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April 28, 2023

CMIC HOLDINGS Co., Ltd. Consolidated Financial Results

For the 2nd Quarter Ended March 31, 2023

(The Fiscal Year Ending September 30, 2023, Japan Accounting Standards)

Highlights:

- ◆**Net sales grew 15.7% year on year to ¥59,883 million on a consolidated basis**
- ◆**Operating profit increased 48.8% to ¥8,546 million**
- ◆**Earnings per share: ¥377.14**
- ◆**Order received exceeded ¥60,000 million**

Tokyo, April 28, 2023 – CMIC HOLDINGS Co., Ltd. (TSE Prime Code: 2309) today reported financial results for the 2nd quarter ended March 31, 2023.

CMIC Group aims at transitioning to PHVC (Personal Health Value Creator) business model that “maximizes the individual health value”, while using our unique PVC (Pharmaceutical Value Creator) model that fully supports the value chain of pharmaceutical companies as the foundation for sustainable growth.

The Group will strengthen its response to drug development and digitalization using new basic technologies for drug discovery. At the same time, we will expand our business domain into the healthcare field and promote support for efforts to provide total care for diseases, from prevention to diagnosis, treatment, and prognosis. Through such efforts, we intend to strengthen the Group's business foundation and make great strides toward sustainable growth.

In our mid-term plan (FY2022-2025) formulated in November 2021, we have identified (1) evolution of healthcare business, (2) comprehensive support for disease prevention, treatment R&D, and marketing, and (3) contributing to sustainable society through services with high social benefits as the key pillars. In the fiscal year ending September 30, 2023, the second year of the mid-term plan, we will steadily implement measures to address each of these pillars.

[Consolidated operating results for the second quarter]

During the consolidated cumulative second quarter, as part of our efforts to address the key pillars of our mid-term plan, we focused on coming up with solutions for local governments, which supports local communities in terms of both digital and human resources, and on acquiring new projects and securing human resources for pharmaceutical companies and biotech ventures.

The prolonged situation in Ukraine continues to raise concerns about the impact on our business, but there has been no direct significant impact on our group in the second quarter of the current fiscal year. We continue to closely monitor price trends and supply issues for energy and raw materials, and are working to minimize the impact on our business.

In the second quarter of the consolidated fiscal year under review, our figures have significantly exceeded that of the same period of the previous year: net sales increased 15.7% year on year to ¥59,883 million, operating profit increased 48.8% to ¥8,546 million, ordinary profit increased 24.2% year on year to ¥7,665 million and profit attributable to owners of the parent increased 86.8% year on year to ¥6,545 million. This is due to growth in the Pharmaceutical Solutions segment businesses on top of growth in municipal support services related to new coronavirus infection in the Healthcare Solutions segment.

(Millions of yen)

	1H FY2022	1H FY2023	YoY Change Amount	YoY Change (%)
Net sales	51,769	59,883	+8,114	+15.7
Pharmaceutical solutions	36,820	42,309	+5,488	+14.9
Healthcare solutions	15,262	18,443	+3,181	+20.8
Adjustments	(314)	(870)	(556)	—
Operating profit	5,743	8,546	+2,803	+48.8
Pharmaceutical solutions	2,326	3,559	+1,233	+53.0
Healthcare solutions	4,182	5,892	+1,710	+40.9
Adjustments	(765)	(905)	(139)	—
Ordinary profit	6,169	7,665	+1,495	24.2
Profit attributable to owners of parent	3,503	6,545	+3,042	86.8

The business results by segment are listed as below:

<Pharmaceutical Solutions>

We are developing a PVC (Pharmaceutical Value Creator) business model that provides solutions to the value chain of pharmaceutical companies through our CRO (drug development support), CDMO (drug formulation development and manufacturing support) and Market Solutions (pharmaceutical sales support, development, manufacturing, sales and distribution of orphan drugs, etc.) businesses.

Sales increased 14.9% year on year to ¥42,309 million due to growth in all businesses, and operating profit also increased 53.0% year on year to ¥3,559 million.

