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February 2, 2023

Consolidated Financial Results
for the First Nine Months of the Fiscal Year Ending March 31, 2023
(Under Japanese GAAP)

Listed Company: Zeria Pharmaceutical Co., Ltd.

(Stock Exchange: Tokyo Stock Exchange)

Code Number: 4559

(URL: <https://www.zeria.co.jp/>)

Representative: Mitsuhiro Ibe, Representative Director, President & COO

Person in charge of reference: Tomoyuki Nishizawa, Director, Public Relations Division

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Scheduled date to submit the Quarterly Securities Report: February 6, 2023

Scheduled date to commence dividend payments: –

Preparation of supplementary documents to the quarterly financial results: None

Holding of quarterly financial results presentation: None

(Amounts under a million yen are truncated.)

1. Consolidated Financial Highlights (April 1, 2022 through December 31, 2022)

(1) Consolidated Financial Results (cumulative)

(Percentage figures indicate changes from the same period of the previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended								
December 31, 2022	51,729	14.7	8,550	55.6	6,957	24.0	5,980	47.9
December 31, 2021	45,104	11.7	5,495	41.6	5,613	57.6	4,043	9.2

Note: Comprehensive income: For the nine months ended December 31, 2022: 13,040 million yen [501.0%]

For the nine months ended December 31, 2021: 2,169 million yen [(45.8)%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2022	135.31	–
December 31, 2021	89.33	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
December 31, 2022	137,076	65,989	48.0	1,489.11
March 31, 2022	124,282	55,092	44.2	1,236.09

Reference: Equity: As of December 31, 2022: 65,729 million yen

As of March 31, 2022: 54,894 million yen

2. Dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2022	–	17.00	–	18.00	35.00
Year ending March 31, 2023	–	18.00	–		
Year ending March 31, 2023 (Forecast)				20.00	38.00

Note: Revision of the forecast of dividends most recently announced: Yes

3. Consolidated Financial Forecast for Fiscal Year Ending March 31, 2023 (April 1, 2022 through March 31, 2023)

(Percentage figures indicate changes from the same period of the previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	66,000	10.9	7,000	10.0	7,000	17.9	5,600	41.4	126.74

Note: Revision of the financial forecast most recently announced: None

* Notes

(1) Changes in significant subsidiaries during the nine months ended December 31, 2022 (changes in specified subsidiaries resulting in changes in scope of consolidation): None

Inclusion: – (Company name: –) Exclusion: – (Company name: –)

(2) Application of special accounting for preparing the quarterly consolidated financial statements: Yes

Note: For details, please refer to “2. Quarterly Consolidated Financial Statements and Significant Notes Thereto, (3) Notes to quarterly consolidated financial statements” on page 8 of the Attached Material.

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

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

2) Changes in accounting policies due to other reasons: None

3) Changes in accounting estimates: Yes

4) Restatement of prior period financial statements after error corrections: None

Note: For details, please refer to “2. Quarterly Consolidated Financial Statements and Significant Notes Thereto, (3) Notes to quarterly consolidated financial statements” on page 8 of the Attached Material.

(4) Number of shares issued (common shares)

1) Number of shares issued as of the end of the term (including treasury shares):

As of December 31, 2022: 53,119,190 shares As of March 31, 2022: 53,119,190 shares

2) Number of shares of treasury shares as of the end of the term:

As of December 31, 2022: 8,978,982 shares As of March 31, 2022: 8,709,322 shares

3) Average number of shares during the period (cumulative from the beginning of the fiscal year):

For the nine months ended December 31, 2022: 44,200,883 shares

For the nine months ended December 31, 2021: 45,266,623 shares

* Quarterly Results Reports Are Exempt from Quarterly Review Conducted by Certified Public Accountants or An Audit Corporation.

