

February 12, 2020

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2020 (Nine Months Ended December 31, 2019)

[Japanese GAAP]

Company name: ROHTO Pharmaceutical Co., Ltd.
 Stock code: 4527
 Representative: Masashi Sugimoto, President and COO
 Contact: Masaya Saito, Vice President and Director
 Telephone: 81-(0) 6-6758-8223
 Scheduled date of filing of Quarterly Report:
 Scheduled date of dividend payment:
 Supplementary materials for quarterly financial results:
 Quarterly financial results meeting:

Stock Exchange listing: TSE, First Section
 URL: <https://www.rohto.co.jp/>

February 13, 2020

-

Yes

Yes (for institutional investors and analysts)

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

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2020 (April 1, 2019 – December 31, 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 | % |
| Nine months ended Dec. 31, 2019 | 138,119 | 2.5 | 18,126 | 5.4 | 18,072 | 2.6 | 12,562 | 15.6 |
| Nine months ended Dec. 31, 2018 | 134,695 | 8.5 | 17,192 | 10.2 | 17,621 | 11.9 | 10,871 | 7.6 |

Note: Comprehensive income (Millions of yen):
 Nine months ended Dec. 31, 2019: 9,434 11.5%
 Nine months ended Dec. 31, 2018: 8,459 (44.6%)

| | Basic net income per share | Diluted net income per share |
|---------------------------------|----------------------------|------------------------------|
| | Yen | Yen |
| Nine months ended Dec. 31, 2019 | 110.17 | 109.82 |
| Nine months ended Dec. 31, 2018 | 95.40 | 95.03 |

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio |
|---------------------|-----------------|-----------------|--------------|
| | Millions of yen | Millions of yen | % |
| As of Dec. 31, 2019 | 204,673 | 138,177 | 66.9 |
| As of Mar. 31, 2019 | 200,953 | 132,189 | 65.1 |

Reference: Shareholders' equity (Millions of yen): As of Dec. 31, 2019: 136,906 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 ending 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 | 184,400 | 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 8 of the attachments “2. Quarterly Consolidated Financial Statements and Major Notes, (3) 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

(4) Number of common shares issued

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

| | | | |
|----------------------|--------------------|----------------------|--------------------|
| As of Dec. 31, 2019: | 118,089,155 shares | As of Mar. 31, 2019: | 117,989,908 shares |
|----------------------|--------------------|----------------------|--------------------|

2) Number of shares of treasury shares at the end of the period:

| | | | |
|----------------------|------------------|----------------------|------------------|
| As of Dec. 31, 2019: | 4,018,947 shares | As of Mar. 31, 2019: | 4,018,825 shares |
|----------------------|------------------|----------------------|------------------|

3) Average number of shares outstanding during the period:

| | | | |
|----------------------------------|--------------------|----------------------------------|--------------------|
| Nine months ended Dec. 31, 2019: | 114,030,580 shares | Nine months ended Dec. 31, 2018: | 113,951,302 shares |
|----------------------------------|--------------------|----------------------------------|--------------------|

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 3 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 nine months of the current fiscal year, the Japanese economy stabilized, supported by improved corporate profits and the employment situation, despite the temporary impact of the consumption tax hike. However, the outlook remained uncertain due to concerns over prolonged US-China trade friction, slowing economic growth in China and Europe, 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 2.5% year-on-year to 138,119 million yen. In Japan, despite a one-off contract payment from Shionogi & Co., Ltd. happening in the same period of the previous fiscal year, sales rose in the period under review as high value-added products among eye-care and functional cosmetics products sold well. Overseas, sales grew steadily in Vietnam, Malaysia and other ASEAN countries.

Profits benefited from strong sales growth and an efficient use of selling, general and administrative expenses. As a result, operating income increased by 5.4% year-on-year to 18,126 million yen, ordinary income increased by 2.6% to 18,072 million yen, and profit attributable to owners of parent increased 15.6% to 12,562 million yen.

Results by reportable segment are as follows.

Japan

Sales to customers increased 3.3% year-on-year to 87,012 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. In addition, shipments of the new hay fever product “Rohto Alguard Clinical Shot” went stably. However, eye care sales remained about at the same level as one year earlier partly due to strong sales of “Rohto Lycée” series in collaboration with Pretty Guardian Sailor Moon last year. Concerning skincare products, the beauty serum “Obagi C25 Serum Neo,” which won the best cosmetics award from numerous beauty magazines; the new hand cream product “AURA the HAND”; and “Deoco,” which has been trending on social media, performed well and contributed to an increase in sales. As for internal medicines, “Rohto V5 Grain,” a nutritional supplement for eyes, sold well.

Segment profit (operating income) increased 6.6% year-on-year to 11,472 million yen. In order to strengthen our core business in Japan, which is a primary profit base, we are working on structural reforms. Sales were strong although there were up-front costs associated with these measures.

America

Sales to customers decreased 1.9% year-on-year to 6,626 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 profit (operating income) increased 216.3% year-on-year to 46 million yen due to efficient use of expenses, despite sluggish sales.

