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November 4, 2022

Consolidated Financial Results for the Second Quarter of the Term Ending March 31, 2023 (Under Japanese GAAP)

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 Listing: Tokyo Stock Exchange
 Securities code: 4540
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 Scheduled date to file quarterly securities report: November 7, 2022
 Scheduled date to commence dividend payments: December 5, 2022
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of financial results briefing: Yes (for institutional investors, securities analysts and news media)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated business results for the second quarter of the term ending March 31, 2023 (from April 1, 2022 to September 30, 2022)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

Six-month period ended	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2022	70,107	10.5	11,677	(0.1)	15,965	19.1	11,889	19.3
September 30, 2021	63,416	11.4	11,684	7.0	13,409	22.9	9,965	24.5

Note: Comprehensive income Six-month period ended September 30, 2022: ¥23,042 million [53.7 %]
 Six-month period ended September 30, 2021: ¥14,988 million [135.2 %]

Six-month period ended	Basic earnings per share	Diluted earnings per share
	Yen	Yen
September 30, 2022	155.46	—
September 30, 2021	130.26	—

(2) Consolidated financial condition

As of	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
September 30, 2022	402,930	278,302	63.8
March 31, 2022	350,981	258,109	68.3

Reference: Equity

As of September 30, 2022: ¥257,215 million
 As of March 31, 2022: ¥239,770 million

2. Dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	—	32.00	—	32.00	64.00
Fiscal year ending March 31, 2023	—	32.00			
Fiscal year ending March 31, 2023 (Forecast)			—	32.00	64.00

Note: Revisions to dividends projection published most recently: No

3. Projections of consolidated business results for the term ending March 31, 2023 (From April 1, 2022 to March 31, 2023)

(Figures in percentage show the rate of increase or decrease from the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full-year	138,500	6.9	20,800	(7.0)	21,200	(18.2)	15,000	(20.4)	196.06

Note: Revisions to projections of consolidated business results published most recently: No

* **Notes**

(1) Changes in significant subsidiaries during the period (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: Yes

Note: For details, see “2. Quarterly Consolidated Financial Statements and Key Notes (4) Notes to the Quarterly Consolidated Financial Statements (application of specific accounting treatment to the preparation of quarterly financial statements)” on page 10 of the material attached hereto.

(3) Changes in accounting policies, changes in accounting estimates, and restatement

- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: None
- (ii) Changes in accounting policies due to other reasons: None
- (iii) Changes in accounting estimates: None
- (iv) Restatement: None

(4) Number of issued shares (common shares)

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

As of September 30, 2022	76,758,362 shares
As of March 31, 2022	76,758,362 shares

(ii) Number of treasury shares at the end of the period

As of September 30, 2022	367,082 shares
As of March 31, 2022	251,343 shares

(iii) Average number of shares outstanding during the period

Six-month period ended September 30, 2022	76,477,159 shares
Six-month period ended September 30, 2021	76,507,801 shares

Note: At the beginning of the consolidated fiscal year under review, the Company introduced the Board Incentive Plan Trust. As a result, the shares of the Company’s stock held by the trust are included in treasury shares that are deducted in calculating the number of treasury shares at the end of the period and the average number of shares outstanding during the period.

* This Consolidated Financial Results is not subject to audit procedures performed by a certified public accountant or audit corporation.

*Explanation about the proper use of financial projections and other important notes
(Note about forward-looking information)

Forward-looking statements such as financial projections, which are stated in this document, are based on information currently available to the Company and certain assumptions deemed reasonable. There is a possibility that actual results, etc. will differ materially from forecasts due to various factors. Please see “1. Qualitative information on quarterly results (3) Description of projections of consolidated business results” on page 4 for information regarding the forecast of consolidated financial results.

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1. Qualitative information on quarterly results

(1) Description of operating results

Consolidated business results for second quarter under review were as follows:

[Consolidated business results]			(Million yen)
	FY 3/2022 2Q	FY 3/2023 2Q	YoY Change Percent Change
Net sales	63,416	70,107	+6,690 +10.5%
Domestic sales	58,829	62,914	+4,084 +6.9%
Overseas sales	4,587	7,193	+2,605 +56.8%
Cost of sales	30,721	35,297	+4,575 +14.9%
Selling, general and administrative expenses	21,011	23,132	+2,121 +10.1%
Operating profit	11,684	11,677	(6) (0.1)%
Ordinary profit	13,409	15,965	+2,556 +19.1%
Profit attributable to owners of parent	9,965	11,889	+1,923 +19.3%

Net sales increased 10.5% year on year, to 70,107 million yen.