* Cautionary Statement with Respect to Appropriate Use of Financial Forecast and Other Special Matters

The description about the future including the projection in this document is based on information available to the Company at present and certain presumptions which the Company considers reasonable. Consequently, any descriptions herein do not constitute assurances regarding actual results by the Company. The actual results for future terms may differ from the information in this document due to various factors. For the assumptions made in financial forecasts and cautions concerning the use thereof, please refer to “1. Qualitative Information on Quarterly Financial Results, (3) Explanation of consolidated financial forecasts and other forward-looking statements” on page 3 of the Attached Material.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of operating results

Net sales for the first nine months of the fiscal year ending March 31, 2023 were 51,729 million yen (up 14.7% from the same period of the previous fiscal year). As for profits, operating profit was 8,550 million yen (up 55.6% from the same period of the previous fiscal year), ordinary profit was 6,957 million yen (up 24.0% from the same period of the previous fiscal year), and profit attributable to owners of parent was 5,980 million yen (up 47.9% from the same period of the previous fiscal year). The large difference in the year-on-year growth rate between operating profit and ordinary profit is because although the Company recorded foreign exchange gains in the previous fiscal year, a large amount of foreign exchange losses was recorded by an overseas subsidiary in the current fiscal year as a result of the rapid appreciation of the Swiss franc.

Following are the results by business segment.

(i) Ethical Pharmaceuticals Business

As for our mainstay product, Asacol, a therapeutic agent for ulcerative colitis, growth in sales of Asacol 1600 mg, a high-dose formulation only on sale in overseas markets, contributed to increased sales. Sales of Entocort (domestic sales name: Zentacort), an inflammatory bowel disease (IBD) therapeutic agent, also increased, as sales grew in the overseas market in various regions, including Canada, Northern Europe, and Italy. Although a generic drug was launched in some European countries last September, the impact is currently negligible. In addition, sales of DIFICLIR, a therapeutic agent for Clostridium difficile infections, achieved a significant sales growth as a result of aggressive investment of sales resources in response to its recommendation as a first-line drug in the European guidelines for the treatment of infectious diseases. With regard to Acofide and Ferinject, we are working to build the market, particularly in medical institutions performing endoscopy, and the domains of gastroenterology, and obstetrics and gynecology.

As a result, net sales in the business amounted to 32,434 million yen (up 17.8% from the same period of the previous fiscal year).

(ii) Consumer Healthcare Business

As for the Hepalyse range, although it is still affected by the spread of COVID-19 infections and a sharp decline in demand from inbound tourists, its sales significantly increased owing to the recovery trend in the sales of both the pharmaceutical Hepalyse range and the Hepalyse W range for convenience stores. Sales of the Chondroitin range also remained strong, due in part to aggressive advertising and promotional investments. On the other hand, sales of the WithOne range of botanical laxative products decreased due to the impact from competing products.

As a result, net sales in the business amounted to 19,181 million yen (up 9.9% from the same period of the previous fiscal year).

(iii) Other

Net sales in this segment amounted to 113 million yen (down 5.2% from the same period of the previous fiscal year), mainly due to the insurance agency business and real estate lease revenue.

(2) Explanation of financial position

Total assets at the end of the third quarter of the fiscal year ending March 31, 2023 were 137,076 million yen, an increase of 12,794 million yen from the end of the previous fiscal year. Current assets increased 8,910 million yen to 50,574 million yen from the end of the previous fiscal year, and non-current assets increased 3,883 million yen to 86,502 million yen from the end of the previous fiscal year. Major changes in current assets included an increase of 4,881 million yen in cash and deposits and an increase of 3,811 million yen in notes and accounts receivable - trade. Main changes in non-current assets were an increase

of 822 million yen in property, plant and equipment and an increase of 3,166 million yen in intangible assets.

Total liabilities at the end of the quarter under review were 71,087 million yen, an increase of 1,897 million yen from the end of the previous fiscal year. Current liabilities increased 3,895 million yen to 48,088 million yen from the end of the previous fiscal year, and non-current liabilities decreased 1,997 million yen to 22,999 million yen from the end of the previous fiscal year. Main changes in current liabilities were an increase of 1,827 million yen in short-term borrowings, an increase of 876 million yen in income taxes payable, and an increase of 1,245 million yen in other current liabilities including an increase in accounts payable - other. Main changes in non-current liabilities were a decrease of 2,291 million yen in long-term borrowings and an increase of 349 million yen in provision for loss on cancellation of contracts.

