

(English Translation)

Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2018
(under Japan GAAP)

November 8, 2017

Company name: Nichi-Iko Pharmaceutical Co., Ltd. Stock exchange listings:
Tokyo Stock Exchange

Securities code: 4541 (URL <http://www.nichiiko.co.jp/>)

Representative: Yuichi Tamura
President and CEO

Contact: Noboru Inasaka Tel: 076-432-2121
Board of Senior Director, Head of
Administrative Division

Scheduled date of filing of quarterly report: November 14, 2017

Scheduled date of commencement of dividend payment: December 8, 2017

Presentation of supplementary materials on quarterly financial results: Yes

Holding of quarterly financial presentation meeting: Yes

(Note that all amounts have been rounded down to the nearest one million yen.)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2018 (From April 1, 2017 to September 30, 2017)

(1) Consolidated Results of Operations (cumulative)

(Percentage figures represent changes from the same period of the previous fiscal year)

	Net sales	Operating income	Ordinary income	Net income attributable to shareholders of the parent company
Second quarter of fiscal year ending March 31, 2018	¥94,297 million (25.5%)	¥4,922 million (21.9%)	¥5,103 million (54.0%)	¥2,449 million (12.4%)
Second quarter of fiscal year ended March 31, 2017	¥75,151 million (8.9%)	¥4,039 million (-30.5%)	¥3,314 million (-35.5%)	¥2,178 million (-39.7%)

(Note)

Comprehensive income:

Second Quarter of Fiscal Year Ending March 31, 2018: 3,003 million yen (45.3%)
Second Quarter of Fiscal Year Ended March 31, 2017: 2,067 million yen (-55.9%)

	Net income per share	Net income (fully diluted) per share
Second quarter of fiscal year ending March 31, 2018	¥43.49	¥43.43
Second quarter of fiscal year ended March 31, 2017	¥37.94	¥37.87

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
Second quarter of fiscal year ending March 31, 2018	¥264,373 million	¥85,548 million	32.3%	¥1,512.93
Fiscal year ended March 31, 2017	¥270,890 million	¥87,580 million	32.2%	¥1,552.67

(Reference)

Equity:

Second Quarter of Fiscal Year Ending March 31, 2018: 85,298 million yen

Fiscal Year Ended March 31, 2017: 87,346 million yen

2. Dividends

	Annual dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
Fiscal year ended March 31, 2017	¥-	¥15.00	¥-	¥15.00	¥30.00
Fiscal year ending March 31, 2018	¥-	¥15.00			
Fiscal year ending March 31, 2018 (forecast)			¥-	¥15.00	¥30.00

(Note)

Revisions to recently announced dividends forecast: None

**3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2018
(From April 1, 2017 to March 31, 2018)**

(Percentage figures represent changes from the same period of the previous fiscal year)

	Net sales	Operating income	Ordinary income	Net income attributable to shareholders of the parent company	Net income per share
Annual	¥200,000 million (22.4%)	¥9,000 million (5.2%)	¥8,600 million (2.2%)	¥5,500 million (14.9%)	¥97.58

(Note)

Revisions to recently announced forecast of financial results: Yes

(Note)

For details, please refer to “(3) Explanation of Forecast of Consolidated Financial Results and Other Forward-looking Statements” in “1. Qualitative Information on Financial Results for the Quarter under Review” on page 3 of the Attachment.

***Notes**

(1) Changes in significant subsidiaries during the consolidated cumulative quarter under review (changes in specified subsidiaries resulting in change in scope of consolidation): No
New: –
Excluded: –

(2) Application of accounting treatment specific to preparation of quarterly consolidated financial statements: Yes

(Note)

For details, please refer to “(4) Notes to Quarterly Consolidated Financial Statements (Application of Accounting Treatment Specific to Preparation of Quarterly Consolidated Financial Statements)” in “2. Quarterly Consolidated Financial Statements and Primary Notes” on page 10 of the Attachment.

