

Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2023 [IFRS]

May 12, 2023

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 Stock exchange listing : Tokyo Stock Exchange
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 Earnings announcement for quarterly financial results : Yes (for institutional investors, analysts and the press)

(Figures are rounded down to the nearest million unless otherwise stated)

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2023 (January 1, 2023 to March 31, 2023)

(1) Consolidated Operating Results (cumulative)

(% indicates percentage of change from the same period of the previous fiscal year)

	Revenue		Business profit		Operating profit		Profit for the period		Profit attributable to owners of the Company		Total comprehensive income for the period	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2023 Q1	448,344	17.9	73,681	73.5	76,779	270.0	62,663	159.2	61,430	164.2	84,171	(2.9)
FY2022 Q1	380,308	12.9	42,467	(13.2)	20,749	(58.6)	24,178	(47.1)	23,250	(48.0)	86,677	(15.4)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY2023 Q1	113.20	113.18
FY2022 Q1	42.86	42.70

*1 Business profit is an indicator of ordinary earnings power calculated as follows:

Revenue – Cost of sales – Selling, general and administrative expenses – Research and development expenses + Share of profit of investments accounted for using the equity method

*2 Due to the application of IAS 12 “Income Taxes” (amended in May 2021), results for the three-month period ended March 31, 2022, have been retrospectively restated.

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the Company	Ratio of equity attributable to owners of the Company to total assets	Equity attributable to owners of the Company per share
	Millions of yen	Millions of yen	Millions of yen	%	Yen
As of March 31, 2023	3,132,041	2,320,590	2,281,415	72.8	4,204.33
As of December 31, 2022	3,102,638	2,262,369	2,225,255	71.7	4,100.84

* Due to the application of IAS 12 “Income Taxes” (amended in May 2021), figures as of December 31, 2022, have been retrospectively restated.

2. Dividends

	Annual dividend per share				
	First Quarter end	Second Quarter end	Third Quarter end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2022	—	50.00	—	50.00	100.00
FY2023	—	—	—	—	—
FY2023 (forecast)	—	50.00	—	50.00	100.00

* Revisions to dividends forecast most recently announced: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending December 31, 2023 (January 1, 2023 to December 31, 2023)
 (% indicates percentage of change from the same period of the previous fiscal year)

	Revenue		Business profit		Operating profit		Profit for the year		Profit attributable to owners of the Company		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Q2 (YTD)	867,000	6.5	92,500	18.4	91,500	36.3	70,000	(2.1)	68,000	(2.5)	125.31
FY2023	1,800,000	3.6	210,000	20.1	210,000	39.7	161,500	17.6	157,500	17.6	290.25

*1 Revisions to financial forecast most recently announced: None

*2 Due to the application of IAS 12 "Income Taxes" (amended in May 2021), the percentage of change from the same period of the previous year has been calculated using retrospectively restated figures.

4. Others

- (1) Changes in significant subsidiaries during the three-month period ended March 31, 2023 (changes in specified subsidiaries resulting in a change in scope of consolidation): None
- (2) Changes in accounting policies and changes in accounting estimates
 - 1) Changes in accounting policies required by IFRS: Yes
 - 2) Changes in accounting policies due to other reasons: None
 - 3) Changes in accounting estimates: None

* Please refer to "2. Condensed Interim Consolidated Financial Statements and Major Notes (6) Notes to Condensed Interim Consolidated Financial Statements (Changes in Accounting Policies)" for details.
- (3) Number of shares issued and outstanding (common stock)
 - 1) Number of shares issued and outstanding as of the end of the reporting period (including treasury shares):

March 31, 2023	557,835,617 shares
December 31, 2022	557,835,617 shares
 - 2) Number of shares of treasury shares as of the end of the reporting period:

March 31, 2023	15,201,968 shares
December 31, 2022	15,201,916 shares
 - 3) Average number of shares outstanding during the reporting period:

Three-month period ended March 31, 2023	542,633,700 shares
Three-month period ended March 31, 2022	542,391,895 shares

* This report is out of scope of reviews by the external auditor.

*** Note to ensure appropriate use of forecasts, and other comments in particular**

Forecasts and other forward-looking statements included in this report are based on information currently available and certain assumptions that Otsuka Holdings Co., Ltd. (hereinafter referred to as the "Company") deems reasonable. Actual performance and other results may differ significantly due to various factors. Please refer to "1. Qualitative Information (3) Forecast for Consolidated Financial Results" on page 8 for details with regard to the assumptions and other matters concerning the financial forecast.

The Company plans to hold an earnings release conference call for institutional investors, analysts and the press on May 12, 2023. Presentation materials and the webcast of the call will be available on the Company's website promptly after the call.

Attachment Index

1. Qualitative Information	2
(1) Consolidated Operating Results	2
(2) Consolidated Financial Position	7
(3) Forecast for Consolidated Financial Results	8
2. Condensed Interim Consolidated Financial Statements and Major Notes	9
(1) Condensed Interim Consolidated Statements of Financial Position	9
(2) Condensed Interim Consolidated Statements of Income	11
(3) Condensed Interim Consolidated Statements of Comprehensive Income	12
(4) Condensed Interim Consolidated Statements of Changes in Equity.....	13
(5) Condensed Interim Consolidated Statements of Cash Flows	15
(6) Notes to Condensed Interim Consolidated Financial Statements	16
Note to Going Concern Assumptions.....	16
Changes in Accounting Policies.....	16
Operating Segments	16

1. Qualitative Information

From the three-month period ended March 31, 2023, IAS 12 “Income Taxes” (amended in May 2021) has been applied and comparative analysis with the same period of the previous fiscal year has been made using retrospectively restated figures. The application of this standard did not have a material impact on Condensed Interim Consolidated Financial Statements. The details of the changes in accounting policies are stated in “(6) Notes to Condensed Interim Consolidated Financial Statements (Changes in Accounting Policies)” in “2. Condensed Interim Consolidated Financial Statements and Major Notes.”