Europe

Sales to customers increased 3.5% year-on-year to 6,803 million yen.

The leading anti-inflammatory analgesic “Deep Heat” series performed well. In addition to contribution to an increase in sales in the newly entered Russian market, Dax Cosmetics performed well on a local currency basis.

Segment profit (operating income) decreased 36.2% year-on-year to 204 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 2.0% year-on-year to 36,371 million yen.

Sales of eye drops and sunscreens remained strong despite the negative impacts including protests in Hong Kong and a boycott of Japanese products in South Korea. In China, a major market in this segment, the “Hada Labo” series struggled but eye drops performed well. The “Hada Labo” series sold well in Vietnam, Malaysia and other ASEAN countries.

Segment profit (operating income) increased 5.1% year-on-year to 6,044 million yen due to an effective use of sales promotion expense as well as strong sales.

Others

In “Others,” excluded from reportable segments, sales to customers decreased 9.9% year-on-year to 1,305 million yen.

Segment profit (operating income) decreased 30.0% year-on-year to 92 million yen.

Note: The above amounts do not include consumption taxes.

(2) Explanation of Financial Position

Total assets at the end of the third quarter increased 3,720 million yen from the end of the previous fiscal year to 204,673 million yen. This was mainly due to increases of 3,297 million yen in cash and deposits and 1,190 million yen in raw materials and supplies, while there were decreases of 1,912 million yen in investment securities and 1,016 million yen in other, net under property, plant and equipment such as land.

Total liabilities decreased 2,268 million yen from the end of the previous fiscal year to 66,496 million yen. This was mainly due to increases of 1,445 million yen in other current liabilities such as deposits received and 1,409 million yen in notes and accounts payable-trade, while there were decreases of 3,168 million yen in accrued expenses, 1,794 million yen in short-term loans payable and 1,074 million yen in provision for bonuses.

Net assets increased 5,988 million yen from the end of the previous fiscal year to 138,177 million yen. This was mainly due to an increase of 9,134 million yen in retained earnings, while there were decreases of 2,276 million yen in foreign currency translation adjustment and 930 million yen in valuation difference on available-for-sale securities.

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

There is no change to the full-year consolidated earnings forecast that was released on May 10, 2019. Results of operations for the first nine months 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 Third Quarter End (As of Dec. 31, 2019) |
|--|--|--|
| Assets | | |
| Current assets | | |
| Cash and deposits | 37,856 | 41,153 |
| Notes and accounts receivable-trade | 32,217 | 32,458 |
| Electronically recorded monetary claims-operating | 12,540 | 13,303 |
| Merchandise and finished goods | 17,495 | 17,556 |
| Work in process | 2,638 | 3,076 |
| Raw materials and supplies | 10,127 | 11,318 |
| Other | 3,918 | 4,617 |
| Allowance for doubtful accounts | (393) | (325) |
| Total current assets | 116,402 | 123,158 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 19,907 | 19,251 |
| Other, net | 27,514 | 26,497 |
| Total property, plant and equipment | 47,421 | 45,749 |
| Intangible assets | | |
| Goodwill | 1,083 | 1,223 |
| Other | 2,481 | 2,462 |
| Total intangible assets | 3,565 | 3,685 |
| Investments and other assets | | |
| Investment securities | 28,530 | 26,618 |
| Other | 7,587 | 8,128 |
| Allowance for doubtful accounts | (2,553) | (2,666) |
| Total investments and other assets | 33,563 | 32,080 |
| Total non-current assets | 84,550 | 81,515 |
| Total assets | 200,953 | 204,673 |

| | (Millions of yen) | |
|---|--|--|
| | Prior Fiscal Year End (As of Mar. 31, 2019) | Current Third Quarter End (As of Dec. 31, 2019) |
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 11,005 | 12,414 |
| Electronically recorded obligations-operating | 3,063 | 3,050 |
| Short-term loans payable | 3,745 | 1,950 |
| Accrued expenses | 25,954 | 22,785 |
| Income taxes payable | 3,548 | 4,113 |
| Provision for bonuses | 2,274 | 1,199 |
| Provision for directors' bonuses | 40 | 30 |
| Provision for sales returns | 606 | 706 |
| Provision for sales rebates | 2,594 | 2,317 |
| Other | 7,928 | 9,373 |
| Total current liabilities | 60,760 | 57,941 |
| Non-current liabilities | | |
| Long-term loans payable | 1,424 | 1,372 |
| Net defined benefit liability | 3,584 | 3,522 |
| Provision for loss on guarantees | 1,742 | 1,999 |
| Other | 1,252 | 1,660 |
| Total non-current liabilities | 8,004 | 8,554 |
| Total liabilities | 68,764 | 66,496 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 6,446 | 6,504 |
| Capital surplus | 5,603 | 5,661 |
| Retained earnings | 119,989 | 129,124 |
| Treasury shares | (4,935) | (4,935) |
| Total shareholders' equity | 127,105 | 136,354 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 6,279 | 5,349 |
| Foreign currency translation adjustment | (1,161) | (3,438) |
| Remeasurements of defined benefit plans | (1,449) | (1,358) |
| Total accumulated other comprehensive income | 3,667 | 552 |
| Subscription rights to shares | 498 | 382 |
| Non-controlling interests | 917 | 887 |
| Total net assets | 132,189 | 138,177 |
| Total liabilities and net assets | 200,953 | 204,673 |

