



Summary of Consolidated Financial Statements for the Third Quarter of the Term Ending March 31, 2020 (Japan GAAP)

February 7, 2020

Name of Listed Company: **TSUMURA & CO.**
 Code: 4540
 Representative: President, Representative Director and CEO
 Contact: Head of Corporate Communications Dept.
 Telephone: 81-3-6361-7100

Exchange: Tokyo Stock Exchange
 URL: <https://www.tsumura.co.jp>
 Name: Terukazu Kato
 Name: Yosuke Tsuchiya

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Scheduled date of dividend payment commencement: -

Preparation of supplementary materials for the quarterly financial statements: Yes

Holding of the quarterly results briefing: Yes (for institutional investors and securities analysts)

(Figures are rounded down to the nearest one million yen.)

1. Consolidated business results for the third quarter of the term ending March 31, 2020

(From April 1, 2019 to December 31, 2019)

(1) Financial results (year to date)

(Figures in percentages denote the year-on-year change.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine-month period ended December 31, 2019	95,185	3.5	16,151	5.7	16,675	3.6	11,690	(0.3)
Nine-month period ended December 31, 2018	92,010	1.2	15,280	1.0	16,094	2.6	11,731	(4.6)

(Note) Comprehensive income : Nine-month period ended December 31, 2019: 7,061 million yen [(30.8)%]

Nine-month period ended December 31, 2018: 10,198 million yen [(32.7)%]

	Profit per share		Fully diluted profit per share	
	Yen		Yen	
Nine-month period ended December 31, 2019	152.86		—	
Nine-month period ended December 31, 2018	153.44		—	

(2) Consolidated financial conditions

	Total assets		Net assets		Shareholders' equity ratio	
	Million yen		Million yen		%	
As of December 31, 2019	286,183		208,460		71.4	
As of March 31, 2019	287,322		206,141		70.2	

(Reference) Shareholders' equity: As of December 31, 2019: 204,222 million yen As of March 31, 2019: 201,816 million yen

2. Dividends

	Dividend per share				
	End of Q1	End of Q2	End of Q3	End of FY	Total
Year ended March 31, 2019	—	32.00	—	32.00	64.00
Year ending March 31, 2020	—	32.00	—		
Year ending March 31, 2020 (Projection)				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, 2020

(From April 1, 2019 to March 31, 2020)

(Figures in percentage show the rate of increase or decrease from the previous fiscal year for full-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	125,000	3.4	17,000	(8.2)	18,000	(8.6)	12,300	(15.7)	160.81

(Note) Revisions to dividends projection published most recently: No

Notes

- (1) Important changes of subsidiaries during the term (change of specified subsidiaries that lead to a change in the scope of consolidation): No
- (2) Application of special accounting practices in consolidated quarterly financial statements preparation: 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 principles and procedures and the method for indication, etc.
- | | |
|---|----|
| 1) Changes associated with the revision of accounting principles, etc.: | No |
| 2) Change other than 1): | No |
| 3) Accounting estimate change: | No |
| 4) Retrospective restatement: | No |

(4) Number of shares issued (common stock)

- 1) Number of shares issued at the end of the term(including treasury stock) (shares)
- 2) Number of treasury stock at the end of the term(shares)
- 3) Average number of shares during the term (shares)

FY 3/2020 3Q	76,758,362	FY 3/2019	76,758,362
FY 3/2020 3Q	249,899	FY 3/2019	300,631
FY 3/2020 3Q	76,483,089	FY 3/2019 3Q	76,457,945

* This Summary of Quarterly Consolidated Financial Statements is exempt from quarterly review procedures.

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

In these materials, earnings forecasts and other statements about the future are forward-looking statements based on the information currently available and certain assumptions that the company regards as reasonable. Accordingly, the Company cannot make promises to achieve such forecasts. Actual financial results may differ materially from these forecasts depending on a number of important factors. Please see “1. Qualitative information on quarterly results (3) Description of projections of consolidated business results” on page 3 for information regarding the forecast of consolidated financial results.