(1) Consolidated Operating Results

The forward-looking statements in this report were prepared based on information available as of March 31, 2023.

Summary of consolidated financial results for the three-month period ended March 31, 2023

The Company and its affiliated companies (hereinafter referred to as the “Group”) adopted “Business profit” as an indicator of ordinary earnings power, which is calculated as follows:

Revenue – Cost of sales – Selling, general and administrative expenses – Research and development expenses + Share of profit of investments accounted for using the equity method

	Three-month period ended March 31, 2022	Three-month period ended March 31, 2023	Change	% Change
Revenue	380,308	448,344	68,035	17.9 %
Business profit before research and development expenses	101,815	141,649	39,834	39.1 %
Business profit	42,467	73,681	31,213	73.5 %
Operating profit	20,749	76,779	56,030	270.0 %
Profit before tax	30,985	79,242	48,257	155.7 %
Profit for the period	24,178	62,663	38,484	159.2 %
Profit attributable to owners of the Company	23,250	61,430	38,180	164.2 %

Research and development expenses	59,347	67,968	8,621	14.5 %
Impairment losses	23,831	211	(23,620)	(99.1) %

Based on the concept of total health care, the Group has been operating its businesses to maintain and promote health and to diagnose and treat disease. Amid a changing social environment, to anticipate social issues brought about by a highly uncertain world, the Group will incorporate new technologies and needs arising from changes in the environment and harness the opportunities presented by a growing awareness of health in order to demonstrate the Group’s true value as a total healthcare company, especially now, and continue to move toward the realization of sustainable growth.

Revenue for the three-month period ended March 31, 2023 totaled ¥448,344 million (up 17.9% over the same period of the previous fiscal year), as all businesses recorded increased revenue. The main factors were that growth in sales for the four global products, the long acting antipsychotic agent *ABILIFY MAINTENA*, the antipsychotic agent *REXULTI/RXULTI*, the V₂-receptor antagonist *JINARC/JYNARQUE*, and the anti-cancer agent *LONSURF*, in addition to growth in royalties for out-licensed products, drove results in the pharmaceutical business. As a result, revenue grew significantly, exceeding the decline in revenue with the expiry of the exclusive sales period of the V₂-receptor antagonist *Samsca* for the treatment for fluid retention in patients with heart failure and hepatic cirrhosis in Japan. Furthermore, in the nutraceutical business as well, sales of *POCARI SWEAT* and *Nature Made* continued to grow amid increasing health awareness.

Business profit before research and development expenses was ¥141,649 million (up 39.1%). The main factors were the aforementioned increased gross profit with increased sales for the four global products and increased royalties for out-licensed products, while the SG&A expense ratio improved with appropriate controls having been imposed on selling, general and administrative expenses.

Research and development expenses totaled ¥67,968 million (up 14.5%) mainly due to an increase in development expenses for centanafadine under development for the treatment of attention-deficit hyperactivity disorder (ADHD), etc., and zipalertinib/TAS6417 under development for the treatment of non-small cell lung cancer, and in addition, an increase in development expenses based on a collaboration and license agreement executed with Sumitomo Pharma Co., Ltd. and Sunovion Pharmaceuticals Inc. for joint development and commercialization related to antipsychotic agent with a novel mechanism of action as a challenge to the possibility of new treatments. There was also the impact of exchange rate fluctuations.

As a result of greater than anticipated sales growth and appropriate controls having been imposed on selling, general and administrative expenses, business profit increased significantly to ¥73,681 million (up 73.5%).

Furthermore, operating profit increased to ¥76,779 million (up 270.0%). This was a significant increase even if the impact of the recording of impairment losses in the previous fiscal year is excluded. Profit for the period of ¥62,663 million (up 159.2%), and profit attributable to owners of the Company of ¥61,430 million (up 164.2%).

Revenue and business profit by business segment during FY2023 Q1

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Total
Revenue	303,161	103,972	8,233	42,630	(9,654)	448,344
Business profit	69,869	11,338	2,242	3,324	(13,094)	73,681

Reference (FY2022 Q1)

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Total
Revenue	252,058	90,340	7,673	39,048	(8,813)	380,308
Business profit	40,819	11,175	(234)	2,432	(11,725)	42,467

1) Pharmaceuticals

Revenue for the three-month period ended March 31, 2023 totaled ¥303,161 million (up 20.3%), with business profit of ¥69,869 million (up 71.2%).

Main products

• Four global products

The Group positions the long acting antipsychotic agent *ABILIFY MAINTENA*, the antipsychotic agent *REXULTI*^{*1}/*RXULTI*^{*2}, the V₂-receptor antagonist *Samsca*/*JINARC*^{*3}/*JYNARQUE*^{*4} and the anti-cancer agent *LONSURF* as its four global products. Sales of those products totaled ¥159,678 million (up 17.8%).