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

- (i) Changes in accounting policies due to revisions to accounting standards and other regulations, etc.: No
- (ii) Changes in accounting policies due to other reasons: No
- (iii) Changes in accounting estimates: No
- (iv) Restatements of prior period financial statements after error corrections: No

(4) Total number of issued shares (common stock)

(i) Total number of issued shares as of the end of the period (including treasury stock):

As of September 30, 2017: 60,662,652 shares

As of March 31, 2017 60,662,652 shares

(ii) Number of treasury shares as of the end of the period:

As of September 30, 2017: 4,283,395 shares

As of March 31, 2017 4,407,030 shares

(iii) Average number of shares during the period (cumulative quarter):

Second quarter of fiscal year ending March 31, 2018: 56,313,303 shares

Second quarter of fiscal year ended March 31, 2017: 57,421,756 shares

(Note)

Number of treasury shares as of the end of the period includes shares held by the Employee Shareholding Incentive Plan.

*** Quarterly financial summary is not included in quarterly review.**

*** Explanation on the appropriate usage of forecast of financial results, and other specific matters**
(Considerations on forward-looking statements)

The forward-looking statements including forecast of financial results contained in these materials are based on the information currently available to the Company and certain assumptions which are regarded as legitimate. As such, they do not constitute the Company's guarantee that such results would be achieved. Actual business and other results may differ substantially from the forecasts provided in these materials as a result of various factors.

(How to obtain supplementary materials for financial results)

Supplementary materials for financial results will be provided on the website of the Company on Wednesday, November 8, 2017.

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1. Qualitative Information on Financial Results for the Quarter under Review

(1) Explanation on Operating Results

In the consolidated cumulative second quarter under review, a moderate economic recovery has continued mainly in developed countries including an improvement in the employment environment and increases in consumer spending and capital investment in the United States, while there has also been a tone of steady economic recovery in the Japanese economy due to a moderate recovery in the household sector backed by a high level of exports, increased industrial production and a high jobs-to-applicants ratio.

In the generic drug industry, the “Basic Policy on Economic and Fiscal Management and Reform 2017” resolved by the Cabinet on June 9, 2017 clearly set forth the timing by stating “aiming at an 80% usage rate of generic drugs by September 2020” and stated that the government would “aim to double the number of biosimilar pharmaceuticals (number of ingredients basis) by the end of FY2020.”

The ratio of use of generic drugs was 67.8% in terms of quantitative share in the period from April 2017 to June 2017 (announced by the Japan Generic Medicines Association on September 28, 2017), and the share of generic drugs is expected to continue to grow in the future.

Furthermore, the marketing approval was granted for Nichi-Iko developed biosimilar product Infliximab BS for I.V. Infusion 100mg “Nichi-Iko” on September 27, 2017. This is in line with the Basic Policies referred above.

Under such circumstances, we have been steadily implementing the three basic strategies of “Expansion,” “Production” and “Development” under the 7th Medium-term Business Plan as well as the “Profit Management Plan 2019” which was formulated aiming at continual cost improvements.

“Development” in particular, we will conduct joint promotion with Zeria Pharmaceutical Co., Ltd., which has strength in the digestive area in order to maximize the value of a biosimilar product Infliximab BS for I.V. Infusion 100mg “Nichi-Iko.” In addition, Yakuhan Pharmaceutical Co., Ltd., which is a wholly-owned subsidiary of the Company, also obtained marketing approval for Infliximab BS on the same day as the Company, and this biosimilar will also be sold by AYUMI Pharmaceutical Corporation with whom a licensing agreement has been concluded.

Furthermore, an effort is being made toward “Expansion” with new 5 products with 16 strengths such as Olmesartan Tablets “Nichi-Iko” and Rosuvastatin Tablets “Nichi-Iko” for which we received marketing approval in August 2017.

Moreover, the company has been constructing the manufacturing base including the “Obelisk Building” which is planned to commence operation in January 2018 for the stable supply with premium quality and the improvement of high efficiency “Production”.

Thus, the Company has been making steady efforts toward the goal of being a global top 10 leader in generic pharmaceuticals.