Domestic net sales increased 6.9% year on year, to 62,914 million yen. Sales for 129 prescription Kampo products increased 6.8% year on year. This was attributable to enhanced activities associated with e-promotions as well as growth in prescription for products to treat symptoms (fever, cough, etc.) and aftereffects (cough, sense of fatigue, anxiety, etc.) associated with the COVID-19 infection, and seasonal symptoms due to the extreme heat (loss of appetite, losing weight in the summer, etc.) Total sales of drug fostering formulations*1 grew 2.6% and sales of Daikenchuto, a mainstay item for the Company, increased 2.9% year on year. Total sales of growing formulations*2 rose 11.7% year on year.

Sales of “Drug fostering” program formulations and “Growing” formulations (unit: millions of yen)

	Ranking in sales	No. / Product Name	FY 3/2022	FY 3/2023	YoY Change/ Percent Change	
			2Q	2Q		
“Drug fostering” program formulations	1	100 Daikenchuto	4,790	4,927	+137	+2.9%
	3	54 Yokukansan	3,720	3,775	+55	+1.5%
	4	43 Rikkunshito	3,557	3,698	+141	+4.0%
	8	107 Goshajinkigan	1,736	1,755	+18	+1.1%
	23	14 Hangeshashinto	678	708	+30	+4.4%
Total of "Drug Fostering" Program formulations			14,482	14,865	+382	+2.6%
“Growing” formulations:	2	41 Hochuekkito	3,741	4,060	+319	+8.5%
	5	17 Goreisan	2,680	3,198	+517	+19.3%
	7	24 Kamishoyosan	2,415	2,583	+168	+7.0%
	16	108 Ninjin'yoeito	961	1,034	+73	+7.6%
	17	137 Kamikihito	849	1,013	+164	+19.3%
Total of “Growing” formulations			10,647	11,890	+1,242	+11.7%
Total of 119 prescriptions excluding “Drug fostering” program formulations and “Growing” formulations			31,247	33,435	+2,188	+7.0%
Total of 129 prescription Kampo products			56,377	60,191	+3,814	+6.8%

In addition, sales of OTC Kampo formulations in Japan increased 20.0% year on year, to 2,003 million yen, reflecting a rise in the number of stores handling the products.

Overseas net sales were 7,193 million yen. Sales on crude drug platforms (of Ping An Tsumura Pharmaceutical Co., Ltd., Shenzhen Tsumura Medicine Co., Ltd., etc.), primarily sales of crude drugs and crude drug pieces for decoction, grew.

Cost of sales increased 14.9% year on year, to 35,297 million yen, reflecting the growth in net sales and surges in energy prices, raw and other materials, etc. The cost-to-sales ratio rose 1.9 percentage points year on year, to 50.3%.

Selling, general and administrative expenses increased 10.1% year on year, to 23,132 million yen. The increase mainly reflected the posting of temporary expenses for the operation of the Tianjin Plant. The SGA ratio fell 0.1 percentage points year on year, to 33.0%.

As a result, operating profit decreased 0.1% year on year, to 11,677 million yen. The operating profit margin was 16.7%, falling 1.7 percentage points from a year ago. Ordinary profit rose 19.1% year on year, to 15,965 million yen, thanks to the impact of foreign exchange gains, and profit attributable to owners of parent increased 19.3% year on year, to 11,889 million yen.

*1 “Drug fostering” program formulations:

Formulations the Company is addressing by looking hard at the structure of diseases in recent years, targeting diseases that are difficult to treat with new drugs for which prescription Kampo preparations prove specifically effective in domains where demand for medical treatment is high, and calling the establishment of evidence “drug fostering”

*2 “Growing” formulations:

Growth drivers aimed at registration in clinical practice guidelines as strategic formulations after five drug fostering program formulations by constructing evidence (such as data on safety and effectiveness) in domains where the degree of satisfaction with medical treatment and the degree of drug contribution are low

[Impact of COVID-19, etc. on future business results]

During the first six months of the fiscal year under review, orders received were significantly greater than initially anticipated, due to a resurgence of COVID-19, extreme heat and other seasonal factors. Given the potential for a shortage of stock, depending on future trends in the supply/demand situation, the Company is limiting shipments for certain prescriptions. Although the Company believes that all of these prescriptions will continue to be available to patients who have been taking them, the Company may not be able to completely respond to demand if there are unforeseen circumstances such as a simultaneous epidemic of seasonal influenza and a resurgence of COVID-19. The Company will bring all employees together in a unified effort to develop and maintain its production system to ensure a stable supply of prescriptions.

In consideration of the above circumstances, the Company maintains its initial business results projections for the full fiscal year under review.

(2) Description of financial condition

The financial position at the end of the second quarter under review was as follows:

Total assets at the end of the second quarter increased 51,948 million yen from the end of the previous fiscal year, to 402,930 million yen. Current assets increased 46,017 million yen from the end of the previous fiscal year, mainly due to a rise in cash and deposits associated with the issuance of bonds. Non-current assets increased 5,931 million yen from the end of the previous fiscal year, mainly due to an increase in property, plant and equipment.