*1: Brand name for the antipsychotic agent outside Europe

*2: Brand name for the antipsychotic agent in Europe

*3: Brand name for autosomal dominant polycystic kidney disease (“ADPKD”) treatment in multiple regions outside Japan

*4: Brand name for ADPKD treatment in the U.S.

• Long acting antipsychotic agent *ABILIFY MAINTENA*

In the U.S., sales significantly increased atop growth in prescriptions, mainly due to promoting the efficacy of the product for bipolar I disorder and schizophrenia patients, who have problems adhering to drug regimens, as well as face-to-face detailing activities, and the impact of exchange rate fluctuations. In Japan, sales grew steadily due to stronger promotional activities for the suppression of recurrence and relapse of mood episodes in bipolar I disorder, in addition to schizophrenia. As a result, sales of *ABILIFY MAINTENA* totaled ¥45,536 million (up 27.2%).

• Antipsychotic agent *REXULTI/RXULTI*

In the U.S., where antipsychotic agent *REXULTI* is sold as adjunctive therapy in major depressive disorder and a treatment for schizophrenia, prescriptions grew and sales significantly increased, mainly due to enhancement of face-to-face detailing activities, as well as the impact of exchange rate fluctuations. In Japan, sales were solid, boosted by new prescriptions for schizophrenia. As a result, sales of *REXULTI/RXULTI* totaled ¥46,077 million (up 34.5%).

• V₂-receptor antagonist *Samsca*

In Japan, where the drug is sold as treatment for fluid retention in patients with heart failure and hepatic cirrhosis, ADPKD and another condition, sales significantly decreased due to the impact of the switch to generics for the treatment for fluid retention in patients with heart failure and hepatic cirrhosis. Also in the U.S., where the drug is sold as a treatment for hyponatremia, sales significantly decreased due to the impact of the switch to generics. As a result, sales of *Samsca* totaled ¥12,278 million (down 46.8%).

• V₂-receptor antagonist *JINARC/JYNARQUE*

In the U.S., the number of prescriptions for ADPKD increased mainly due to continued efforts to raise awareness of the disease and provide information about clinical data, as well as the impact of exchange rate fluctuations. As a result, sales of *JINARC/JYNARQUE* totaled ¥39,454 million (up 36.5%).

• Anti-cancer agent *LONSURF*

In the U.S., sales have significantly increased as the use of oral anti-cancer agents has been recommended since the spread of COVID-19^{*5,6}, and there also was the impact of exchange rate fluctuations. In Europe, sales declined due to the impact of shipping times. The number of prescriptions continued to be solid in both Japan and Europe. As a result, sales of *LONSURF* totaled ¥16,332 million (up 20.5%).

*5: Pelin Cinar et al., Safety at the Time of the COVID-19 Pandemic: How to Keep our Oncology Patients and Healthcare Workers Safe. J Natl Compr Canc Netw, 2020 Apr 15;1-6.

*6: ASCO. COVID-19 Patient Care Information, Cancer Treatment and Supportive Care.

<https://www.asco.org/covid-resources/patient-care-info/cancer-treatment-supportive-care>

2) Nutraceuticals

Revenue for the three-month period ended March 31, 2023 totaled ¥103,972 million (up 15.1%), with business profit of ¥11,338 million (up 1.5%).

Main products

The Group positions *POCARI SWEAT*, *Nature Made* and the Nutrition & Santé SAS brand as its three major brands. Sales of those brands totaled ¥68,695 million (up 23.4%). Total sales of its three nurture brands, the Daiya Foods Inc. brand, *EQUELLE* and *BODY MAINTÉ*, were ¥6,760 million (down 4.4%).

● Three major brands

Sales of *POCARI SWEAT*, an electrolyte supplement drink, are growing amid increasing health awareness among consumers due to the promotion in Japan of consumption in daily life by appealing to the product's value on various occasions and from an increase in drinking occasions such as sports events. Overseas, more people have been recognizing the importance of hydration and replenishment of electrolytes through activities to raise awareness that are tailored to the culture and situation in each region. In China, in particular, by building a brand image of a drink that provides hydration and replenishment of electrolytes through many years of initiatives, sales volume significantly increased and sales increased.

Sales of *Nature Made* supplements by Pharmavite LLC significantly increased due to an expanded market share^{*7} backed by enhanced awareness of physical conditioning among consumers and their high trust in the brand and quality, and also boosted by the impact of exchange rate fluctuations.

The Nutrition & Santé SAS brand, which sells health food products mainly in Europe, is expanding its food services^{*8} and e-commerce. Although there was a one-time sales decline due to the impact of business reorganization, Japanese yen-based sales increased due to growth in the European business and the impact of the exchange rate fluctuations.

*7: IRI Data; Market Advantage; Calendar YTD 3/26/2023, Food, Drug, Mass Excluding Amazon and Costco

*8: Services for providing meals to public institutions, schools, etc.

● Three nurture brands

Plant-based foods of the Daiya Foods Inc. brand saw a decrease in sales, mainly due to increased competition in the dairy alternative cheese market in North America. However, efforts have been made to enhance the product lineup by utilizing its original technology and expand distribution.

Sales of *EQUELLE*, a food and supplement brand containing equol that supports women's health and beauty, continued to grow steadily due to increased recognition of the product through the wide-ranging spread of information on the product, including seminars on women's health.