As a result, the second quarter consolidated cumulative period showed increased revenue and earnings with net sales of 94,297 million yen (25.5% increase year-on-year), operating income of 4,922 million yen (21.9% increase year-on-year), ordinary income of 5,103 million yen (54.0% increase year-on-year), and net income attributable to shareholders of the parent company of 2,449 million yen (12.4% increase year-on-year).

(2) Explanation on Financial Position

As of the end of the second quarter under review, total assets on a consolidated basis decreased by 6,517 million yen from the previous fiscal year-end to 264,373 million yen. This was mainly attributable to inventories assets increasing by 2,566 million yen, property, plant and equipment increasing by 3,475 million yen, goodwill decreasing by 2,516 million yen, in-process research and development decreasing by 4,627 million yen, investment securities decreasing by 1,211 million yen, and long-term loans receivable decreasing by 2,024 million yen.

Liabilities on a consolidated basis decreased by 4,484 million yen from the previous fiscal year-end to 178,825 million yen. This was mainly attributable to long- and short-term loans payable increasing by 3,880 million yen, income taxes payable increasing by 1,340 million yen, notes and accounts payable decreasing by 3,455 million yen, other payable decreasing by 1,194 million yen, deferred tax liabilities decreasing by 1,369 million yen, and net defined benefit liability decreasing by 2,317 million yen.

Net assets on a consolidated basis decreased by 2,032 million yen from the previous fiscal year-end to 85,548 million yen mainly due to the foreign currency translation adjustment decreasing by 1,871 million yen.

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

With regard to the forecast of consolidated financial results for the fiscal year ending March 31, 2018, we will revise net sales forecast to 200,000 million yen (a decrease of 6,000 million yen compared to the announcement made on May 10, 2017) due to sales performance in the second quarter consolidated cumulative period falling short of the pace of the publicly announced plan. No changes will be made to the forecasts for operating income, ordinary income or net income attributable to shareholders of the parent company from the previously announced levels.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheet

	(in millions of yen)	
	Fiscal year ended March 31, 2017 (as of March 31, 2017)	Second quarter of fiscal year ending March 31, 2018 (as of September 30, 2017)
Assets		
Current assets		
Cash and deposits	14,894	14,122
Notes and accounts receivable	26,304	26,124
Electronically recorded monetary claims	1,680	1,661
Merchandise and finished goods	41,632	41,678
Work in process	9,143	8,388
Raw materials and supplies	16,811	20,088
Deferred tax assets	838	851
Other current assets	3,842	3,715
Allowance for doubtful accounts	(433)	(290)
Total current assets	114,714	116,339
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	19,211	19,678
Machinery and equipment, net	12,665	12,441
Tools, furniture and fixtures, net	1,521	1,676
Land	6,433	6,439
Lease assets, net	2,603	2,366
Construction in progress	5,004	8,313
Total property, plant and equipment	47,439	50,914
Intangible assets		
Goodwill	41,152	38,636
Lease assets	125	94
Marketing rights	23,766	23,055
In-process research and development	22,697	18,070
Other intangible assets	5,368	5,009
Total intangible assets	93,111	84,865
Investments and other assets		
Investment securities	9,954	8,742
Long-term loans receivable	2,971	947
Deferred tax assets	866	755
Other assets	3,452	3,459
Allowance for doubtful accounts	(1,620)	(1,652)
Total investments and other assets	15,625	12,253
Total fixed assets	156,175	148,033
Total assets	270,890	264,373