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

(Millions of yen)

| | Prior Third Quarter (Apr. 1, 2018 – Dec. 31, 2018) | Current Third Quarter (Apr. 1, 2019 – Dec. 31, 2019) |
|---|---|---|
| Net sales | 134,695 | 138,119 |
| Cost of sales | 54,495 | 55,175 |
| Gross profit | 80,200 | 82,944 |
| Provision for sales returns | 9 | 100 |
| Gross profit-net | 80,191 | 82,843 |
| Selling, general and administrative expenses | 62,998 | 64,717 |
| Operating income | 17,192 | 18,126 |
| Non-operating income | | |
| Interest income | 267 | 371 |
| Dividend income | 368 | 502 |
| Other | 249 | 479 |
| Total non-operating income | 885 | 1,353 |
| Non-operating expenses | | |
| Interest expenses | 109 | 95 |
| Share of loss of entities accounted for using equity method | 74 | 1,124 |
| Other | 272 | 188 |
| Total non-operating expenses | 456 | 1,408 |
| Ordinary income | 17,621 | 18,072 |
| Extraordinary income | | |
| Gain on sales of fixed assets | - | 153 |
| Gain on sales of investment securities | - | 1,428 |
| Total extraordinary income | - | 1,581 |
| Extraordinary losses | | |
| Loss on disposal of fixed assets | 151 | - |
| Loss on valuation of investment securities | 170 | 377 |
| Loss on valuation of shares of subsidiaries and associates | 299 | 144 |
| Provision for doubtful accounts | 210 | 149 |
| Provision for doubtful accounts for subsidiaries and associates | 9 | 20 |
| Provision for loss on guarantees | 218 | - |
| Total extraordinary losses | 1,058 | 690 |
| Profit before income taxes | 16,563 | 18,962 |
| Income taxes | 5,652 | 6,353 |
| Profit | 10,910 | 12,609 |
| Profit attributable to non-controlling interests | 38 | 47 |
| Profit attributable to owners of parent | 10,871 | 12,562 |

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

| | (Millions of yen) | |
|--|---|---|
| | Prior Third Quarter (Apr. 1, 2018 – Dec. 31, 2018) | Current Third Quarter (Apr. 1, 2019 – Dec. 31, 2019) |
| Profit | 10,910 | 12,609 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (1,947) | (883) |
| Foreign currency translation adjustment | (564) | (2,119) |
| Remeasurements of defined benefit plans, net of tax | 52 | 91 |
| Share of other comprehensive income of entities accounted for using equity method | 7 | (263) |
| Total other comprehensive income | (2,451) | (3,174) |
| Comprehensive income | 8,459 | 9,434 |
| (Comprehensive income attributable to) | | |
| Comprehensive income attributable to owners of parent | 8,494 | 9,447 |
| Comprehensive income attributable to non-controlling interests | (35) | (12) |

(3) 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 increased 3 million yen for the third 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 680 million yen, other under current liabilities increased by 130 million yen and other under non-current liabilities increased by 194 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 third quarter of this fiscal year.

Segment Information**I. Prior Third Quarter (Apr. 1, 2018 – Dec. 31, 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 | 84,249 | 6,756 | 6,576 | 35,665 | 133,247 | 1,448 | 134,695 | - | 134,695 |
| (2) Inter-segment sales and transfers | 2,575 | 938 | 129 | 2,403 | 6,047 | 84 | 6,132 | (6,132) | - |
| Total | 86,824 | 7,695 | 6,705 | 38,069 | 139,294 | 1,532 | 140,827 | (6,132) | 134,695 |
| Segment profit | 10,761 | 14 | 319 | 5,751 | 16,847 | 132 | 16,980 | 212 | 17,192 |

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 of 212 million yen indicates elimination for intersegment transactions.

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

II. Current Third Quarter (Apr. 1, 2019 – Dec. 31, 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 | 87,012 | 6,626 | 6,803 | 36,371 | 136,813 | 1,305 | 138,119 | - | 138,119 |
| (2) Inter-segment sales and transfers | 2,592 | 1,084 | 58 | 2,574 | 6,309 | 29 | 6,339 | (6,339) | - |
| Total | 89,605 | 7,710 | 6,861 | 38,945 | 143,123 | 1,335 | 144,458 | (6,339) | 138,119 |
| Segment profit | 11,472 | 46 | 204 | 6,044 | 17,766 | 92 | 17,859 | 266 | 18,126 |

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 of 266 million yen indicates elimination for intersegment transactions.

4. Segment profit 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.*