

Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2020

(Six Months Ended September 30, 2019)

[Japanese GAAP]

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Stock code: 4527

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December 5, 2019

Supplementary materials for quarterly financial results:

Yes

Quarterly financial results meeting:

Yes (for institutional investors and analysts)

(All amounts are rounded down to the nearest million yen.)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2020

(April 1, 2019 – September 30, 2019)

(1) Consolidated results of operations

(Percentages represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended Sep. 30, 2019	90,428	3.6	10,393	(3.0)	10,883	(1.8)	7,305	(0.2)
Six months ended Sep. 30, 2018	87,259	11.2	10,710	23.7	11,082	26.6	7,317	29.6

Note: Comprehensive income (Millions of yen):
 Six months ended Sep. 30, 2019: 4,762 (32.9%)
 Six months ended Sep. 30, 2018: 7,101 14.4%

	Basic net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 30, 2019	64.07	63.86
Six months ended Sep. 30, 2018	64.22	63.96

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Sep. 30, 2019	199,469	135,006	67.0
As of Mar. 31, 2019	200,953	132,189	65.1

Reference: Shareholders' equity (Millions of yen): As of Sep. 30, 2019: 133,690 As of Mar. 31, 2019: 130,773

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2019	-	11.00	-	14.00	25.00
Fiscal year ending Mar. 31, 2020	-	13.00			
Fiscal year ending Mar. 31, 2020 (forecast)			-	13.00	26.00

Note: Revisions to the most recently announced dividend forecast: None

Breakdown of the year-end dividend for the fiscal year ended March 31, 2019:

Ordinary dividend: 12.00 yen Commemorative dividend: 2.00 yen

3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2020 (April 1, 2019 – March 31, 2020)

(Percentages represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	184,000	0.2	21,500	3.3	21,300	12.3	13,500	37.8	118.35

Note: Revisions to the most recently announced consolidated forecast: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specific subsidiaries resulting in change in scope of consolidation): None

(2) Application of special accounting methods for preparation of quarterly consolidated financial statements: Yes

Note: Please refer to page 11 of the attachments “2. Quarterly Consolidated Financial Statements and Major Notes, (4) Notes to Quarterly Consolidated Financial Statements” for further information.

(3) Changes in accounting policies and accounting estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Restatements: None

Note: Please refer to page 11 of the attachments “2. Quarterly Consolidated Financial Statements and Major Notes, (4) Notes to Quarterly Consolidated Financial Statements” for further information.

(4) Number of common shares issued

1) Number of shares outstanding at the end of the period (including treasury shares):

As of Sep. 30, 2019:	118,089,155 shares	As of Mar. 31, 2019:	117,989,908 shares
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2) Number of shares of treasury shares at the end of the period:

As of Sep. 30, 2019:	4,018,900 shares	As of Mar. 31, 2019:	4,018,825 shares
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3) Average number of shares outstanding during the period:

Six months ended Sep. 30, 2019:	114,013,590 shares	Six months ended Sep. 30, 2018:	113,942,850 shares
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Note 1: This summary report is not subject to the quarterly review conducted by certified public accountants or audit firms.

Note 2: Cautionary statement with respect to forward-looking statements and other special items

Forecasts regarding future performance in these materials are based on assumptions judged to be valid and information available to the Company at the time the materials were created. These materials are not promises by the Company regarding future performance. Actual results of operations may differ significantly from the forecasts depending on various factors. For discussion of the assumptions and other factors considered by the Company in preparing the above projections, please refer to page 4 of the attachments “1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements.”

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first half of the current fiscal year, the Japanese economy continued to recover at a moderate pace supported by improved corporate profits and the employment situation. However, the outlook remained uncertain due to concerns over prolonged US-China trade friction, slowing economic growth in China and other factors.

The Rohto Group has moved into new fields with customer-oriented product development and marketing activities. In its existing categories, the Group has developed high value-added products in response to changing consumer needs and endeavored to reinvigorate markets.

In total, net sales increased 3.6% year-on-year to 90,428 million yen. In Japan, despite a one-off contract payment from Shionogi & Co., Ltd. happening in the same period of the previous fiscal year and the impact of slowing demand from foreign tourists visiting Japan, high value-added products sold well and last-minute demand ahead of the consumption tax hike contributed to the increase in sales. Overseas, sales grew steadily in China, Vietnam and other ASEAN countries.

Regarding profits, there were increases in ongoing up-front investments to enter new business fields and business structure reform expenses. As a result, operating income decreased by 3.0% year-on-year to 10,393 million yen, ordinary income decreased by 1.8% to 10,883 million yen, and profit attributable to owners of parent decreased 0.2% to 7,305 million yen.