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1. Qualitative information on quarterly results

(1) Description of operating results

In the third quarter under review, net sales rose 3.5% year on year, to 95,185 million yen.

Looking at profit, operating profit was 16,151 million yen (up 5.7% year on year), ordinary profit was 16,675 million yen (up 3.6% year on year), and profit attributable to owners of parent was 11,690 million yen (down 0.3% year on year). The cost-to-sales ratio rose 0.4 percentage points year on year. In addition, the cost-to-SGA ratio fell 0.8 percentage point year on year. As a result, the operating profit margin rose 0.4 percentage points year on year, to 17.0%.

[Consolidated business results]

(Unit: million yen)

	FY 3/2019 3Q	FY 3/2020 3Q	Year-on-year change (ratio of change)
Net sales	92,010	95,185	3,175 3.5%
Operating profit	15,280	16,151	871 5.7%
Ordinary profit	16,094	16,675	581 3.6%
Profit attributable to owners of parent	11,731	11,690	(41) (0.3)%

Net sales of overall prescription Kampo products grew 3.3% year on year. To expand the Kampo market and establish a presence in the market in a sustained manner, which are the strategic challenges adopted in the Medium-Term Management Plan, the Company has positioned the geriatric field, the cancer domain (supportive care) and the gynecology field as three important domains. The Company has been active in providing information on matters focused on five drug fostering program formulations*1 and five growing formulations*2.

In the first three quarters under review, net sales of Daikenchuto, a drug fostering program formulation that is a staple item for the Company, decreased 0.4% year on year. The Company will fully implement activities for providing information in the hospitals market afresh. At the same time, the Company will step up activities for winning new markets by focusing on abdominal flatulence, whose treatment shows a low level of satisfaction among constipation symptoms in the practitioner market.

Net sales grew solidly for Hangeshashinto, another drug fostering program formulation, and Bakumondoto and Goreisan, both of which are growing formulations. In other formulations, net sales of Ninjin'yoeito increased favorably.

Demand for Kampo medicine is diversifying increasingly among health care professionals. The Company will continue its activities for providing appropriate information on subjects, including evidence in basic and clinical medicine, clinical practice guidelines in which Kampo products are described, and the proper use of Kampo medicine based on Kampo diagnosis, positioning meetings with doctors, presentations for medical institutions and Kampo medicine seminars as the basis of these operations.

*1 five "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 five "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

(2) Description of financial condition

The financial position at the end of the first three quarters under review was as follows:

Total assets at the end of the first three quarters under review decreased 1,139 million yen from the end of the previous fiscal year, to 286,183 million yen. Inventories grew, but current assets declined 4,701 million yen from the end of the previous fiscal year, mainly due to a decrease in cash and deposits. Investment securities decreased due to a fall in share prices, but non-current assets increased 3,562 million yen from the end of the previous fiscal year, chiefly attributable to a rise in investments and other assets.

Total liabilities were 77,723 million yen, a decrease of 3,457 million yen from the end of the previous fiscal year. Notes and accounts payable – trade grew, but current liabilities shrank 2,732 million yen from the end of the previous fiscal year, mainly due to a decline in other current liabilities. Non-current liabilities decreased 725 million yen from the end of the previous fiscal year.

Net assets totaled 208,460 million yen, an increase of 2,318 million yen from the end of the previous fiscal year. Shareholders' equity rose 6,947 million yen from the end of the previous fiscal year, mainly reflecting an increase in retained earnings. Accumulated other comprehensive income dropped 4,541 million yen from the end of the previous fiscal year, chiefly attributable to a fall in foreign currency translation adjustment. Non-controlling interests declined 87 million yen from the end of the previous fiscal year.

As a result, the equity ratio rose 1.2 percentage points, to 71.4%.

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

At the end of the first three quarters under review, cash provided by operating activities was 10,634 million yen, cash used in investing activities was 5,598 million yen and cash used in financing activities was 4,985 million yen.

Cash provided by operating activities was 10,634 million yen. Looking at its breakdown, a major cash inflow item was profit before income taxes of 16,543 million yen, while a major cash outflow item was a decrease (an increase) in inventories of 5,470 million yen. Compared to the first three quarters of the previous fiscal year, cash inflow increased 8,363 million yen.