Total liabilities were 124,628 million yen, an increase of 31,756 million yen from the end of the previous fiscal year. Current liabilities increased 1,879 million yen from the end of the previous fiscal year, mainly due to an increase in notes and accounts payable - trade.

Non-current liabilities grew 29,877 million yen from the end of the previous fiscal year, mainly reflecting an increase in bonds payable.

Net assets totaled 278,302 million yen, an increase of 20,192 million yen from the end of the previous fiscal year. Shareholders' equity rose 9,062 million yen from the end of the previous fiscal year, mainly reflecting an increase in retained earnings. Accumulated other comprehensive income climbed 8,382 million yen from the end of the previous fiscal year, chiefly due to an increase in foreign currency translation adjustment. Non-controlling interests increased 2,747 million yen from the end of the previous fiscal year.

As a result, the equity ratio fell 4.5 percentage point, to 63.8%.

Cash flows in the first half under review were as follows:

At the end of the first six months of the fiscal year under review, cash provided by operating activities was 9,688 million yen, cash used in investing activities was 8,067 million yen, and cash provided by financing activities was 26,992 million yen.

Cash provided by operating activities was 9,688 million yen. Looking at its breakdown, a major cash inflow item was profit before income taxes of 15,690 million yen, while a major cash outflow item was income taxes paid of 3,183 million yen. Compared to the previous fiscal year, cash inflow decreased 2,126 million yen.

Cash used in investing activities was 8,067 million yen. Looking at its breakdown, a major cash outflow item was the purchase of property, plant and equipment of 6,701 million yen. Compared to a year ago, cash outflow rose 4,467 million yen.

Cash provided by financing activities was 26,992 million yen. This mainly reflected 29,857 million yen provided by the issuance of bonds. Compared to the first six months of the previous fiscal year, cash inflow increased 29,726 million yen. As a result, cash and cash equivalents increased 32,876 million yen from the end of the previous fiscal year, to 100,412 million yen.

(3) Description of projections of consolidated business results

The projections of consolidated business results for the fiscal year ending March 31, 2023, which were published on August 3, 2022, remain unchanged.

3. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	67,552	100,420
Notes and accounts receivable - trade	54,879	58,597
Merchandise and finished goods	10,247	10,138
Work in process	13,614	13,139
Raw materials and supplies	68,889	77,485
Other	14,360	15,797
Allowance for doubtful accounts	(123)	(141)
Total current assets	229,420	275,438
Non-current assets		
Property, plant and equipment		
Buildings and structures	89,563	92,610
Other	96,621	103,325
Accumulated depreciation	(96,143)	(102,191)
Total property, plant and equipment	90,040	93,744
Intangible assets		
Goodwill	8,513	9,335
Other	3,814	5,243
Total intangible assets	12,328	14,578
Investments and other assets		
Investment securities	10,184	9,778
Retirement benefit asset	2,842	3,059
Other	6,165	6,330
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	19,192	19,169
Total non-current assets	121,561	127,492
Total assets	350,981	402,930
Liabilities		
Current liabilities		
Notes and accounts payable - trade	13,676	15,909
Short-term borrowings	10,313	10,313
Income taxes payable	3,271	3,937
Other	18,614	17,595
Total current liabilities	45,875	47,754
Non-current liabilities		
Bonds payable	30,000	60,000
Long-term borrowings	9,377	9,377
Retirement benefit liability	55	57
Provision for share awards for directors (and other officers)	—	55
Other	7,563	7,382
Total non-current liabilities	46,996	76,873
Total liabilities	92,871	124,628

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Net assets		
Shareholders' equity		
Share capital	30,142	30,142
Capital surplus	13,732	13,739
Retained earnings	182,929	192,370
Treasury shares	(682)	(1,067)
Total shareholders' equity	226,121	235,184
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,324	2,038
Deferred gains or losses on hedges	2,020	1,749
Revaluation reserve for land	2,673	2,673
Foreign currency translation adjustment	6,911	15,848
Remeasurements of defined benefit plans	(280)	(278)
Total accumulated other comprehensive income	13,648	22,031
Non-controlling interests	18,339	21,086
Total net assets	258,109	278,302
Total liabilities and net assets	350,981	402,930

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Statements of Income / For the Second Quarter Consolidated Accumulative Term

(Millions of yen)