Results by reportable segment are as follows.

Japan

Sales to customers increased 3.1% year-on-year to 58,409 million yen.

Among the core eye care products, high value-added products such as the high-performance ophthalmic remedy “V Rohto Premium” series and contact lens products performed well. However, eye care sales were stagnant, staying at about the same level as one year earlier partly due to strong sales of “Rohto Lycée” series in collaboration with Pretty Guardian Sailor Moon in last year. Concerning skincare products, in addition to strong performances from the beauty serum “Obagi C25 Serum Neo” for omnidirectional care from pores to skin resilience and “Deoco,” which has been trending on social media, last-minute demand before the consumption tax hike also contributed to an increase in sales.

Nevertheless, the increase was not so huge compared with the prior quarter when we had a lump sum payment from the license agreement with Shionogi. Also demand from foreign tourists visiting Japan slowed down in this current quarter.

Segment profit (operating income) decreased 7.0% year-on-year to 7,098 million yen. In order to strengthen our core business in Japan, which is a primary profit base, we are working on structural reforms such as improving the speed and quality of manufacturing and optimizing business processes with external knowledge. Up-front costs associated with these reforms slightly affected income.

America

Sales to customers increased 2.1% year-on-year to 4,315 million yen.

Although the U.S. economy experienced a mild recovery trend due to a steady rise in personal consumption, sales struggled to grow due to intense competition for eye drops.

Segment loss (operating loss) was 182 million yen (compared with 98 million yen loss in prior second quarter) due to sluggish sales of high profit margin eye care products.

Europe

Sales to customers increased 0.9% year-on-year to 4,387 million yen.

The leading anti-inflammatory analgesic “Deep Heat” series performed well. In addition, at Dax Cosmetics sales of sunscreens increased by more than 10% on a local currency basis.

Segment profit (operating income) decreased 79.2% year-on-year to 60 million yen, due to an increase in sales promotion expenses for the leading anti-inflammatory analgesic “Deep Heat” series, despite strong sales.

Asia

Sales to customers increased 6.4% year-on-year to 22,403 million yen.

Sales of eye drops and sunscreens remained strong despite concerns about economic slowdown in China due to prolonged US-China trade friction. The development of the Hada Labo brand in Vietnam and other ASEAN countries also contributed to the increase in sales.

Segment profit (operating income) increased 28.7% year-on-year to 3,222 million yen due to an effective use of sales promotion expenses as well as strong sales.

Others

In “Others,” excluded from reportable segments, sales to customers decreased 7.6% year-on-year to 912 million yen.

Segment profit (operating income) decreased 22.6% year-on-year to 60 million yen.

Note: The above amounts do not include consumption taxes.

(2) Explanation of Financial Position**1) Balance sheets position**

Total assets at the end of the second quarter decreased 1,483 million yen from the end of the previous fiscal year to 199,469 million yen. This was mainly due to increases of 1,414 million yen in raw materials and supplies and 965 million yen in other current assets such as prepaid expenses, while there were decreases of 1,515 million yen in electronically recorded monetary claims-operating, 1,026 million yen in merchandise and finished goods and 949 million yen in other, net under property, plant and equipment.

Total liabilities decreased 4,300 million yen from the end of the previous fiscal year to 64,463 million yen. This was mainly due to increases of 817 million yen in notes and accounts payable-trade and 500 million yen in other non-current liabilities, while there were decreases of 2,649 million yen in accrued expenses, 2,029 million yen in short-term loans payable and 427 million yen in electronically recorded obligations-operating.

Net assets increased 2,817 million yen from the end of the previous fiscal year to 135,006 million yen. This was mainly due to an increase of 5,359 million yen in retained earnings, while there were decreases of 2,165 million yen in foreign currency translation adjustment and 469 million yen in valuation difference on available-for-sale securities.

2) Consolidated cash flow position

During the first half of the current fiscal year, there was a net decrease of 282 million yen in cash and cash equivalents to 37,062 million yen.

Operating activities

Net cash provided by operating activities decreased 757 million yen year-on-year to 7,464 million yen. Profit before income taxes was 10,478 million yen, and there were inflow factors of depreciation of 2,864 million yen and a decrease of 2,588 million yen in notes and accounts receivable-trade, while there were outflow factors of income tax paid of 3,420 million yen and a decrease of 2,230 million yen in accrued expenses.