Cash used in investing activities was 5,598 million yen. Looking at its breakdown, a major cash outflow item was the purchase of property, plant and equipment of 8,471 million yen. Compared to the first three quarters of the previous fiscal year, cash outflow decreased 10,085 million yen.

Cash used in financing activities was 4,985 million yen. Looking at its breakdown, a major cash outflow item was dividends paid of 4,889 million yen. Compared to the first three quarters of the previous fiscal year, cash outflow dropped 13,522 million yen.

As a result, cash and cash equivalents decreased 718 million yen from the end of the previous fiscal year, to 55,525 million yen.

(3) Description of projections of consolidated business results

The projections of consolidated business results for the fiscal year ending March 31, 2020, which were published on May 9, 2019, remain unchanged.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: Million yen)

	As of March 31, 2019	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	72,240	61,201
Notes and accounts receivable-trade	44,524	47,773
Merchandise and finished goods	9,382	7,361
Work in process	11,125	12,467
Raw materials and supplies	31,299	36,660
Other	21,459	19,865
Allowance for doubtful accounts	(4)	(4)
Total current assets	190,027	185,325
Non-current assets		
Property, plant and equipment		
Buildings and structures	64,800	64,802
Other	85,673	88,625
Accumulated depreciation	(76,769)	(80,303)
Total property, plant and equipment	73,703	73,125
Intangible assets	872	1,244
Investment and other assets		
Investment securities	15,642	12,614
Retirement benefit asset	1,934	2,289
Other	5,143	11,584
Allowance for doubtful accounts	(0)	(0)
Total investment and other assets	22,719	26,488
Total non-current assets	97,295	100,857
Total assets	287,322	286,183

(Unit:Million yen)

	As of March 31, 2019	As of December 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,267	6,820
Short-term borrowings	10,314	10,314
Income taxes payable	2,101	2,031
Provision for sales returns	10	12
Other	14,626	11,410
Total current liabilities	33,320	30,588
Non-current liabilities		
Bonds payable	30,000	30,000
Long-term borrowings	9,376	9,376
Retirement benefit liability	74	74
Other	8,410	7,684
Total non-current liabilities	47,861	47,135
Total liabilities	81,181	77,723
Net assets		
Shareholders' equity		
Share capital	30,142	30,142
Capital surplus	14,027	14,041
Retained earnings	149,740	156,536
Treasury shares	(815)	(677)
Total shareholders' equity	193,095	200,042
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,697	3,884
Deferred gains or losses on hedges	740	79
Revaluation reserve for land	2,673	2,673
Foreign currency translation adjustment	(313)	(2,345)
Remeasurements of defined benefit plans	(76)	(111)
Total accumulated other comprehensive income	8,721	4,179
Non-controlling interests	4,324	4,237
Total net assets	206,141	208,460
Total liabilities and net assets	287,322	286,183

(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

(Unit:Million yen)

	Nine-month period ended December 31, 2018 (From April 1, 2018 to December 31, 2018)	Nine-month period ended December 31, 2019 (From April 1, 2019 to December 31, 2019)
Net sales	92,010	95,185
Cost of sales	37,403	39,151
Gross profit	54,606	56,034
Selling, general and administrative expenses	39,326	39,882
Operating profit	15,280	16,151
Non-operating income		
Interest income	315	438
Dividend income	231	253
Share of profit of entities accounted for using equity method	75	106
Foreign exchange gains	158	—
Other	214	236
Total non-operating income	995	1,034
Non-operating expenses		
Interest expenses	126	100
Foreign exchange losses	—	270
Other	55	138
Total non-operating expenses	181	510
Ordinary profit	16,094	16,675
Extraordinary income		
Gain on sales of non-current assets	1	2
Gain on sales of investment securities	324	332
Total extraordinary income	325	335
Extraordinary losses		
Loss on sales of non-current assets	0	1
Loss on retirement of non-current assets	53	27
Loss on sales of investment securities	—	19
Loss on valuation of investments in capital of subsidiaries and associates	—	419
Total extraordinary losses	53	467
Profit before income taxes	16,365	16,543
Income taxes	4,337	4,694
Profit	12,028	11,849
Profit attributable to non-controlling interests	296	158
Profit attributable to owners of parent	11,731	11,690