Net assets at the end of the quarter under review were 65,989 million yen, an increase of 10,896 million yen from the end of the previous fiscal year. This was mainly due to profit attributable to owners of parent of 5,980 million yen, payment of 1,593 million yen as dividends declared at the end of the previous period and in the current interim period, and an increase of 7,083 million yen in foreign currency translation adjustment.

As a result, equity ratio at the end of the quarter under review increased by 3.8% from the end of the previous fiscal year to 48.0%.

(3) Explanation of consolidated financial forecasts and other forward-looking statements

Operating profit and profit attributable to owners of parent for the first nine months of the fiscal year ending March 31, 2023, have already exceeded the forecasts for the full year.

Sales in the overseas Ethical Pharmaceuticals Business are growing faster than expected. However, it is necessary to carefully examine expenses taking into consideration the impact of foreign exchange trends and the increase in prices of raw materials and energy. The consolidated financial forecast for the fiscal year ending March 31, 2023, therefore, remains unchanged from the consolidated financial forecast announced on May 11, 2022. If it becomes necessary to revise the financial forecast, we will disclose the revised forecast promptly.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly consolidated balance sheet

(Thousands of yen)

	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	11,704,282	16,586,161
Notes and accounts receivable - trade	16,206,812	20,018,244
Merchandise and finished goods	6,721,583	6,776,737
Work in process	1,409,684	1,086,716
Raw materials and supplies	3,819,276	4,628,472
Other	1,855,502	1,558,584
Allowance for doubtful accounts	(53,425)	(80,588)
Total current assets	41,663,717	50,574,328
Non-current assets		
Property, plant and equipment		
Buildings, net	6,655,232	6,440,401
Land	12,354,010	12,362,334
Other, net	4,130,101	5,158,621
Total property, plant and equipment	23,139,343	23,961,356
Intangible assets		
Goodwill	5,830,459	5,542,642
Sales right	27,539,473	29,835,245
Other	7,836,095	8,994,667
Total intangible assets	41,206,029	44,372,555
Investments and other assets		
Investment securities	7,005,587	7,156,318
Retirement benefit asset	10,736,005	10,490,175
Other	583,595	568,594
Allowance for doubtful accounts	(51,945)	(46,851)
Total investments and other assets	18,273,242	18,168,236
Total non-current assets	82,618,615	86,502,148
Total assets	124,282,333	137,076,476
Liabilities		
Current liabilities		
Accounts payable - trade	2,049,590	2,567,315
Short-term borrowings	33,842,933	35,670,518
Income taxes payable	458,297	1,334,839
Provision for bonuses	1,530,935	958,250
Other	6,311,307	7,557,210
Total current liabilities	44,193,063	48,088,134
Non-current liabilities		
Long-term borrowings	18,385,860	16,094,690
Provision for loss on cancellation of contracts	490,142	839,851
Retirement benefit liability	1,073,819	1,104,487
Asset retirement obligations	55,827	55,980
Other	4,991,146	4,904,274
Total non-current liabilities	24,996,794	22,999,283
Total liabilities	69,189,858	71,087,417

(Thousands of yen)

	As of March 31, 2022	As of December 31, 2022
Net assets		
Shareholders' equity		
Share capital	6,593,398	6,593,398
Capital surplus	11,685,121	11,685,121
Retained earnings	48,860,697	53,247,567
Treasury shares	(17,593,074)	(18,138,912)
Total shareholders' equity	49,546,143	53,387,174
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(193,416)	(5,767)
Foreign currency translation adjustment	3,215,379	10,298,583
Remeasurements of defined benefit plans	2,326,536	2,049,651
Total accumulated other comprehensive income	5,348,499	12,342,466
Non-controlling interests	197,832	259,417
Total net assets	55,092,474	65,989,058
Total liabilities and net assets	124,282,333	137,076,476

