end of the previous fiscal year.

Non-current liabilities decreased ¥3,543 million. Current liabilities decreased ¥9,042 million, mainly because of a decrease in accounts payable (included in “Other financial liabilities” in current liabilities) resulting from sluggish sales activities.

A provisional accounting treatment has been used for UMN Pharma, which became a consolidated subsidiary during the year ended March 31, 2020, and Tetra Therapeutics, which became a consolidated subsidiary during the year ending March 31, 2021, as the purchase price allocations and others have not yet been completed.

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

Net cash provided by operating activities during the six months ended September 30, 2020 was ¥46,978 million, a decrease of ¥15,640 million year on year. Factors included a decrease in cash due to a decrease in trade and other receivables.

Net cash used in investing activities was ¥28,264 million, an increase of ¥28,891 million year on year. Factors included acquisition and sale of securities for investment of surplus, and payments for acquisition of subsidiaries.

Net cash provided by financing activities was ¥14,062 million, an increase of ¥31,310 million year on year, mainly due to disposal of treasury shares by third-party allotment.

As a result, cash and cash equivalents at the end of the second quarter totaled ¥240,437 million, an increase of ¥31,576 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 May 11, 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
	<i>Millions of yen</i>	<i>Millions of yen</i>	<i>Millions of yen</i>	<i>Millions of yen</i>	<i>Yen</i>
Previous forecast (A)	323,500	110,300	136,300	103,600	333.93
New forecast (B)	318,100	133,200	159,600	119,700	385.83
Change (B-A)	(5,400)	22,900	23,300	16,100	—
Percentage change (%)	(1.7)	20.8	17.1	15.5	—
(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 March 30, 2020, Shionogi disposed treasury shares by third-party allotment on July 29, 2020. "Basic earnings per share" in the previously announced forecast takes into account the effect of this disposal of treasury shares.

2) Reasons for Revision of Financial Forecast

Revenue for the fiscal year is projected to be lower than the previous forecast, taking into account sales of prescription drugs in the first two quarters and the expected increase in revenue from the consolidation of Nagase Medicals Co., Ltd., which provides contract pharmaceutical manufacturing services, as announced on August 31, 2020. As for profits, operating profit is projected to exceed the previous forecast due to a gain on exchange* from redevelopment of the Shionogi Shibuya Building. While revenue will decrease, as mentioned above, Shionogi will make investments for medium-to-long-term growth while continuing to rigorously control total costs, including cost of sales. In addition, profit before tax and profit attributable to owners of parent are each expected to be higher than the previous forecast as a result of the increase in operating profit.

* A redevelopment project is being carried out for the Shionogi Shibuya Building, which is owned by Shionogi, and a conversion of rights with the redevelopment partnership comprising the four landowners, including Shionogi, will take place in the second half of the fiscal year ending March 31, 2021. This conversion of rights is classified as an exchange transaction under IFRS, and fair value measurement of land and buildings after the exchange is necessary. Thus, a gain on exchange is expected to arise. A gain on exchange may fluctuate in amount, as fair value is under close scrutiny.

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

	Six months ended September 30, 2019	Six months ended September 30, 2020
Revenue	163,635	148,452
Cost of sales	(27,704)	(22,857)
Gross profit	135,930	125,594
Selling, general and administrative expenses	(46,643)	(43,157)
Research and development expenses	(23,327)	(24,854)
Amortization of intangible assets associated with products	(1,618)	(1,611)
Other income	245	245
Other expenses	(1,390)	(909)
Operating profit	63,196	55,308
Finance income	9,713	12,805
Finance costs	(2,254)	(925)
Profit before tax	70,656	67,189
Income tax expense	(16,235)	(17,806)
Profit	54,420	49,382

Profit attributable to		
Owners of parent	54,382	49,381
Non-controlling interests	38	1
Profit	54,420	49,382

Earnings per share		
Basic earnings per share	174.66	160.83
Diluted earnings per share	174.43	160.77

Consolidated statement of comprehensive income

Millions of yen

	Six months ended September 30, 2019	Six months ended September 30, 2020
Profit	54,420	49,382
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	(2,731)	1,907
Remeasurements of defined benefit plans	744	1,576
Total of items that will not be reclassified to profit or loss	(1,987)	3,483
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(27,010)	3,592
Effective portion of cash flow hedges	1,060	(2,144)
Total of items that may be reclassified to profit or loss	(25,949)	1,447
Total other comprehensive income, net of tax	(27,936)	4,931
Comprehensive income	26,483	54,313
Comprehensive income attributable to		
Owners of parent	26,546	54,312
Non-controlling interests	(62)	1
Comprehensive income	26,483	54,313