CRO Business

- Sales increased from the same period of the previous year
- Strengthen comprehensive consulting services for overseas bio ventures entering the Japanese market and other industries entering the healthcare field
- Increase in support for DX (Digital Transformation) promotion and DTx (Digital Therapeutics) entry
- Increase in projects for efficacy and safety evaluation and analysis in cutting-edge areas where modalities are diversifying, such as next-generation antibody drugs, nucleic acid drugs, gene therapeutics, and biomarkers

CDMO Business

- Sales increased from the same period of the previous year
- Growing need to ensure stable supply in response to the spread of COVID-19 and generic quality issues

- Increase in manufacturing costs due to higher prices for energy, raw materials, packaging materials, etc.
- Respond to supply shortage risks, such as prolonged delivery times, in cooperation with customers and suppliers
- Delayed recovery in US performance, focus on acquiring new projects

Market Solutions Business

- Sales increased from the same period of the previous year
- Received many customer inquiries for MR dispatch services
- Commencement of Phase III clinical trials in Japan for glycerol phenylbutyrate (overseas trade name: Ravicti®), a treatment for urea cycle disorders, and associated increase in R&D expenses

<Healthcare Solutions>

The Site Support Solutions business provides comprehensive support for healthcare-related facilities and healthcare professionals, and the Healthcare Revolution business provides solutions using a new ecosystem for healthcare to individuals and local governments.

Sales increased to ¥18,443 million (up 20.8% year on year) and operating profit to ¥5,892 million (up 40.9% year on year) due to substantial growth in support for vaccination against new coronavirus infection, follow-up for positive cases, and sales of antigen test kits.

Site Support Solutions Business

- Sales decreased from the same period of the previous fiscal year due to a decline in large new coronavirus vaccine development projects
- Solid orders received
- Expansion of Clinical Trial Office Support for Medical Institutions
- Expand collaboration with academia

Healthcare Revolution Business

- Sales significantly exceeded the same period of the previous year
- Continued support services related to COVID-19
- Expansion of businesses that integrate disease prevention, health information, and IT technologies
 - Increase in the number of medical institutions introducing “nanacara”, a support platform for epilepsy patients and their families, and expansion of target diseases for nanacara-based services
- Support for local government projects in line with the "Digital Garden Cities and Green Transformation"

Ordinary Profit

Ordinary profit in the consolidated cumulative second quarter was ¥7,665 million (up 24.2% year on year).

Non-operating income, such as subsidy income, totaled ¥63 million, and non-operating expenses, such as foreign exchange losses, totaled ¥945 million.

Profit attributable to owners of parent

Profit attributable to owners of parent in the consolidated cumulative second quarter was ¥6,545 million (up 86.8% year on year).

We recorded a gain on sales of investment securities of ¥3,349 million as extraordinary income, loss on liquidation of subsidiaries and other losses of ¥86 million as extraordinary losses, income taxes of ¥4,388 million, and loss attributable to non-controlling interests of ¥6 million for the period.

Overview of the financial condition and Cash Flow

Assets, liabilities, and net assets

Total assets at the end of the consolidated cumulative second quarter increased by ¥3,935 million compared with the end of the previous consolidated fiscal year to ¥111,525 million. This was mainly due to an increase in cash and deposits, accounts receivable-trade and contract assets, and a decrease in investment securities.

Total liabilities decreased by ¥1,614 million compared with the end of the previous consolidated fiscal year to ¥64,706 million. This was mainly due to a decrease in provision for bonuses and an increase in long-term borrowings.

Total net assets increased by ¥5,549 million compared with the end of the previous consolidated fiscal year to ¥46,819 million. This is due mainly to an increase in retained earnings.

Cash Flows

Cash and cash equivalents at the end of the first half increased ¥2,281 million from the end of the previous fiscal year to ¥13,984 million.

Status of each cash flow and key factors are as follows:

(Cash flow from operating activities)

Net cash flows from operating activities amounted to ¥2,168 million (¥4,011 million in the same period of the previous year). This was mainly due to an increase in funds resulting from Profit before income taxes, and a decrease in funds resulting from income taxes paid and bonuses paid.

