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February 3, 2023

Consolidated Financial Results for the Third 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: February 6, 2023
 Scheduled date to commence dividend payments: -
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of financial results briefing: Yes (for institutional investors and securities analysts)

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

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

(1) Consolidated operating results

(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-month period ended								
December 31, 2022	107,076	8.8	17,723	(5.9)	21,410	1.6	15,875	3.2
December 31, 2021	98,382	11.2	18,829	9.2	21,074	18.3	15,389	16.4

Note: Comprehensive income
 Nine-month period ended December 31, 2022: ¥27,161 million [27.6 %]
 Nine-month period ended December 31, 2021: ¥21,280 million [71.8 %]

	Basic earnings per share	Diluted earnings per share
Nine-month period ended	Yen	Yen
December 31, 2022	207.65	—
December 31, 2021	201.15	—

(2) Consolidated financial condition

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
December 31, 2022	400,958	279,682	64.3
March 31, 2022	350,981	258,109	68.3

Reference: Equity

As of December 31, 2022: ¥257,773 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 December 31, 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 December 31, 2022	367,282 shares
As of March 31, 2022	251,343 shares

(iii) Average number of shares outstanding during the period

Nine-month period ended December 31, 2022	76,451,360 shares
Nine-month period ended December 31, 2021	76,507,636 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 third quarter under review were as follows:

[Consolidated business results]			(Million yen)
	FY 3/2022 3Q	FY 3/2023 3Q	YoY Change Percent Change
Net sales	98,382	107,076	+8,694 +8.8%
Domestic sales	91,317	96,346	+5,029 +5.5%
Overseas sales	7,065	10,729	+3,664 +51.9%
Cost of sales	47,997	54,517	+6,519 +13.6%
Selling, general and administrative expenses	31,554	34,836	+3,281 +10.4%
Operating profit	18,829	17,723	(1,106) (5.9)%
Ordinary profit	21,074	21,410	+335 +1.6%
Profit attributable to owners of parent	15,389	15,875	+486 +3.2%

Net sales increased 8.8% year on year, to 107,076 million yen.

Domestic net sales increased 5.5% year on year, to 96,346 million yen. Sales for 129 prescription Kampo products increased 5.3% 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.) in July and August. Total sales of drug fostering formulations*1 grew 1.0% and sales of Daikenchuto, a mainstay item for the Company, increased 2.0% year on year. Total sales of growing formulations*2 rose 10.6% 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	
			3Q	3Q		
“Drug fostering” program formulations	1	100 Daikenchuto	7,334	7,482	+147	+2.0%
	3	54 Yokukansan	5,678	5,687	+9	+0.2%
	4	43 Rikkunshito	5,548	5,644	+96	+1.7%
	8	107 Goshajinkigan	2,687	2,633	(54)	(2.0)%
	24	14 Hangeshashinto	1,052	1,078	+26	+2.5%
Total of “Drug Fostering” Program formulations			22,301	22,527	+225	+1.0%
“Growing” formulations:	2	41 Hochuekkito	5,655	6,096	+441	+7.8%
	5	17 Goreisan	4,111	4,821	+710	+17.3%
	6	24 Kamishoyosan	3,752	3,935	+183	+4.9%
	16	108 Ninjin'yoeito	1,488	1,624	+135	+9.1%
	17	137 Kamikihito	1,332	1,600	+267	+20.1%
Total of “Growing” formulations			16,340	18,078	+1,738	+10.6%
Total of 119 prescriptions excluding “Drug fostering” program formulations and “Growing” formulations			48,650	51,335	+2,684	+5.5%
Total of 129 prescription Kampo products			87,293	91,941	+4,648	+5.3%

In addition, sales of OTC Kampo formulations in Japan increased 18.8% year on year, to 3,358 million yen, reflecting a rise in the number of stores handling the products and the growth of formulations related to symptoms of COVID-19.

Overseas net sales were 10,729 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 13.6% year on year, to 54,517 million yen, mainly reflecting the growth in net sales and surges in raw and other materials. The cost-to-sales ratio rose 2.1 percentage points year on year, to 50.9%.

Selling, general and administrative expenses increased 10.4% year on year, to 34,836 million yen. The increase mainly reflected the posting of temporary expenses for the operation of the Tianjin Plant. The SGA ratio rose 0.4 percentage points year on year, to 32.5%. As a result, operating profit decreased 5.9% year on year, to 17,723 million yen. The operating profit margin was 16.6%, falling 2.5 percentage points from a year ago. Ordinary profit rose 1.6% year on year, to 21,410 million yen, thanks to the impact of foreign exchange gains. Profit attributable to owners of parent increased 3.2% year on year, to 15,875 million yen. This mainly reflects the posting of extraordinary income at 463 million yen as a gain on refund resulting from a paid-in capital decrease of Sichuan Chuancun Traditional Chinese Medicines Co Ltd., which was an equity method affiliate.