Investing activities

Net cash used in investing activities decreased 4,389 million yen year-on-year to 2,457 million yen. This was mainly due to the purchase of property, plant and equipment of 2,251 million yen and purchase of investment securities of 1,896 million yen, while there were proceeds from sales of fixed assets of 2,129 million yen.

Financing activities

Net cash used in financing activities increased 2,798 million yen year-on-year to 3,709 million yen. This was mainly due to net increase in short-term loans payable of 1,998 million yen, cash dividends paid of 1,595 million yen, and repayments of long-term loans payable of 562 million yen.

(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements

There is no change in the full-year consolidated earnings forecast that was released on May 10, 2019. Results of operations for the first half trended generally in line with our plan.

Note: The forecasts are based on information available at the time this report was prepared. Actual results of operations may differ from the forecasts depending on various factors.

2. Quarterly Consolidated Financial Statements and Major Notes**(1) Quarterly Consolidated Balance Sheets**

(Millions of yen)

	Prior Fiscal Year End (As of Mar. 31, 2019)	Current Second Quarter End (As of Sep. 30, 2019)
Assets		
Current assets		
Cash and deposits	37,856	37,474
Notes and accounts receivable-trade	32,217	31,409
Electronically recorded monetary claims-operating	12,540	11,025
Merchandise and finished goods	17,495	16,469
Work in process	2,638	2,867
Raw materials and supplies	10,127	11,541
Other	3,918	4,884
Allowance for doubtful accounts	(393)	(357)
Total current assets	116,402	115,314
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	19,907	19,516
Other, net	27,514	26,565
Total property, plant and equipment	47,421	46,082
Intangible assets		
Goodwill	1,083	1,356
Other	2,481	2,553
Total intangible assets	3,565	3,910
Investments and other assets		
Investment securities	28,530	29,214
Other	7,587	7,556
Allowance for doubtful accounts	(2,553)	(2,609)
Total investments and other assets	33,563	34,162
Total non-current assets	84,550	84,155
Total assets	200,953	199,469

	(Millions of yen)	
	Prior Fiscal Year End (As of Mar. 31, 2019)	Current Second Quarter End (As of Sep. 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	11,005	11,822
Electronically recorded obligations-operating	3,063	2,636
Short-term loans payable	3,745	1,716
Accrued expenses	25,954	23,304
Income taxes payable	3,548	3,169
Provision for bonuses	2,274	2,402
Provision for directors' bonuses	40	20
Provision for sales returns	606	656
Provision for sales rebates	2,594	2,460
Other	7,928	7,836
Total current liabilities	60,760	56,024
Non-current liabilities		
Long-term loans payable	1,424	1,424
Net defined benefit liability	3,584	3,520
Provision for loss on guarantees	1,742	1,742
Other	1,252	1,752
Total non-current liabilities	8,004	8,439
Total liabilities	68,764	64,463
Net assets		
Shareholders' equity		
Capital stock	6,446	6,504
Capital surplus	5,603	5,661
Retained earnings	119,989	125,349
Treasury shares	(4,935)	(4,935)
Total shareholders' equity	127,105	132,579
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,279	5,810
Foreign currency translation adjustment	(1,161)	(3,327)
Remeasurements of defined benefit plans	(1,449)	(1,371)
Total accumulated other comprehensive income	3,667	1,111
Subscription rights to shares	498	382
Non-controlling interests	917	932
Total net assets	132,189	135,006
Total liabilities and net assets	200,953	199,469

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statements of Income
(For the Six-month Period)**

	(Millions of yen)	
	Prior Second Quarter (Apr. 1, 2018 – Sep. 30, 2018)	Current Second Quarter (Apr. 1, 2019 – Sep. 30, 2019)
Net sales	87,259	90,428
Cost of sales	35,283	36,812
Gross profit	51,976	53,615
Provision for sales returns	39	49
Gross profit-net	51,937	53,565
Selling, general and administrative expenses	41,226	43,172
Operating income	10,710	10,393
Non-operating income		
Interest income	176	238
Dividend income	215	287
Share of profit of entities accounted for using equity method	19	-
Other	170	382
Total non-operating income	582	907
Non-operating expenses		
Interest expenses	68	64
Share of loss of entities accounted for using equity method	-	195
Other	141	156
Total non-operating expenses	210	417
Ordinary income	11,082	10,883
Extraordinary income		
Gain on sales of fixed assets	-	153
Total extraordinary income	-	153
Extraordinary losses		
Loss on valuation of investment securities	121	298
Loss on valuation of shares of subsidiaries and associates	-	143
Provision for doubtful accounts	170	109
Provision for doubtful accounts for subsidiaries and associates	3	7
Provision for loss on guarantees	218	-
Total extraordinary losses	512	558
Profit before income taxes	10,569	10,478
Income taxes	3,233	3,149
Profit	7,335	7,329
Profit attributable to non-controlling interests	18	24
Profit attributable to owners of parent	7,317	7,305