(Cash flow from investing activities)

Net cash provided by investing activities amounted to ¥267 million (¥3,682 million used in the same period of the previous year). This was mainly due to proceeds from sale of investment securities and payments for purchase of fixed assets.

(Cash flow from financing activities)

Net cash used in financing activities amounted to ¥114 million (net cash provided by financing activities amounted to ¥906 million in the same period of the previous year). This was mainly due to an increase in funds from long-term borrowings, cash dividends paid, and purchase of treasury shares.

Future Outlook

Taking into account the results of the first half of the current fiscal year, the forecast for the fiscal year ending September 30, 2023 incorporates the forecast for matters affecting the first half of the fiscal year based on information available at this time.

In the second quarter consolidated cumulative period, we substantially exceeded our initial forecast due to a significant increase in municipal support services related to COVID-19 and a gain on sale of investment securities of 3,349 million yen recorded as an extraordinary income.

As for matters that will affect business results in the second half of the fiscal year, as announced in the "Notice of Change of CDMO Business Subsidiary and Notice of Strategic Business Alliance with Dai Nippon Printing Co., Ltd." dated April 17, 2023, some subsidiaries in the CDMO (drug formulation development and manufacturing support) business of Pharmaceutical Solutions are expected to become equity-method affiliates from June 2023.

As for the impact of COVID-19, the shift of the classification of COVID-19 to category 5 under the Infectious Diseases Control Law effective May 8, 2023 is expected to reduce the number of vaccination projects that have driven our performance in the first half of the current fiscal year.

Further, the situation in Ukraine will not have a significant direct impact on our operations in Russia and Ukraine, as we do not have any offices in either country, but there will be an impact on our profits due to higher energy and logistics costs, which we have incorporated into our forecast.

Based on the above, we have revised upward our full-year forecasts for the fiscal year ending September 30, 2023, to net sales of ¥ 105,000 million, operating profit of ¥ 10,300 million, ordinary profit of ¥ 9,000 million, and profit attributable to owners of parent of ¥7,300 million, respectively.

	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
Previous forecast (A)	95,000	5,000	4,700	2,900	165.23
Current revised forecast (B)	105,000	10,300	9,000	7,300	420.42
Increase (B-A)	10,000	5,300	4,300	4,400	-
Rate of change (%)	10.5	106.0	91.5	151.7	-
(Reference) Results for the previous fiscal year (FY2022)	108,461	11,845	13,450	8,387	469.44

Cautionary statement:

This material includes forward-looking statements based on assumptions and beliefs in light of the information currently available to management, and is subject to significant risks and uncertainties. Actual financial results may vary materially from the content of this material depending on a number of factors. While this material contains information on pharmaceuticals (including compounds under development), this information is not intended to make any representations or advertisements regarding the efficacy or effectiveness of their preparations, promote any kind of unapproved uses, nor provide medical advice of any kind.

Summary of Results for the 2nd Quarter Ended March 31, 2023 (October 1, 2022 through March 31, 2023)

(1) Consolidated financial results (Millions of yen; amounts less than one million yen are omitted)
(Percentage figures indicate increase/decrease compared with the corresponding period of the prior fiscal year)

	1H FY2023		1H FY2022	
		Change (%)		Change (%)
Net sales	59,883	15.7	51,769	34.0
Operating profit	8,546	48.8	5,743	166.1
Ordinary profit	7,665	24.2	6,169	160.5
Profit attributable to owners of parent	6,545	86.8	3,503	186.6
Earnings per share (Yen)	377.14		194.07	
Diluted net income per share (Yen)	—		—	

Reference: Comprehensive income: 1st half FY2023: ¥6,695 million (up 108.6% YoY)

1st half FY2022: ¥3,210 million (up 76.9%YoY)

(2) Consolidated financial position (Millions of yen; amounts less than one million yen are omitted)