	(in millions of yen)	
	Fiscal year ended March 31, 2017 (as of March 31, 2017)	Second quarter of fiscal year ending March 31, 2018 (as of September 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable	22,853	19,397
Electronically recorded debts	17,646	17,935
Short-term loans payable	23,789	27,937
Current portion of long-term loans payable	6,444	7,044
Lease debts	964	848
Other payable	8,471	7,276
Accrued expenses	3,338	3,420
Income taxes payable	389	1,730
Deposits payable	1,499	861
Allowance for sales returns	909	1,309
Allowance for bonuses	1,244	1,158
Other current liabilities	277	255
Total current liabilities	87,829	89,176
Fixed liabilities		
Long-term loans payable	80,104	79,237
Lease debts	1,994	1,825
Deferred tax liabilities	5,862	4,492
Deferred tax liabilities for land revaluation	219	219
Net defined benefit liability	3,489	1,171
Asset retirement obligations	55	56
Other fixed liabilities	3,754	2,643
Total fixed liabilities	95,480	89,648
Total liabilities	183,309	178,825
Net assets		
Shareholders' equity		
Common stock	19,976	19,976
Capital surplus	18,838	18,806
Retained earnings	45,350	45,570
Treasury stock	(9,401)	(9,166)
Total shareholders' equity	74,764	75,185
Other comprehensive income		
Valuation difference on available-for-sale securities	1,378	772
Revaluation reserve for land	333	333
Foreign currency translation adjustment	10,975	9,104
Accumulated adjustments in retirement benefits	(105)	(97)
Total other comprehensive income	12,582	10,112
Stock acquisition rights	234	249
Total net assets	87,580	85,548
Total liabilities and net assets	270,890	264,373

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

(Quarterly Consolidated Statements of Income)

(Second Quarter Consolidated Cumulative Period)

	(in millions of yen)	
	First half of previous fiscal year (from April 1, 2016 to September 30, 2016)	First half of current fiscal year (from April 1, 2017 to September 30, 2017)
Net sales	75,151	94,297
Cost of sales	47,870	62,221
Gross profit	27,280	32,075
Allowance for sales returns	-	161
Reversal of allowance for sales returns	8	-
Gross profit, net	27,289	31,914
Selling, general and administrative expenses	23,249	26,992
Operating income	4,039	4,922
Non-operating income		
Interest income	44	19
Dividends income	35	36
Compensation income	13	509
Income from subsidiaries	33	17
Foreign exchange gains	-	91
Others	99	201
Total non-operating income	226	876
Non-operating expenses		
Interest payment	79	322
Commissions paid	13	33
Loss on sales of accounts receivables	87	109
Equity in losses of affiliates	31	210
Foreign exchange losses	705	-
Others	33	18
Total non-operating expenses	951	694
Ordinary income	3,314	5,103
Extraordinary income		
Gain on sales of fixed assets	0	0
Gain on change in equity	320	137
Gain on contribution of securities to retirement benefit trust	-	1,255
Total extraordinary income	320	1,392
Extraordinary loss		
Loss on disposal of fixed assets	165	7
Loss on valuation of investment securities	37	-
Impairment loss	-	2,975
Total extraordinary loss	202	2,983
Net income before provision for income taxes	3,432	3,513
Income taxes	1,253	1,063
Net income	2,178	2,449
Net income attributable to shareholders of the parent company	2,178	2,449

(Quarterly Consolidated Statements of Comprehensive Income)

(Second Quarter Consolidated Cumulative Period)

	(in millions of yen)	
	First half of previous fiscal year (from April 1, 2016 to September 30, 2016)	First half of current fiscal year (from April 1, 2017 to September 30, 2017)
Net income	2,178	2,449
Other comprehensive income		
Valuation difference on available-for-sale securities	(138)	(621)
Foreign currency translation adjustment	21	1,104
Adjustments in retirement benefits	14	10
Share of other comprehensive income of affiliates accounted for using equity method	(8)	60
Total other comprehensive income	(110)	554
Comprehensive income	2,067	3,003
(Comprehensive income attributable to:)		
Comprehensive income attributable to shareholders of the parent company	2,067	3,003
Comprehensive income attributable to non-controlling interests	-	-