	Six-month period ended September 30,2021 (From April 1, 2021 to September 30, 2021)	Six-month period ended September 30,2022 (From April 1, 2022 to September 30, 2022)
Net sales	63,416	70,107
Cost of sales	30,721	35,297
Gross profit	32,695	34,809
Selling, general and administrative expenses	21,011	23,132
Operating profit	11,684	11,677
Non-operating income		
Interest income	234	247
Dividend income	129	137
Foreign exchange gains	1,184	3,950
Other	310	208
Total non-operating income	1,858	4,543
Non-operating expenses		
Interest expenses	116	92
Bond issuance costs	—	142
Other	17	19
Total non-operating expenses	133	255
Ordinary profit	13,409	15,965
Extraordinary income		
Gain on sale of non-current assets	21	3
Total extraordinary income	21	3
Extraordinary losses		
Loss on sale of non-current assets	—	0
Loss on retirement of non-current assets	264	25
Loss on COVID19	—	252
Total extraordinary losses	264	278
Profit before income taxes	13,165	15,690
Income taxes	3,253	3,649
Profit	9,911	12,041
Profit (loss) attributable to non-controlling interests	(54)	152
Profit attributable to owners of parent	9,965	11,889

Quarterly Consolidated Statements of Comprehensive Income / For the Second Quarter Consolidated Accumulative Term
(Millions of yen)

	Six-month period ended September 30,2021 (From April 1, 2021 to September 30, 2021)	Six-month period ended September 30,2022 (From April 1, 2022 to September 30, 2022)
Profit	9,911	12,041
Other comprehensive income		
Valuation difference on available-for-sale securities	(826)	(285)
Deferred gains or losses on hedges	(140)	(270)
Foreign currency translation adjustment	5,995	11,489
Remeasurements of defined benefit plans, net of tax	10	1
Share of other comprehensive income of entities accounted for using equity method	37	65
Total other comprehensive income	5,076	11,001
Comprehensive income	14,988	23,042
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	13,696	20,271
Comprehensive income attributable to non-controlling interests	1,291	2,770

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Six-month period ended September 30,2021 (From April 1, 2021 to September 30, 2021)	Six-month period ended September 30,2022 (From April 1, 2022 to September 30, 2022)
Cash flows from operating activities		
Profit before income taxes	13,165	15,690
Depreciation	4,322	4,980
Amortization of goodwill	218	248
Increase (decrease) in allowance for doubtful accounts	13	2
Interest and dividend income	(364)	(384)
Interest expenses	116	92
Bond issuance costs	—	142
Loss (gain) on sale and retirement of property, plant and equipment	243	22
Decrease (increase) in trade receivables	(2,868)	(2,500)
Decrease (increase) in inventories	(2,766)	(490)
Increase (decrease) in trade payables	3,450	554
Decrease (increase) in retirement benefit asset	(209)	(218)
Increase (decrease) in retirement benefit liability	6	6
Other, net	148	(5,543)
Subtotal	15,477	12,604
Interest and dividends received	365	368
Interest paid	(133)	(100)
Income taxes paid	(3,894)	(3,183)
Net cash provided by (used in) operating activities	11,815	9,688
Cash flows from investing activities		
Decrease (increase) in time deposits	1,711	13
Purchase of property, plant and equipment	(4,764)	(6,701)
Proceeds from sale of property, plant and equipment	52	18
Purchase of intangible assets	(226)	(1,071)
Purchase of short-term and long-term investment securities	(6,669)	(1,334)
Proceeds from sale and redemption of short-term and long-term investment securities	6,664	1,328
Loan advances	—	(171)
Proceeds from collection of loans receivable	0	0
Other, net	(367)	(149)
Net cash provided by (used in) investing activities	(3,600)	(8,067)
Cash flows from financing activities		
Repayments of short-term borrowings	(167)	—
Proceeds from long-term borrowings	9,377	—
Repayments of long-term borrowings	(9,376)	—
Proceeds from issuance of bonds	—	29,857
Purchase of treasury shares	(1)	(445)
Dividends paid	(2,447)	(2,447)
Dividends paid to non-controlling interests	(87)	—
Other, net	(30)	28
Net cash provided by (used in) financing activities	(2,733)	26,992
Effect of exchange rate change on cash and cash equivalents	2,145	4,262
Net increase (decrease) in cash and cash equivalents	7,627	32,876
Cash and cash equivalents at beginning of period	59,668	67,536
Cash and cash equivalents at end of period	67,296	100,412

(4) Notes to the Quarterly Consolidated Financial Statements

(Notes on premise of a going concern)

No relevant items.

(Notes on case of extreme change in shareholder's equity amount)

No relevant items.

(Application of specific accounting treatment to the preparation of quarterly financial statements)

(Deferment of cost variance)

Cost variance caused by seasonal changes in operation rates, etc. is expected to be eliminated for the most part by the end of the cost accounting period, which is, therefore, deferred as “current assets (other) or current liabilities (other).”