As for *BODY MAINTÉ*, a protective beverage brand containing the plant-based lactic-acid bacteria B240^{*9}, although sales declined, efforts were made to strengthen activities for increasing awareness of the product value and to raise recognition and increase consumption of the product.

*9: *Lactiplantibacillus pentosus* ONRICb0240: Strain isolated by Tokyo University of Agriculture, for which Otsuka Pharmaceutical has confirmed efficacy.

3) Consumer products

Revenue for the three-month period ended March 31, 2023 totaled ¥8,233 million (up 7.3%), while business profit totaled ¥2,242 million (an increase of ¥2,476 million) in part due to an increase in share of profit of investments accounted for using the equity method.

In mineral water products, overall sales volume of the mainstay brand *CRYSTAL GEYSER* declined in Japan, mainly due to a decrease in sales volume through the e-commerce and vending machine channels. Amid a reduction in the overall carbonated beverage drink market^{*10}, sales volume of *MATCH*, a carbonated vitamin drink, increased for the overall brand due to growing health awareness and aggressive marketing of sales of the new products *MATCH Salty Lemon Soda* and *MATCH Jelly Muscat*.

*10 INTAGE SRI (January 2–April 2, 2023 compared to January 3–April 3, 2022)

4) Others

Revenue for the three-month period ended March 31, 2023 totaled ¥42,630 million (up 9.2%), while business profit totaled ¥3,324 million (up 36.7%) in part due to an increase in share of profit of investments accounted for using the equity method.

Sales in the specialty chemical business increased marginally due to price adjustments. Sales in the fine chemical business increased mainly due to an increase in sales of antibiotic intermediates.

In the transportation and warehousing business, sales increased due to the capture of new external customers by strengthening the total healthcare distribution platform through coordination of logistics data and an increase in the handling volume.

* Please refer to the Supplement Documents (FACT BOOK) for sales by product and other information.
<https://www.otsuka.com/en/ir/library/materials.html>

Research and Development Activities

Research and development expenses for the three-month period ended March 31, 2023 totaled ¥67,968 million.

The primary areas of research and development as well as the status of new product development by segment were as follows:

Pharmaceuticals

The Group conducts research and development with a primary focus on the areas of psychiatry and neurology, and oncology. The Group also conducts research and development focusing on fields that are yet to be fully addressed such as cardiovascular and renal system, etc. Research and development expenses in the pharmaceutical business for the three-month period ended March 31, 2023 were ¥64,409 million.

Research and development activities in the pharmaceutical business carried out for the three-month period ended March 31, 2023 are summarized below.

Category	Development Code	Brand Name	Generic Name	Area	Treatment/ Indication	Status*
Psychiatry and neurology	OPC-34712	<i>REXULTI / RXULTI</i>	brexpiprazole	Japan	Major depressive disorder	An application was filed in January 2023
				U.S.	Agitation associated with Alzheimer's dementia	An application was filed in January 2023
				Europe	Major depressive disorder	Discontinued for business reason
					Agitation associated with Alzheimer's dementia	Discontinued for business reason
AVP-786	—	deuterium-modified dextromethorphan, quinidine	U.S.	Negative symptoms of schizophrenia	Discontinued for strategic reason	
Oncology	ASTX660 + ASTX727	—	tolinapant + decitabine, cedazuridine	U.S.	T-cell lymphoma	Phase I trial was initiated in February 2023
	AP24534	<i>ICLUSIG</i>	ponatinib	China	Chronic myeloid leukemia, acute lymphoblastic leukemia	An application was filed in March 2023
	AB122 + TAS-120	—	zimberelimab + futibatinib	Japan	Solid tumors	Phase I trial was initiated in January 2023
	OPB-171775	—	—	Japan	Solid tumors	Discontinued for strategic reason
Cardio-vascular and renal system	ETC-1002	—	bempedoic acid	Japan	Hyper-cholesterolemia	Phase III trial was initiated in February 2023
	OPC-131461	—	—	Japan	Cardiac edema	Phase II trial was initiated in January 2023
Other categories	OPA-15406	—	difamilast	China	Atopic dermatitis	Phase III trial was initiated in February 2023
	OPC-1085EL	—	carteolol, latanoprost	China	Glaucoma	Phase III trial was initiated

Category	Development Code	Brand Name	Generic Name	Area	Treatment/ Indication	Status*
	VIS171	—	—	TBD	Autoimmune disease	Phase I trial was initiated in January 2023

* The above description of status in U.S. and Europe, “an application was filed” indicates that an application for approval has been submitted to or accepted by the relevant authorities. For other countries and regions, it indicates that an application for approval has been submitted to the relevant authorities.

Nutraceuticals

In the nutraceutical business, the Group draws on its knowledge in the pharmaceutical business to conduct research and development of scientifically based original products in order to maintain and promote the health of people. In the *SOYJOY* brand of soy snack bars, which delivers a convenient way to consume the nutrition of whole soybeans, *SOYJOY Fruits & Cheese* was launched in March 2023.

Furthermore, in the cosmetics* field, focusing on healthy skin utilizing Otsuka’s unique concepts and technology, as part of our male skin care brand *UL•OS*, in March 2023 we launched *UL•OS Scalp Shampoo Volume-up* for men concerned about the volume, texture, and resilience of their hair.