Quarterly Consolidated Statements of Comprehensive Income
(For the Six-month Period)

	(Millions of yen)	
	Prior Second Quarter (Apr. 1, 2018 – Sep. 30, 2018)	Current Second Quarter (Apr. 1, 2019 – Sep. 30, 2019)
Profit	7,335	7,329
Other comprehensive income		
Valuation difference on available-for-sale securities	559	(446)
Foreign currency translation adjustment	(733)	(2,185)
Remeasurements of defined benefit plans, net of tax	38	78
Share of other comprehensive income of entities accounted for using equity method	(99)	(12)
Total other comprehensive income	(234)	(2,566)
Comprehensive income	7,101	4,762
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	7,148	4,748
Comprehensive income attributable to non-controlling interests	(46)	14

(3) Quarterly Consolidated Statements of Cash Flows**(For the Six-month Period)**

(Millions of yen)

	Prior Second Quarter (Apr. 1, 2018 – Sep. 30, 2018)	Current Second Quarter (Apr. 1, 2019 – Sep. 30, 2019)
Cash flows from operating activities		
Income before income taxes and non-controlling interests	10,569	10,478
Depreciation	2,876	2,864
Amortization of goodwill	127	236
Increase (decrease) in allowance for doubtful accounts	186	(88)
Increase (decrease) in provision for bonuses	147	85
Increase (decrease) in net defined benefit liability	(185)	(119)
Increase (decrease) in provision for sales returns	39	49
Increase (decrease) in provision for sales rebates	(429)	(133)
Increase (decrease) in provision for loss on guarantees	218	-
Provision for doubtful accounts	170	109
Provision for doubtful accounts for subsidiaries and associates	3	7
Loss (gain) on valuation of investment securities	121	298
Loss on valuation of shares of subsidiaries and associates	-	143
Loss (gain) on sales of fixed assets	-	(153)
Interest and dividend income	(392)	(525)
Interest expenses	68	64
Share of (profit) loss of entities accounted for using equity method	(19)	195
Decrease (increase) in notes and accounts receivable - trade	3,929	2,588
Decrease (increase) in inventories	(6,250)	(949)
Increase (decrease) in notes and accounts payable - trade	2,225	(9)
Increase (decrease) in accrued expenses	(2,674)	(2,230)
Other, net	531	(2,550)
Subtotal	11,262	10,363
Interest and dividend income received	407	542
Interest expenses paid	(35)	(25)
Income taxes paid	(3,420)	(3,420)
Income taxes refund	8	5
Net cash provided by (used in) operating activities	8,222	7,464
Cash flows from investing activities		
Payments into time deposits	(548)	(335)
Proceeds from withdrawal of time deposits	399	422
Purchase of property, plant and equipment	(4,597)	(2,251)
Proceeds from sales of fixed assets	13	2,129
Purchase of intangible assets	(167)	(507)
Purchase of investment securities	(1,668)	(1,896)
Net decrease (increase) in short-term loans receivable	(42)	17
Payments of long-term loans receivable	(278)	(141)
Other, net	41	104
Net cash provided by (used in) investing activities	(6,847)	(2,457)

	(Millions of yen)	
	Prior Second Quarter (Apr. 1, 2018 – Sep. 30, 2018)	Current Second Quarter (Apr. 1, 2019 – Sep. 30, 2019)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	951	(1,998)
Proceeds from long-term loans payable	85	532
Repayments of long-term loans payable	(470)	(562)
Cash dividends paid	(1,253)	(1,595)
Purchase of shares of subsidiaries resulting in no change in scope of consolidation	(202)	-
Other, net	(20)	(84)
Net cash provided by (used in) financing activities	(910)	(3,709)
Effect of exchange rate change on cash and cash equivalents	(325)	(1,580)
Net increase (decrease) in cash and cash equivalents	138	(282)
Cash and cash equivalents at beginning of period	30,063	37,345
Cash and cash equivalents at end of period	30,202	37,062

(4) Notes to Quarterly Consolidated Financial Statements**Going Concern Assumption**

No reportable information.

Significant Changes in Shareholders' Equity

No reportable information.