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income

Quarterly consolidated statement of income

(Thousands of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Net sales	45,104,773	51,729,738
Cost of sales	13,279,666	14,480,435
Gross profit	31,825,106	37,249,303
Selling, general and administrative expenses	26,329,373	28,698,601
Operating profit	5,495,732	8,550,701
Non-operating income		
Interest income	11,252	35,835
Dividend income	190,851	226,956
Foreign exchange gains	131,834	–
Other	65,437	61,925
Total non-operating income	399,376	324,716
Non-operating expenses		
Interest expenses	232,304	265,520
Foreign exchange losses	–	1,628,114
Other	49,612	23,855
Total non-operating expenses	281,916	1,917,490
Ordinary profit	5,613,192	6,957,928
Extraordinary income		
Gain on sale of non-current assets	3,483	1,371
Gain on sale of investment securities	14,589	19,940
Total extraordinary income	18,072	21,312
Extraordinary losses		
Loss on retirement of non-current assets	4,002	3,736
Provision for loss on cancellation of contracts	–	235,935
Total extraordinary losses	4,002	239,672
Profit before income taxes	5,627,262	6,739,567
Income taxes	1,578,735	742,857
Profit	4,048,526	5,996,710
Profit attributable to non-controlling interests	4,937	15,866
Profit attributable to owners of parent	4,043,589	5,980,843

Quarterly consolidated statement of comprehensive income

(Thousands of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Profit	4,048,526	5,996,710
Other comprehensive income		
Valuation difference on available-for-sale securities	(951,588)	187,648
Foreign currency translation adjustment	(438,971)	7,132,651
Remeasurements of defined benefit plans, net of tax	(488,181)	(276,885)
Total other comprehensive income	(1,878,741)	7,043,414
Comprehensive income	2,169,784	13,040,124
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,150,406	12,974,810
Comprehensive income attributable to non-controlling interests	19,378	65,313

(3) Notes to quarterly consolidated financial statements
(Notes on premise of a going concern)

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

Not applicable.

(Adoption of special accounting methods for preparation of quarterly consolidated financial statements)

Calculation of tax expenses

Tax expenses were calculated by reasonably estimating the effective tax rate after applying tax effect accounting to the profit before income taxes for the fiscal year that includes the third quarter of the current fiscal year and multiplying profit before income taxes by such estimated effective tax rate.

(Change in accounting policy)

Adoption of the Implementation Guidance on Accounting Standard for Fair Value Measurement

The Company adopted the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021) from the beginning of the first quarter of the current fiscal year. In accordance with the transitional treatment prescribed in paragraph 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement, the new accounting policies prescribed by the Implementation Guidance on Accounting Standard for Fair Value Measurement are to be applied prospectively. There is no impact on the consolidated quarterly financial statements for the first nine months of the current fiscal year.

(Changes in accounting estimates)

Previously, the trademark right for the product Entocort, held by our subsidiary Tillotts Pharma AG, was not amortized because its useful life could not be determined. However, since a generic drug was launched in some European countries, the Company started to amortize the right by reasonably estimating the useful life as the period when the brand can be maintained in the future.

As a result, operating profit, ordinary profit and profit before income taxes for the first nine months of the current fiscal year each decreased by 139,452 thousand yen.

(Additional information)

Effect of change in corporate tax rate

In the Swiss canton where our subsidiary Tillotts Pharma AG is headquartered, the corporate income tax rate was reduced. The amounts of income taxes and deferred tax liabilities (net of deferred tax assets) were recalculated using the corporate tax rate after the reduction.

As a result, income taxes for the first nine months of the current fiscal year decreased by 774,138 thousand yen.

(Segment information, etc.)

[Segment information]

I First nine months of the previous fiscal year (from April 1, 2021 to December 31, 2021)

1. Information on net sales and profit or loss by reportable segment

(Thousands of yen)

	Reportable segment			Other (Note 1)	Total	Adjustment (Note 2)	Amount recorded in quarterly consolidated statement of income (Note 3)
	Ethical Pharmaceuticals Business	Consumer Healthcare Business	Total				
Net sales							
Sales to external customers	27,529,565	17,455,657	44,985,222	119,551	45,104,773	–	45,104,773
Intersegment sales and transfers	–	96	96	443,481	443,578	(443,578)	–
Total	27,529,565	17,455,753	44,985,318	563,033	45,548,352	(443,578)	45,104,773
Segment profit	5,543,942	3,509,182	9,053,124	198,599	9,251,724	(3,755,991)	5,495,732

(Notes) 1. “Other” is a business segment not included in the reportable segments and includes the insurance agency business and real estate business.