Research and development expenses in the nutraceutical business for the three-month period ended March 31, 2023 were ¥2,012 million.

*: Cosmetics: cosmetics + medicine = Otsuka’s unique concept for skin health products

Consumer products

In the consumer product business, the Group is engaged in the research and development of original and unique products in the field of food and beverage that are part of everyone’s daily life. The Group is creating and proposing innovative products based on the themes of food and health, targeting businesses in retort foods, beverages, and plant-based foods, with the aim of solving various issues associated with the changing society, such as those involving health, the environment, population and the aging society.

Research and development expenses in the consumer product business for the three-month period ended March 31, 2023 were ¥162 million.

Others

In the other businesses, the Group is primarily engaged in the research and development of specialty chemical products and fine chemicals. The Group is focusing on organic and inorganic synthesis technologies and conducting research and development of new products centered on own technology as well as next-generation fields.

Research and development expenses in the other businesses for the three-month period ended March 31, 2023 were ¥1,383 million.

(2) Consolidated Financial Position

1) Assets, Liabilities and Equity

(Millions of yen)

	As of December 31, 2022	As of March 31, 2023	Change
Current assets	1,192,030	1,190,503	(1,527)
Non-current assets	1,910,608	1,941,538	30,930
Total assets	3,102,638	3,132,041	29,402
Current liabilities	539,193	555,276	16,083
Non-current liabilities	301,076	256,174	(44,901)
Total liabilities	840,269	811,451	(28,818)
Total equity	2,262,369	2,320,590	58,221

a. Assets

Total assets as of March 31, 2023 were ¥3,132,041 million, an increase of ¥29,402 million compared to ¥3,102,638 million as of December 31, 2022. Current assets decreased by ¥1,527 million, and non-current assets increased by ¥30,930 million.

(Current Assets)

Current assets as of March 31, 2023 were ¥1,190,503 million, a decrease of ¥1,527 million compared to ¥1,192,030 million as of December 31, 2022. This was mainly due to a decrease in trade and other receivables by ¥36,514 million, partially offset by increases in cash and cash equivalents by ¥5,503 million, inventories by ¥15,396 million and other financial assets by ¥11,257 million.

(Non-current Assets)

Non-current assets as of March 31, 2023 were ¥1,941,538 million, an increase of ¥30,930 million compared to ¥1,910,608 million as of December 31, 2022. This was mainly due to increases in investments accounted for using the equity method by ¥12,095 million, other financial assets by ¥11,916 million and deferred tax assets by ¥6,512 million.

b. Liabilities

Total liabilities as of March 31, 2023 were ¥811,451 million, a decrease of ¥28,818 million compared to ¥840,269 million as of December 31, 2022. Current liabilities increased by ¥16,083 million, and non-current liabilities decreased by ¥44,901 million.

(Current Liabilities)

Current liabilities as of March 31, 2023 were ¥555,276 million, an increase of ¥16,083 million compared to ¥539,193 million as of December 31, 2022. This was mainly due to increases in bonds and borrowings by ¥19,092 million, other financial liabilities by 15,126 million and other current liabilities by ¥24,736, partially offset by decreases in trade and other payables by ¥33,764 million and income taxes payable by ¥8,472 million.

(Non-current Liabilities)

Non-current liabilities as of March 31, 2023 were ¥256,174 million, a decrease of ¥44,901 million compared to ¥301,076 million as of December 31, 2022. This was mainly due to decreases in bonds and borrowings by ¥21,090 million, other financial liabilities by ¥16,845 million, contract liabilities by ¥2,570 million and deferred tax liabilities by ¥3,288 million.

c. Equity

Total equity as of March 31, 2023 was ¥2,320,590 million, an increase of ¥58,221 million compared to ¥2,262,369 million as of December 31, 2022. This was mainly due to an increase in retained earnings by ¥34,306 million which consisted of profit attributable to owners of the Company of ¥61,430 million net of dividend payments of ¥27,131 million and an increase in other components of equity by ¥21,710 million as a result of exchange rate fluctuations.

2) Cash Flows

Cash and cash equivalents as of March 31, 2023 were ¥477,137 million, an increase of ¥5,503 million compared to the balance as of December 31, 2022. For the three-month period ended March 31, 2023, net cash flows provided by operating activities were ¥71,882 million, while net cash flows used in investing activities were ¥35,771 million mainly as a result of investments in the pharmaceutical business and nutraceuticals business toward sustainable growth. Net cash flows used in financing activities were ¥32,659 million as a result of repayments of borrowings and lease liabilities and ¥27,308 million of dividends paid.

Thus, cash and cash equivalents were increased to ¥477,137 million as operating cash inflows exceeded the total cash outflows from investing and financing activities,

The following provides details around cash flow movements for the three-month period ended March 31, 2023:

Cash Flows from Operating Activities

Net cash flows provided by operating activities were ¥71,882 million, an increase of ¥14,184 million compared to the figure for the three-month period ended March 31, 2022. Cash flows provided by operating activities for the three-month period ended March 31, 2023 mainly consisted of ¥79,242 million of profit before tax, adjusted for ¥22,814 million of depreciation and amortization expenses, ¥5,640 million of share of profit of investments accounted for using the equity method, ¥14,474 million increase in inventory, ¥38,747 million decrease in trade and other receivables, ¥27,511 million decrease in trade and other payables, and ¥18,792 million of income taxes paid. The increase of ¥14,184 million in inflows was primarily due to a ¥48,257 million increase of profit before tax, driven by the four global products in the pharmaceutical business, partially offset by a ¥23,620 million decrease of impairment losses and a ¥10,090 million increase of income taxes paid.