	End Q2 FY2023	Year End FY2022
Total assets	111,525	107,590
Net assets	46,819	41,269
Equity ratio (%)	32.9	29.4
Book value per share (Yen)	2,132.04	1,801.31

Reference: Shareholders' equity: 2nd quarter FY2023: ¥ 36,678 million

Year End FY2022: ¥31,624 million

Distribution Status

	(Yen)		
	FY2022	FY2023	FY2023 (Estimated)
Dividend per share (Base date)			
End of first quarter	—	—	—
End of second quarter	5.00	5.00	—
End of third quarter	—		—
End of FY	45.00		45.00
Total	50.00		50.00

We regard the return of profits to shareholders as one of our most important management policies. Our basic policy is to pay dividends in accordance with our business performance, while securing internal reserves to improve profitability and strengthen our business foundation. At the same time, we will maintain a consolidated dividend payout ratio of 30% and pay continuous and stable dividends. For the time being, the minimum annual dividend is set at ¥10.00 for stable dividends.

Consolidated Financial Statements for the 2nd Quarter Ended March 31, 2023

(1) Consolidated Balance Sheets

(Millions of yen)

	Q2 FY2023 (March 31, 2023)	Year End FY2022 (September 30, 2022)
Assets		
Current assets		
Cash and deposits	14,120	11,806
Notes and accounts receivable-trade, and contract assets	25,851	24,632
Merchandise and finished goods	638	526
Work in process	4,894	4,384
Raw materials and supplies	4,208	3,932
Other	3,684	2,786
Allowance for doubtful accounts	(134)	(58)
Total current assets	53,263	48,010
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	18,069	16,211
Machinery, equipment and vehicles, net	9,679	9,454
Land	6,831	6,836
Other, net	8,036	10,319
Total property, plant and equipment	42,617	42,822
Intangible assets		
Goodwill	389	32
Other	2,640	2,260
Total intangible assets	3,029	2,292
Investments and other assets		
Investment securities	949	3,039
Leasehold and guarantee deposits	2,328	2,350
Other	10,411	9,793
Allowance for doubtful accounts	(1,073)	(719)
Total investments and other assets	12,615	14,464
Total non-current assets	58,262	59,580
Total assets	111,525	107,590

(Millions of yen)

	Q2 FY2023 (March 31, 2023)	Year End FY2022 (September 30, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,178	1,190
Current portion of long-term borrowings	3,685	3,602
Income taxes payable	3,995	3,868
Provision for bonuses	3,348	6,110
Provision for bonuses for directors	—	92
Provision for loss on orders received	1,224	1,225
Other	19,202	19,783
Total current liabilities	32,635	35,872
Non-current liabilities		
Long-term borrowings	15,137	13,534
Retirement benefit liability	11,269	11,000
Other	5,663	5,914
Total non-current liabilities	32,070	30,448
Total liabilities	64,706	66,320
Net assets		
Shareholders' equity		
Share capital	3,087	3,087
Capital surplus	6,093	6,093
Retained earnings	30,192	24,444
Treasury shares	(2,967)	(2,346)
Total shareholders' equity	36,406	31,279
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	388	742
Foreign currency translation adjustment	(153)	(432)
Remeasurements of defined benefit plans	36	34
Total accumulated other comprehensive income	271	344
Non-controlling interests	10,141	9,645
Total net assets	46,819	41,269
Total liabilities and net assets	111,525	107,590

(2) Consolidated Statement of Income

(Millions of yen)