2. Adjustment of segment profit of (3,755,991) thousand yen is mainly corporate expenses, such as general and administrative expenses, that are not allocated to reportable segments.
3. Segment profit is adjusted with operating profit in the quarterly consolidated statement of income.

2. Information on impairment losses on non-current assets or goodwill by reportable segment
Not applicable.

II First nine months of the current fiscal year (from April 1, 2022 to December 31, 2022)

1. Information on net sales and profit or loss by reportable segment

(Thousands of yen)

	Reportable segment			Other (Note 1)	Total	Adjustment (Note 2)	Amount recorded in quarterly consolidated statement of income (Note 3)
	Ethical Pharmaceuticals Business	Consumer Healthcare Business	Total				
Net sales							
Sales to external customers	32,434,601	19,181,759	51,616,360	113,377	51,729,738	–	51,729,738
Intersegment sales and transfers	2,784	105	2,890	379,294	382,185	(382,185)	–
Total	32,437,385	19,181,865	51,619,251	492,671	52,111,923	(382,185)	51,729,738
Segment profit	8,036,838	4,006,794	12,043,632	179,570	12,223,203	(3,672,502)	8,550,701

(Notes) 1. “Other” is a business segment not included in the reportable segments and includes the insurance agency business and real estate business.

2. Adjustment of segment profit of (3,672,502) thousand yen is mainly corporate expenses, such as general and administrative expenses, that are not allocated to reportable segments.
3. Segment profit is adjusted with operating profit in the quarterly consolidated statement of income.

2. Information on impairment losses on non-current assets or goodwill by reportable segment
Not applicable.

3. Supplemental Information

(1) Sales results

The table below shows sales results by business segment in the first nine months of the current fiscal year.

(Thousands of yen)

Name of segment	First nine months of the current fiscal year (from April 1, 2022 to December 31, 2022)	Increase/(decrease) over the same period of the previous fiscal year (%)
Ethical Pharmaceuticals Business	32,434,601	17.8
Consumer Healthcare Business	19,181,759	9.9
Total reportable segment	51,616,360	14.7
Other	113,377	(5.2)
Total	51,729,738	14.7

(Note) Inter-segment transactions are offset and eliminated.

(2) Status of pipeline of new drugs

I. Domestic

As of February 2, 2023

Stage	Development Code/Generic Name	Development	Indications	Classification	Origin
NDA in preparation	ZG-801/Patiromer Sorbitex Calcium	Zeria	Hyperkalemia	Potassium binder	In-licensed
Phase III	Z-338/Acotiamide	Zeria	Pediatric functional dyspepsia	Upper gastrointestinal motility modulator	Original
Phase II	ZG-802/Acotiamide	Zeria	Underactive bladder	Lower urinary tract function modulator	Original
Phase II* (Investigator-Initiated Trial)	Z-338/Acotiamide	Kyushu University	Esophagogastric junction outflow obstruction	Upper gastrointestinal motility modulator	Original

*: Supported by a grant from Japan Agency for Medical Research and Development (AMED)

II. Overseas

Stage	Development Code/Generic Name	Development	Indications	Classification	Origin
Phase III (Europe)	Z-338/Acotiamide	Zeria	Functional dyspepsia	Upper gastrointestinal motility modulator	Original
NDA approved (Mexico, Honduras, Dominican Republic)	Z-338/Acotiamide	Faes Farma	Functional dyspepsia	Upper gastrointestinal motility modulator	Original (Out-licensed)
NDA filed (Chile, Colombia, Peru, Ecuador, Costa Rica, Guatemala, Panama, Nicaragua, El Salvador)	Z-338/Acotiamide	Faes Farma	Functional dyspepsia	Upper gastrointestinal motility modulator	Original (Out-licensed)
NDA filed (Thailand, Indonesia)	Z-338/Acotiamide	Meiji Seika Pharma	Functional dyspepsia	Upper gastrointestinal motility modulator	Original (Out-licensed)