Cash Flows from Investing Activities

Net cash flows used in investing activities were ¥35,771 million, an increase in outflows of ¥12,974 million compared to the figure for the three-month period ended March 31, 2022. Cash flows used in investing activities for the three-month period ended March 31, 2023 mainly consisted of ¥20,235 million of payments for acquisition of property, plant and equipment and ¥16,102 million of payments for acquisition of investments. The increase of ¥12,974 million in outflows was primarily due to a ¥7,474 million increase of payments for acquisition of investments and a ¥6,645 million increase of payments for acquisition of property, plant and equipment.

Cash Flows from Financing Activities

Net cash flows used in financing activities were ¥32,659 million, a decrease in outflows of ¥1,901 million compared to the figure for the three-month period ended March 31, 2022. Cash flows used in financing activities for the three-month period ended March 31, 2023 mainly consisted of ¥5,044 million of repayments of lease liabilities and ¥27,308 million of dividends paid.

(3) Forecast for Consolidated Financial Results

There are no changes to the forecast of consolidated financial results for the six-month period ending June 30, 2023 and the fiscal year ending December 31, 2023 announced on February 14, 2023.

2. Condensed Interim Consolidated Financial Statements and Major Notes
(1) Condensed Interim Consolidated Statements of Financial Position

(Millions of yen)

	As of December 31, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and cash equivalents	471,634	477,137
Trade and other receivables	423,426	386,911
Inventories	223,507	238,903
Income taxes receivable	2,954	3,133
Other financial assets	17,481	28,738
Other current assets	52,934	55,671
Subtotal	1,191,939	1,190,496
Assets held for sale	91	6
Total current assets	1,192,030	1,190,503
Non-current assets		
Property, plant and equipment	510,674	509,789
Goodwill	335,442	338,178
Intangible assets	579,786	577,217
Investments accounted for using the equity method	241,743	253,838
Other financial assets	177,421	189,338
Deferred tax assets	53,383	59,895
Other non-current assets	12,156	13,280
Total non-current assets	1,910,608	1,941,538
Total assets	3,102,638	3,132,041

	(Millions of yen)	
	As of December 31, 2022	As of March 31, 2023
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	198,356	164,592
Bonds and borrowings	26,440	45,532
Lease liabilities	17,717	17,733
Other financial liabilities	3,307	18,433
Income taxes payable	28,340	19,867
Provisions	763	764
Contract liabilities	13,376	12,725
Other current liabilities	250,891	275,627
Total current liabilities	539,193	555,276
Non-current liabilities		
Bonds and borrowings	93,775	72,684
Lease liabilities	56,229	54,633
Other financial liabilities	30,515	13,670
Net defined benefit liabilities	16,011	15,678
Provisions	1,507	1,513
Contract liabilities	50,736	48,166
Deferred tax liabilities	29,511	26,223
Other non-current liabilities	22,787	23,604
Total non-current liabilities	301,076	256,174
Total liabilities	840,269	811,451
Equity		
Equity attributable to owners of the Company		
Share capital	81,690	81,690
Capital surplus	506,579	506,724
Treasury shares	(44,858)	(44,858)
Retained earnings	1,553,069	1,587,375
Other components of equity	128,773	150,484
Total equity attributable to owners of the Company	2,225,255	2,281,415
Non-controlling interests	37,114	39,174
Total equity	2,262,369	2,320,590
Total liabilities and equity	3,102,638	3,132,041

(2) Condensed Interim Consolidated Statements of Income

(Millions of yen)

	FY2022 (Three-month period ended Mar 31, 2022)	FY2023 (Three-month period ended Mar 31, 2023)
Revenue	380,308	448,344
Cost of sales	(126,340)	(136,776)
Gross profit	253,968	311,567
Selling, general and administrative expenses	(154,500)	(175,558)
Share of profit of investments accounted for using the equity method	2,346	5,640
Research and development expenses	(59,347)	(67,968)
Impairment losses	(23,831)	(211)
Other income	2,358	3,848
Other expenses	(245)	(538)
Operating profit	20,749	76,779
Finance income	11,272	3,884
Finance expenses	(1,036)	(1,421)
Profit before tax	30,985	79,242
Income tax expenses	(6,806)	(16,579)
Profit for the period	24,178	62,663
Attributable to:		
Owners of the Company	23,250	61,430
Non-controlling interests	928	1,232
Profit for the period	24,178	62,663
Earnings per share:		
Basic earnings per share (Yen)	42.86	113.20
Diluted earnings per share (Yen)	42.70	113.18

(3) Condensed Interim Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2022 (Three-month period ended March 31, 2022)	FY2023 (Three-month period ended March 31, 2023)
Profit for the period	24,178	62,663
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	33	20
Financial assets measured at fair value through other comprehensive income	(6,174)	4,125
Share of other comprehensive income of investments accounted for using the equity method	40	33
Subtotal	(6,100)	4,178
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	56,254	9,766
Cash flow hedges	(1)	30
Share of other comprehensive income of investments accounted for using the equity method	12,346	7,532
Subtotal	68,599	17,329
Total other comprehensive income	62,498	21,508
Total comprehensive income for the period	86,677	84,171
Attributable to:		
Owners of the Company	85,041	83,148
Non-controlling interests	1,636	1,023
Total comprehensive income for the period	86,677	84,171