(2) Consolidated statement of financial position

Millions of yen

	As of March 31, 2020	As of September 30, 2020
Assets		
Non-current assets		
Property, plant and equipment	71,350	70,350
Goodwill	10,854	27,234
Intangible assets	46,536	46,955
Right-of-use assets	4,657	4,554
Other financial assets	202,161	206,565
Deferred tax assets	3,048	4,023
Other non-current assets	16,890	8,778
Total non-current assets	355,500	368,461
Current assets		
Inventories	33,818	39,070
Trade receivables	79,804	79,024
Other financial assets	171,157	185,876
Income taxes receivable	192	114
Other current assets	22,191	17,861
Cash and cash equivalents	208,861	240,437
Total current assets	516,026	562,384
Total assets	871,526	930,846

Millions of yen

	As of March 31, 2020	As of September 30, 2020
Equity and liabilities		
Equity		
Share capital	21,279	21,279
Capital surplus	20,432	20,734
Treasury shares	(77,292)	(7,982)
Retained earnings	708,291	707,718
Other components of equity	91,848	94,713
Equity attributable to owners of parent	764,560	836,463
Non-controlling interests	51	52
Total equity	764,611	836,516
Liabilities		
Non-current liabilities		
Lease liabilities	4,791	4,316
Other financial liabilities	4,179	3,527
Retirement benefit liability	16,089	13,730
Deferred tax liabilities	373	343
Other non-current liabilities	362	334
Total non-current liabilities	25,795	22,252
Current liabilities		
Lease liabilities	3,361	3,407
Trade payables	10,763	9,425
Other financial liabilities	17,557	11,393
Income taxes payable	21,886	24,253
Other current liabilities	27,551	23,597
Total current liabilities	81,119	72,077
Total liabilities	106,915	94,329
Total equity and liabilities	871,526	930,846

(3) Consolidated statement of changes in equity

Six months ended September 30, 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				54,382		54,382	38	54,420
Total other comprehensive income, net of tax					(27,835)	(27,835)	(100)	(27,936)
Comprehensive income	-	-	-	54,382	(27,835)	26,546	(62)	26,483
Purchase of treasury shares			(5)			(5)		(5)
Disposal of treasury shares		(237)	620			383		383
Dividends				(15,564)		(15,564)		(15,564)
Transfer from other components of equity to retained earnings				2,599	(2,599)	-		-
Other		148		(148)		-		-
Balance as of September 30, 2019	21,279	21,188	(28,266)	654,752	151,181	820,134	4,250	824,385

Six months ended September 30, 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	20,432	(77,292)	708,291	91,848	764,560	51	764,611
Profit				49,381		49,381	1	49,382
Total other comprehensive income, net of tax					4,931	4,931		4,931
Comprehensive income	-	-	-	49,381	4,931	54,312	1	54,313
Purchase of treasury shares			(6)			(6)		(6)
Disposal of treasury shares		(4,705)	38,404			33,698		33,698
Cancellation of treasury shares		(30,912)	30,912			-		-
Dividends				(16,100)		(16,100)		(16,100)
Transfer from other components of equity to retained earnings				1,576	(1,576)	-		-
Other		35,919		(35,430)	(488)	(0)		(0)
Balance as of September 30, 2020	21,279	20,734	(7,982)	707,718	94,713	836,463	52	836,516

(4) Consolidated statement of cash flows

Millions of yen

	Six months ended September 30, 2019	Six months ended September 30, 2020
Cash flows from operating activities		
Profit before tax	70,656	67,189
Depreciation and amortization	6,919	7,251
Finance income and finance costs	(8,594)	(12,208)
Decrease (increase) in trade and other receivables	20,510	739
Decrease (increase) in inventories	(1,397)	(5,306)
Increase (decrease) in trade and other payables	(5,843)	(4,560)
Other	(7,651)	(5,281)
Subtotal	74,599	47,822
Interest and dividends received	16,644	16,358
Interest paid	(79)	(44)
Income taxes paid	(28,545)	(17,158)
Net cash provided by (used in) operating activities	62,619	46,978
Cash flows from investing activities		
Payments into time deposits	(101,644)	(86,638)
Proceeds from withdrawal of time deposits	89,598	73,446
Purchase of property, plant and equipment	(5,229)	(4,371)
Purchase of intangible assets	(1,724)	(3,234)
Payments for acquisition of subsidiaries	—	(3,221)
Purchase of investments	(51,366)	(62,070)
Proceeds from sale of investments	71,674	57,298
Other	(681)	528
Net cash provided by (used in) investing activities	627	(28,264)

Millions of yen

	Six months ended September 30, 2019	Six months ended September 30, 2020
Cash flows from financing activities		
Repayments of lease liabilities	(1,684)	(1,795)
Purchase of treasury shares	(5)	(6)
Proceeds from disposal of treasury shares	—	33,534
Dividends paid	(15,558)	(16,093)
Payments for acquisition of interests in subsidiaries from non-controlling interests	—	(1,575)
Other	—	(0)
Net cash provided by (used in) financing activities	(17,247)	14,062
Effect of exchange rate changes on cash and cash equivalents	(1,466)	(1,200)
Net increase (decrease) in cash and cash equivalents	44,531	31,576
Cash and cash equivalents at beginning of period	195,800	208,861
Cash and cash equivalents at end of period	240,332	240,437

(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.