(3) Quarterly Consolidated Statements of Cash Flows

	(in millions of yen)	
	First half of previous fiscal year (from April 1, 2016 to September 30, 2016)	First half of current fiscal year (from April 1, 2017 to September 30, 2017)
Cash flows from operating activities		
Net income before provision for income taxes	3,432	3,513
Depreciation	2,780	4,335
Impairment loss	-	2,975
Amortization of goodwill	86	1,076
Increase (decrease) in allowance for doubtful accounts	24	(104)
Increase (decrease) in net defined benefit liability	115	36
Increase (decrease) in allowance for sales returns	(8)	317
Increase (decrease) in allowance for bonuses	(186)	144
Interest and dividends income	(79)	(55)
Interest expenses	79	322
Loss (gain) on disposal of fixed assets	165	7
Equity in (earnings) losses of affiliates	31	210
Loss (gain) on change in equity	(320)	(137)
Foreign exchange losses (gains)	679	9
(Increase) decrease in accounts receivable	645	(856)
(Increase) decrease in inventories assets	(7,791)	(2,269)
Increase (decrease) in accounts payable	7,370	(205)
Increase (decrease) in accrued expenses	40	104
Loss (gain) on securities contribution to employees' retirement benefits trust	-	(1,255)
Others	866	(1,552)
Sub-total	<u>7,931</u>	<u>6,618</u>
Interest and dividends received	167	123
Interest expenses paid	(79)	(322)
Income taxes paid	(3,631)	(324)
Income taxes refund	-	741
Net cash provided by operating activities	<u>4,388</u>	<u>6,837</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment	(3,951)	(5,539)
Proceeds from sales of property, plant and equipment	0	5
Acquisition of intangible assets	(2,338)	(460)
Acquisition of investments in subsidiaries resulting in change in scope of consolidation	(72,947)	-
Acquisition of stocks of subsidiaries and associates	-	(1,665)
Proceeds from loans receivable	50	49
Others	(629)	(58)
Net cash used in investing activities	<u>(79,817)</u>	<u>(7,669)</u>

	(in millions of yen)	
	First half of previous fiscal year (from April 1, 2016 to September 30, 2016)	First half of current fiscal year (from April 1, 2017 to September 30, 2017)
Cash flows from financing activities		
Increase (decrease) in short-term loans payable	75,330	4,308
Proceeds from long-term loans payable	-	5,000
Repayment of long-term loans payable	(1,958)	(5,546)
Acquisition of treasury stock	(7,000)	(0)
Sales of treasury stock	76	107
Proceeds from exercise of stock options	2	0
Repayments of finance lease debts	(603)	(513)
Dividends paid	(997)	(852)
Others	(0)	(0)
Net cash provided by financing activities	64,848	2,504
Effect of exchange rate change on cash and cash equivalents	(369)	(34)
Net increase (decrease) in cash and cash equivalents	(10,949)	1,637
Cash and cash equivalents at beginning of year	27,754	14,468
Cash and cash equivalents of newly consolidated subsidiary at beginning of year	3	-
Change in cash and cash equivalents associated with changes of fiscal year ends of consolidated subsidiaries	-	(2,409)
Cash and cash equivalents at end of period	16,807	13,696

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Premise of Going Concern)

Not applicable.

(Notes on Significant Changes in the Amount of Shareholders' Equity)

Not applicable.

(Application of Accounting Treatment Specific to Preparation of Quarterly Consolidated Financial Statements)

Tax expenses are calculated by multiplying the net income for the term before provision for income taxes by an estimated effective tax rate that is reasonably estimated after applying tax effect accounting to the net income before provision for income taxes for the consolidated fiscal year including the second quarter under review. Income taxes - deferred are included in total income taxes and recorded.

(Additional Information)

(Notes on Changes in Scope of Consolidation or Scope of Application of Equity Method)

(Change in Fiscal Year-end, etc. of Consolidated Subsidiaries)

In preparing the consolidated financial statements for consolidated subsidiaries such as Sagent Pharmaceuticals, Inc. whose closing date of the fiscal year was originally December 31, the financial statements as of December 31 were used while necessary adjustments have been made for major transactions occurring between that day and the end of the consolidated period, but the end of the fiscal year has been changed to March 31 from the first quarter.

As a result of this change in the fiscal year, the consolidated financial statements reflect the business results of the aforementioned consolidated subsidiaries for the six months from April 1, 2017 to September 30, 2017.

Profit and loss for the consolidated subsidiaries from January 1, 2017 to March 31, 2017 has been adjusted as increase or decrease of retained earnings, and cash flow has been recorded as a change in cash and cash equivalents associated with changes of fiscal year ends of the consolidated subsidiaries.