(4) Condensed Interim Consolidated Statements of Changes in Equity
FY2022 (Three-month period ended March 31, 2022)

(Millions of yen)

	Equity attributable to owners of the Company					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income
Balance as of January 1, 2022	81,690	506,724	(45,572)	1,482,197	—	28,632
Changes in Accounting Policies	—	—	—	(37)	—	—
Restated balance	81,690	506,724	(45,572)	1,482,160	—	28,632
Profit for the period	—	—	—	23,250	—	—
Other comprehensive income	—	—	—	—	161	(6,249)
Comprehensive income for the period	—	—	—	23,250	161	(6,249)
Dividends	—	—	—	(27,119)	—	—
Share-based payment transactions	—	153	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	(342)	(161)	504
Total transactions with owners	—	153	—	(27,462)	(161)	504
Balance as of March 31, 2022	81,690	506,877	(45,572)	1,477,947	—	22,888

	Equity attributable to owners of the Company					
	Other components of equity			Total	Non-controlling interests	Total equity
	Exchange differences on translation of foreign operations	Cash flow hedges	Total			
Balance as of January 1, 2022	(42,673)	(6)	(14,046)	2,010,994	34,195	2,045,189
Changes in Accounting Policies	—	—	—	(37)	0	(37)
Restated balance	(42,673)	(6)	(14,046)	2,010,956	34,195	2,045,152
Profit for the period	—	—	—	23,250	928	24,178
Other comprehensive income	67,880	(1)	61,791	61,791	707	62,498
Comprehensive income for the period	67,880	(1)	61,791	85,041	1,636	86,677
Dividends	—	—	—	(27,119)	(978)	(28,097)
Share-based payment transactions	—	—	—	153	—	153
Transfer from other components of equity to retained earnings	—	—	342	—	—	—
Total transactions with owners	—	—	342	(26,966)	(978)	(27,944)
Balance as of March 31, 2022	25,206	(8)	48,087	2,069,031	34,853	2,103,885

Equity attributable to owners of the Company

	Equity attributable to owners of the Company				Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income
Balance as of January 1, 2023	81,690	506,579	(44,858)	1,553,069	—	41,249
Profit for the period	—	—	—	61,430	—	—
Other comprehensive income	—	—	—	—	34	4,207
Comprehensive income for the period	—	—	—	61,430	34	4,207
Purchase of treasury shares	—	—	(0)	—	—	—
Dividends	—	—	—	(27,131)	—	—
Share-based payment transactions	—	144	—	—	—	—
Changes in ownership interests in subsidiaries that do not result in loss of control	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	7	(34)	27
Total transactions with owners	—	144	(0)	(27,124)	(34)	27
Balance as of March 31, 2023	81,690	506,724	(44,858)	1,587,375	—	45,485

Equity attributable to owners of the Company

	Other components of equity			Total	Non-controlling interests	Total equity
	Exchange differences on translation of foreign operations	Cash flow hedges	Total			
Balance as of January 1, 2023	87,503	20	128,773	2,225,255	37,114	2,262,369
Profit for the period	—	—	—	61,430	1,232	62,663
Other comprehensive income	17,443	30	21,717	21,717	(209)	21,508
Comprehensive income for the period	17,443	30	21,717	83,148	1,023	84,171
Purchase of treasury shares	—	—	—	(0)	—	(0)
Dividends	—	—	—	(27,131)	(985)	(28,116)
Share-based payment transactions	—	—	—	144	—	144
Changes in ownership interests in subsidiaries that do not result in loss of control	—	—	—	—	2,021	2,021
Transfer from other components of equity to retained earnings	—	—	(7)	—	—	—
Total transactions with owners	—	—	(7)	(26,987)	1,036	(25,950)
Balance as of March 31, 2023	104,947	51	150,484	2,281,415	39,174	2,320,590

(5) Condensed Interim Consolidated Statements of Cash Flows

(Millions of yen)

	FY2022 (Three-month period ended March 31, 2022)	FY2023 (Three-month period ended March 31, 2023)
Cash flows from operating activities		
Profit before tax	30,985	79,242
Depreciation and amortization expenses	22,126	22,814
Impairment losses and reversal of impairment losses	23,831	211
Share of profit of investments accounted for using the equity method	(2,346)	(5,640)
Finance income	(11,272)	(3,884)
Finance expenses	1,036	1,421
Increase in inventories	(4,832)	(14,474)
Decrease in trade and other receivables	37,746	38,747
Decrease in trade and other payables	(24,856)	(27,511)
Others	(7,038)	(2,390)
Subtotal	<u>65,379</u>	<u>88,535</u>
Interest and dividends received	1,687	2,960
Interest paid	(666)	(821)
Income taxes paid	(8,701)	(18,792)
Net cash flows provided by operating activities	<u>57,698</u>	<u>71,882</u>
Cash flows from investing activities		
Proceeds from sales of property, plant and equipment	2,483	165
Payments for acquisition of property, plant and equipment	(13,589)	(20,235)
Payments for acquisition of intangible assets	(1,477)	(1,739)
Proceeds from sales and redemption of investments	3,233	39
Payments for acquisition of investments	(8,628)	(16,102)
(Increase) decrease in time deposits	(5,436)	1,916
Others	618	185
Net cash flows used in investing activities	<u>(22,797)</u>	<u>(35,771)</u>
Cash flows from financing activities		
Purchase of treasury shares	—	(0)
Change in short-term borrowings, net	1,205	1,797
Proceeds from long-term borrowings	1,003	11
Repayments of long-term borrowings	(4,526)	(4,136)
Repayments of lease liabilities	(4,815)	(5,044)
Dividends paid	(27,428)	(27,308)
Proceeds from issuance of common stock to non-controlling shareholders	—	2,021
Net cash flows used in financing activities	<u>(34,561)</u>	<u>(32,659)</u>
Increase in cash and cash equivalents	339	3,451
Cash and cash equivalents at the beginning of the period	410,684	471,634
Effect of exchange rate changes on cash and cash equivalents	12,338	2,051
Cash and cash equivalents at the end of the period	<u>423,362</u>	<u>477,137</u>