Application of Special Accounting Methods for Preparation of Quarterly Consolidated Financial Statements

Calculation of tax expense

Tax expense was calculated by first reasonably estimating the effective tax rate after the application of tax effect accounting with respect to income before income taxes for the fiscal year, and multiplying that rate by the quarterly income before income taxes.

Changes in Accounting Policies

(1) Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606 — Revenue From Contracts With Customers

From the first quarter of this fiscal year, some overseas consolidated subsidiaries have applied ASC 606 “Revenue From Contracts With Customers.”

Accordingly, revenue is recognized, when promised goods or services are transferred to a customer, in amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

For applying this standard, the Rohto Group adopts a method to recognize the cumulative effect of applying the new standard at the date of initial application in accordance with transitional measures. Retained earnings at the beginning of the first quarter have been adjusted.

As a result, retained earnings at the beginning of the first quarter of this fiscal year decreased 349 million yen. Net sales, operating income, ordinary income and profit before income taxes decreased 40 million yen for the second quarter of this fiscal year.

(2) International Financial Reporting Standards (IFRS) 16 — Leases

From the first quarter of this fiscal year, some overseas consolidated subsidiaries have applied IFRS 16 “Leases.” For applying this standard, the Rohto Group adopts a method to recognize the cumulative effect of applying the new standard at the date of initial application in accordance with transitional measures. Retained earnings at the beginning of the first quarter have been adjusted.

For leases that were classified as operating leases by the lessee under the previous standard, IAS 17 “Leases,” the right-of-use assets and lease liabilities are recognized at the application start date. In addition, some assets recorded as other under Investments and other Assets are reclassified to right-of-use assets.

As a result, other, net under property, plant and equipment in the consolidated balance sheets increased by 716 million yen, other under current liabilities increased by 135 million yen and other under non-current liabilities increased by 220 million yen, while other under investments and other assets decreased by 369 million yen.

The change had a minimal impact on operating income, ordinary income and profit before income taxes for the second quarter of this fiscal year.

Segment Information**I. Prior Second Quarter (Apr. 1, 2018 – Sep. 30, 2018)****1. Information related to net sales and profit or loss for each reportable segment (Millions of yen)**

	Reportable segment (Note 1)					Others (Note 2)	Total	Adjustment (Note 3)	Reported in quarterly consolidated statement of income (Note 4)
	Japan	America	Europe	Asia	Subtotal				
Net sales									
(1) Sales to customers	56,637	4,228	4,347	21,058	86,271	987	87,259	-	87,259
(2) Inter-segment sales and transfers	1,753	583	17	1,565	3,920	36	3,956	(3,956)	-
Total	58,390	4,812	4,365	22,623	90,192	1,024	91,216	(3,956)	87,259
Segment profit (loss)	7,633	(98)	292	2,503	10,331	77	10,409	301	10,710

Notes: 1. “America” includes the business activities of overseas entities in the U.S. and Brazil, and others; “Europe” those in the U.K., Poland and South Africa; and “Asia” those in China, Taiwan, Vietnam, and others.

2. “Others” is the business that is excluded from reportable segments, and includes the business activities of entities in Australia.

3. “Adjustment” to segment profit (loss) of 301 million yen indicates elimination for intersegment transactions.

4. Segment profit (loss) is adjusted with operating income reported in the quarterly consolidated statement of income.

II. Current Second Quarter (Apr. 1, 2019 – Sep. 30, 2019)

1. Information related to net sales and profit or loss for each reportable segment

(Millions of yen)

	Reportable segment (Note 1)					Others (Note 2)	Total	Adjustment (Note 3)	Reported in quarterly consolidated statement of income (Note 4)
	Japan	America	Europe	Asia	Subtotal				
Net sales									
(1) Sales to customers	58,409	4,315	4,387	22,403	89,515	912	90,428	-	90,428
(2) Inter-segment sales and transfers	1,821	608	30	1,733	4,193	18	4,211	(4,211)	-
Total	60,230	4,923	4,418	24,136	93,709	931	94,640	(4,211)	90,428
Segment profit (loss)	7,098	(182)	60	3,222	10,199	60	10,259	133	10,393

Notes: 1. “America” includes the business activities of overseas entities in the U.S. and Brazil, and others; “Europe” those in the U.K., Poland and South Africa; and “Asia” those in China, Taiwan, Vietnam, and others.

2. “Others” is the business that is excluded from reportable segments, and includes the business activities of entities in Australia.

3. “Adjustment” to segment profit (loss) of 133 million yen indicates elimination for intersegment transactions.

4. Segment profit (loss) is adjusted with operating income reported in the quarterly consolidated statement of income.

** This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*