*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 the COVID-19 infection, etc. on future business results]

In the first nine 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 in July and August. 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 in the case of a simultaneous epidemic of seasonal influenza and a resurgence of COVID-19, among others. The Company will decide when to stop limiting shipments in light of the production plan and demand trends. At present, the Company expects to stop limiting shipments, one by one, starting from the end of March. 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 third quarter under review was as follows:

Total assets at the end of the third quarter increased 49,977 million yen from the end of the previous fiscal year, to 400,958 million yen. Current assets increased 41,542 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 8,434 million yen from the end of the previous fiscal year, mainly due to an increase in property, plant and equipment.

Total liabilities were 121,276 million yen, an increase of 28,404 million yen from the end of the previous fiscal year. Current liabilities decreased 2,179 million yen from the end of the previous fiscal year due to a decrease in income taxes payable. Non-current liabilities grew 30,583 million yen from the end of the previous fiscal year, mainly reflecting an increase in bonds payable.

Net assets totaled 279,682 million yen, an increase of 21,572 million yen from the end of the previous fiscal year. Shareholders’ equity rose 10,308 million yen from the end of the previous fiscal year, mainly reflecting an increase in retained earnings. Accumulated other comprehensive income climbed 7,693 million yen from the end of the previous fiscal year, chiefly due to an increase in foreign currency translation adjustment. Non-controlling interests increased 3,569 million yen from the end of the previous fiscal year.

As a result, the equity ratio fell 4.0 percentage point, to 64.3%.

Cash flows in the first three quarters under review were as follows:

At the end of the first nine months of the fiscal year under review, cash provided by operating activities was 8,930 million yen, cash used in investing activities was 12,425 million yen, and cash provided by financing activities was 24,456 million yen.

Cash provided by operating activities was 8,930 million yen. Looking at its breakdown, a major cash inflow item was profit before

income taxes of 21,582 million yen, while a major cash outflow item was income taxes paid of 6,174 million yen. Compared to the previous fiscal year, cash inflow decreased 8,884 million yen.

Cash used in investing activities was 12,425 million yen. Looking at its breakdown, a major cash outflow item was the purchase of property, plant and equipment of 9,724 million yen. Compared to a year ago, cash outflow rose 4,914 million yen.

Cash provided by financing activities was 24,456 million yen. This mainly reflected 29,857 million yen provided by the issuance of bonds. Compared to the first nine months of the previous fiscal year, cash inflow increased 29,648 million yen.

As a result, cash and cash equivalents increased 26,175 million yen from the end of the previous fiscal year, to 93,711 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 December 31, 2022
Assets		
Current assets		
Cash and deposits	67,552	93,729
Notes and accounts receivable - trade	54,879	61,856
Merchandise and finished goods	10,247	9,077
Work in process	13,614	14,072
Raw materials and supplies	68,889	77,929
Other	14,360	14,453
Allowance for doubtful accounts	(123)	(156)
Total current assets	229,420	270,962
Non-current assets		
Property, plant and equipment		
Buildings and structures	89,563	92,509
Other	96,621	106,669
Accumulated depreciation	(96,143)	(104,320)
Total property, plant and equipment	90,040	94,857
Intangible assets		
Goodwill	8,513	9,215
Other	3,814	6,215
Total intangible assets	12,328	15,431
Investments and other assets		
Investment securities	10,184	10,430
Retirement benefit asset	2,842	3,164
Other	6,165	6,111
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	19,192	19,706
Total non-current assets	121,561	129,995
Total assets	350,981	400,958
Liabilities		
Current liabilities		
Notes and accounts payable - trade	13,676	13,452
Short-term borrowings	10,313	10,313
Income taxes payable	3,271	1,760
Other	18,614	18,170
Total current liabilities	45,875	43,696
Non-current liabilities		
Bonds payable	30,000	60,000
Long-term borrowings	9,377	9,377
Retirement benefit liability	55	61
Provision for share awards for directors (and other officers)	—	83
Other	7,563	8,058
Total non-current liabilities	46,996	77,580
Total liabilities	92,871	121,276

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Net assets		
Shareholders' equity		
Share capital	30,142	30,142
Capital surplus	13,732	13,739
Retained earnings	182,929	193,617
Treasury shares	(682)	(1,068)
Total shareholders' equity	226,121	236,430
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,324	2,489
Deferred gains or losses on hedges	2,020	(130)
Revaluation reserve for land	2,673	2,673
Foreign currency translation adjustment	6,911	16,587
Remeasurements of defined benefit plans	(280)	(277)
Total accumulated other comprehensive income	13,648	21,342
Non-controlling interests	18,339	21,909
Total net assets	258,109	279,682
Total liabilities and net assets	350,981	400,958