(6) Notes to Condensed Interim Consolidated Financial Statements

Note to Going Concern Assumptions

Not applicable.

Changes in Accounting Policies

The Group applied IAS 12 “Income Taxes” (amended in May 2021) from the three-month period ended March 31, 2023.

IFRS		Description of new standard, interpretations and amendments
IAS 12	Income Taxes	Clarification of accounting treatment for deferred taxes related to assets and liabilities arising from a single transaction

The application of this standard clarifies the accounting treatments on initial recognition for transaction that give rise to equal taxable and deductible temporary differences at the time of the transaction, and results in the recognition of taxable deductible temporary differences as deferred tax liabilities and assets, respectively, in the Condensed Interim Consolidated Statements of Financial Position.

As a result of the application of the standard, the previous fiscal year’s consolidated financial statements have been retrospectively restated. The effect of the application decreased deferred tax assets by ¥77 million, increased deferred tax liabilities by ¥101 million, and decreased total equity by ¥178 million which consisted of decreases of retained earnings by ¥150 million, other components of equity by ¥1 million, and non-controlling interests by ¥26 million in the Condensed Interim Consolidated Statements of Financial Position as of December 31, 2022. In addition, the effect increased income tax expenses by ¥5 million and decreased profit for the period by ¥5 million in the Condensed Interim Consolidated Statements of Income for the three-month period ended March 31, 2022.

Due to the cumulative effect of application of this standard, the beginning balance of retained earnings for the three-month period ended March 31, 2023 decreased by ¥37 million in the Condensed Interim Consolidated Statements of Changes in Equity.

Operating Segments

1) Overview of reportable segments

The Group’s reportable segments are the constituent units of the Group for which separate financial information is available and which are subject to periodic reviews by the Board of Directors in order to make decisions on allocation of business resources and to evaluate the business performance of the respective segments.

The Company directs the Group’s strategic planning and decision-making, monitors group operations and provides various common services to its group companies. Business activities are conducted by the Group’s subsidiaries and associates.

Centering on the healthcare business, the Group operates activities inside and outside Japan relating to the following four reportable segments: “Pharmaceuticals,” “Nutraceuticals,” “Consumer products” and “Others” businesses.

The Group defines the reportable segments as follows:

“Pharmaceuticals” comprises manufacturing and sales of prescription drugs and intravenous solutions.

“Nutraceuticals” comprises manufacturing and sales of functional beverages, over-the-counter drugs and nutritional supplements.

“Consumer products” comprises manufacturing and sales of mineral water, soft beverages and food products.

“Others” encompasses logistics, warehousing, manufacturing and sales of chemicals, evaluation systems for LED displays and spectroanalysis devices.

2) Revenues and performance by reportable segment

Segment profit is based on operating profit.

Intersegment revenue and transfers reflect reasonable prices for intersegment transfers based on market value.

Revenues and performance by the Group’s reportable segments are as follows:

FY2022 (Three-month period ended March 31, 2022)

(Millions of yen)

	Reportable segment					Adjustments *	Consolidated
	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Total		
Revenue							
Revenue from external customers	252,058	90,337	7,670	30,242	380,308	—	380,308
Intersegment revenue or transfers	—	3	3	8,806	8,813	(8,813)	—
Total	252,058	90,340	7,673	39,048	389,122	(8,813)	380,308
Segment profit	17,333	11,262	(235)	4,052	32,413	(11,663)	20,749

* Adjustments to segment profit of ¥(11,663) million include intersegment eliminations of ¥85 million, unallocated corporate expenses of ¥(12,072) million and other income of ¥323 million. Corporate expenses are incurred in administrative departments such as headquarters.

FY2023 (Three-month period ended March 31, 2023)

(Millions of yen)

	Reportable segment					Adjustments *	Consolidated
	Pharma- ceuticals	Nutra- ceuticals	Consumer products	Others	Total		
Revenue							
Revenue from external customers	303,161	103,958	8,229	32,995	448,344	—	448,344
Intersegment revenue or transfers	—	13	4	9,635	9,654	(9,654)	—
Total	303,161	103,972	8,233	42,630	457,998	(9,654)	448,344
Segment profit	72,678	11,224	2,153	3,684	89,740	(12,960)	76,779

* Adjustments to segment profit of ¥(12,960) million include intersegment eliminations of ¥(126) million, unallocated corporate expenses of ¥(13,227) million and other income of ¥393 million. Corporate expenses are incurred in administrative departments such as headquarters.