	1H FY2023 (October 1, 2022– March 31, 2023)	1H FY2022 (October 1, 2021– March 31, 2022)
Net sales	59,883	51,769
Cost of sales	43,782	39,220
Gross profit	16,100	12,548
Selling, general and administrative expenses	7,553	6,805
Operating profit	8,546	5,743
Non-operating income		
Interest income	5	1
Foreign exchange gains	—	467
Subsidy income	26	13
Other	30	47
Total non-operating income	63	530
Non-operating expenses		
Interest expenses	94	74
Foreign exchange losses	809	—
Share of loss of entities accounted for using equity method	19	—
Other	22	29
Total non-operating expenses	945	104
Ordinary profit	7,665	6,169
Extraordinary income		
Gain on sale of investment securities	3,349	—
Total extraordinary income	3,349	—
Extraordinary losses		
Loss on retirement of non-current assets	27	43
Loss on valuation of investment securities	11	8
Loss on liquidation of subsidiaries	47	—
Total extraordinary losses	86	51
Profit before income taxes	10,928	6,117
Total income taxes	4,388	2,631
Profit	6,539	3,486
Profit (loss) attributable to non-controlling interests	(6)	(17)
Profit attributable to owners of parent	6,545	3,503

(3) Consolidated Statement of Comprehensive Income

(Millions of yen)

	1H FY2023 (October 1, 2022– March 31, 2023)	1H FY2022 (October 1, 2021– March 31, 2022)
Profit	6,539	3,486
Other comprehensive income		
Valuation difference on available-for-sale securities	(354)	(57)
Foreign currency translation adjustment	501	(96)
Remeasurements of defined benefit plans	8	(121)
Total other comprehensive income	155	(275)
Comprehensive income	6,695	3,210
Comprehensive income attributable to		
Owners of parent	6,473	3,332
Non-controlling interests	222	(122)

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	1H FY2023 (October 1, 2022– March 31, 2023)	1H FY2022 (October 1, 2021– March 31, 2022)
Cash flows from operating activities:		
Profit before income taxes	10,928	6,117
Depreciation	2,764	2,533
Amortization of goodwill	51	10
Increase (decrease) in allowance for doubtful accounts	430	17
Interest and dividend income	(5)	(1)
Interest expenses	94	74
Foreign exchange losses (gains)	662	(48)
Share of loss (profit) of entities accounted for using equity method	19	—
Decrease (increase) in trade receivables	(1,251)	(2,264)
Decrease (increase) in inventories	(919)	(124)
Increase (decrease) in trade payables	(10)	146
Increase (decrease) in provision for bonuses	(2,759)	703
Increase (decrease) in retirement benefit liability	274	216
Loss (gain) on sale of investment securities	(3,349)	—
Loss (gain) on valuation of investment securities	11	8
Loss on retirement of non-current assets	27	43
Loss on liquidation of subsidiaries	47	—
Subsidy income	(26)	(11)
Increase (decrease) in contract liabilities	78	(321)
Increase (decrease) in accrued expenses	(352)	12
Other, net	(59)	592
Subtotal	6,654	7,706
Interest and dividends received	4	0
Interest paid	(97)	(74)
Income taxes paid	(4,420)	(3,633)
Subsidies received	26	11
Net cash provided by (used in) operating activities	2,168	4,011

(Millions of yen)

	1H FY2023 (October 1, 2022– March 31, 2023)	1H FY2022 (October 1, 2021– March 31, 2022)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(3,996)	(2,990)
Purchase of investment securities	(107)	(30)
Proceeds from sale of investment securities	5,005	—
Purchase of intangible assets	(470)	(566)
Payments of leasehold and guarantee deposits	(57)	(31)
Proceeds from refund of leasehold and guarantee deposits	81	36
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(160)	—
Other, net	(26)	(101)
Net cash provided by (used in) investing activities	267	(3,682)
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings	(25)	(18)
Proceeds from long-term borrowings	3,500	3,200
Repayments of long-term borrowings	(1,861)	(1,910)
Purchase of treasury shares	(621)	(218)
Dividends paid	(795)	(519)
Dividends paid to non-controlling interests	(5)	(8)
Repayments of lease liabilities	(304)	(262)
Proceeds from sale and leaseback transactions	—	643
Net cash provided by (used in) financing activities	(114)	906
Effect of exchange rate change on cash and cash equivalents	(40)	(278)
Net increase (decrease) in cash and cash equivalents	2,281	956
Cash and cash equivalents at beginning of period	11,703	9,379
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	—	60
Cash and cash equivalents at end of period	13,984	10,395