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

(Millions of yen)

	Nine-month period ended December 31, 2021 (From April 1, 2021 to December 31, 2021)	Nine-month period ended December 31, 2022 (From April 1, 2022 to December 31, 2022)
Net sales	98,382	107,076
Cost of sales	47,997	54,517
Gross profit	50,384	52,559
Selling, general and administrative expenses	31,554	34,836
Operating profit	18,829	17,723
Non-operating income		
Interest income	331	398
Dividend income	248	264
Foreign exchange gains	1,421	2,906
Other	410	439
Total non-operating income	2,411	4,009
Non-operating expenses		
Interest expenses	141	169
Bond issuance costs	—	142
Other	25	10
Total non-operating expenses	166	323
Ordinary profit	21,074	21,410
Extraordinary income		
Gain on sale of non-current assets	24	5
Gain on capital reduction with compensation of subsidiaries and affiliates	—	463
Total extraordinary income	24	469
Extraordinary losses		
Loss on sale of non-current assets	0	3
Loss on retirement of non-current assets	392	35
Loss on COVID19	—	257
Total extraordinary losses	392	296
Profit before income taxes	20,705	21,582
Income taxes	5,219	5,060
Profit	15,486	16,521
Profit attributable to non-controlling interests	97	646
Profit attributable to owners of parent	15,389	15,875

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

	Nine-month period ended December 31, 2021 (From April 1, 2021 to December 31, 2021)	Nine-month period ended December 31, 2022 (From April 1, 2022 to December 31, 2022)
Profit	15,486	16,521
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,084)	165
Deferred gains or losses on hedges	194	(2,150)
Foreign currency translation adjustment	6,626	12,691
Remeasurements of defined benefit plans, net of tax	15	2
Share of other comprehensive income of entities accounted for using equity method	41	(69)
Total other comprehensive income	5,793	10,639
Comprehensive income	21,280	27,161
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	19,680	23,569
Comprehensive income attributable to non-controlling interests	1,599	3,591

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Nine-month period ended December 31, 2021 (From April 1, 2021 to December 31, 2021)	Nine-month period ended December 31, 2022 (From April 1, 2022 to December 31, 2022)
Cash flows from operating activities		
Profit before income taxes	20,705	21,582
Depreciation	6,496	7,578
Amortization of goodwill	329	381
Increase (decrease) in allowance for doubtful accounts	30	17
Interest and dividend income	(580)	(663)
Interest expenses	141	169
Bond issuance costs	—	142
Loss (gain) on sale and retirement of property, plant and equipment	368	32
Gain on capital reduction with compensation of subsidiaries and affiliates	—	(463)
Decrease (increase) in trade receivables	(5,048)	(5,810)
Decrease (increase) in inventories	(2,461)	(773)
Increase (decrease) in trade payables	2,193	(1,759)
Decrease (increase) in retirement benefit asset	(310)	(324)
Increase (decrease) in retirement benefit liability	2	12
Other, net	2,516	(5,542)
Subtotal	24,383	14,581
Interest and dividends received	583	671
Interest paid	(171)	(148)
Income taxes paid	(6,981)	(6,174)
Net cash provided by (used in) operating activities	17,815	8,930
Cash flows from investing activities		
Decrease (increase) in time deposits	1,727	7
Purchase of property, plant and equipment	(8,407)	(9,724)
Proceeds from sale of property, plant and equipment	58	22
Purchase of intangible assets	(295)	(2,135)
Purchase of short-term and long-term investment securities	(14,522)	(9,713)
Proceeds from sale and redemption of short-term and long-term investment securities	14,514	9,705
Purchase of investments in capital of subsidiaries	—	(388)
Loan advances	(0)	(174)
Proceeds from collection of loans receivable	1	175
Other, net	(586)	(199)
Net cash provided by (used in) investing activities	(7,510)	(12,425)
Cash flows from financing activities		
Repayments of short-term borrowings	(168)	—
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	(2)	(446)
Dividends paid	(4,887)	(4,889)
Dividends paid to non-controlling interests	(87)	(70)
Other, net	(46)	6
Net cash provided by (used in) financing activities	(5,192)	24,456
Effect of exchange rate change on cash and cash equivalents	2,289	5,213
Net increase (decrease) in cash and cash equivalents	7,402	26,175
Cash and cash equivalents at beginning of period	59,668	67,536
Cash and cash equivalents at end of period	67,070	93,711

(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).”