Quarterly Consolidated Statements of Comprehensive Income / For the Third Quarter Consolidated Accumulative Term

(Unit:Million yen)

	Nine-month period ended December 31, 2018 (From April 1, 2018 to December 31, 2018)	Nine-month period ended December 31, 2019 (From April 1, 2019 to December 31, 2019)
Profit	12,028	11,849
Other comprehensive income		
Valuation difference on available-for-sale securities	169	(1,813)
Deferred gains or losses on hedges	(134)	(661)
Foreign currency translation adjustment	(1,880)	(2,256)
Remeasurements of defined benefit plans, net of tax	49	(34)
Share of other comprehensive income (loss) of entities accounted for using equity method	(34)	(21)
Total other comprehensive income (loss)	(1,830)	(4,787)
Comprehensive income	10,198	7,061
Comprehensive income attributable to		
Owners of parent	10,059	7,149
Non-controlling interests	138	(87)

(3) Quarterly Consolidated Statements of Cash Flows

(Unit:Million yen)

	Nine-month period ended December 31, 2018 (From April 1, 2018 to December 31, 2018)	Nine-month period ended December 31, 2019 (From April 1, 2019 to December 31, 2019)
Cash flows from operating activities		
Profit before income taxes	16,365	16,543
Depreciation	4,743	4,808
Increase (decrease) in allowance for doubtful accounts	0	0
Interest and dividend income	(547)	(692)
Interest expenses	126	100
Share of loss(profit) of entities accounted for using equity method	(75)	(106)
Loss (gain) on sales and retirement of property, plant and equipment	52	25
Loss on valuation of investments in capital of subsidiaries and associates	—	419
Decrease (increase) trade receivables	(2,723)	(3,283)
Decrease (increase) in inventories	(924)	(5,470)
Increase (decrease) in trade payables	220	716
Loss (gain) on sales of short-term and long-term investment securities	(324)	(313)
Decrease (increase) in retirement benefit asset	(289)	(416)
Increase (decrease) in retirement benefit liability	7	11
Other	(8,824)	1,446
Subtotal	7,809	13,792
Interest and dividends received	500	1,045
Interest paid	(149)	(121)
Income taxes paid	(5,888)	(4,081)
Net cash provided by (used in) operating activities	2,271	10,634
Cash flows from investing activities		
Decrease (increase) in time deposits	(4,465)	9,984
Purchase of property, plant and equipment	(7,211)	(8,471)
Proceeds from sales of property, plant and equipment	1	4
Purchase of intangible assets	(318)	(469)
Purchase of short-term and long-term investment securities	(11,502)	(27,370)
Proceeds from sales and redemption of short-term and long-term investment securities	8,822	28,081
Purchase of investments in capital of subsidiaries	(952)	(4,273)
Loan advances	(1)	(3,000)
Collection of loans receivable	3	2
Other	(59)	(85)
Net cash provided by (used in) investing activities	(15,683)	(5,598)

(Unit:Million yen)

	Nine-month period ended December 31, 2018 (From April 1, 2018 to December 31, 2018)	Nine-month period ended December 31, 2019 (From April 1, 2019 to December 31, 2019)
Cash flows from financing activities		
Repayments of long-term borrowings	(15,000)	—
Proceeds from share issuance to non-controlling shareholders	1,468	—
Dividends paid	(4,887)	(4,889)
Dividends paid to non-controlling interests	(54)	(56)
Other	(34)	(39)
Net cash provided by (used in) financing activities	(18,508)	(4,985)
Effect of exchange rate change on cash and cash equivalents	(813)	(768)
Net increase (decrease) in cash and cash equivalents	(32,734)	(718)
Cash and cash equivalents at beginning of period	78,313	56,243
Cash and cash equivalents at end of period	45,579	55,525

(4) Notes to the Quaterly 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).”