



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

November 6, 2019

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Preparation of supplementary materials for the quarterly financial statements: Yes

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

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

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

(From April 1, 2019 to September 30, 2019)

(1) Financial results (year to date)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six-month period ended September 30, 2019	60,802	4.3	9,776	9.2	9,856	3.0	7,037	(0.6)
Six-month period ended September 30, 2018	58,268	(0.0)	8,950	(0.4)	9,566	3.4	7,082	7.1

(Note) Comprehensive income : Six-month period ended September 30, 2019: 2,993 million yen [(58.4)%]

Six-month period ended September 30, 2018: 7,197 million yen [(0.8)%]

	Profit per share		Fully diluted profit per share	
	Yen		Yen	
Six-month period ended September 30, 2019	92.03		—	
Six-month period ended September 30, 2018	92.63		—	

(2) Consolidated financial conditions

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of September 30, 2019	287,010	206,839	70.6
As of March 31, 2019	287,322	206,141	70.2

(Reference) Shareholders' equity: As of September 30, 2019: 202,562 million yen As of March 31, 2019: 201,816million yen

2. Dividends

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

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

3. Projections of consolidated business results for the term ending March 31, 2020

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

(Figures in percentage show the rate of increase or decrease from the previous fiscal year for full-year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full-year	125,000	3.4	17,000	(8.2)	18,000	(8.6)	12,300	(15.7)	160.81

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

Notes

- (1) Important changes of subsidiaries during the term (change of specified subsidiaries that lead to a change in the scope of consolidation): No
- (2) Application of special accounting practices in consolidated quarterly financial statements preparation: Yes
(Note) For details, see “2. Quarterly Consolidated Financial Statements and Key Notes (4) Notes to the Quarterly Consolidated Financial Statements (application of specific accounting treatment to the preparation of quarterly financial statements)” on page 10 of the material attached hereto.
- (3) Changes in accounting principles and procedures and the method for indication, etc.
 1) Changes associated with the revision of accounting principles, etc.: No
 2) Change other than 1): No
 3) Accounting estimate change: No
 4) Retrospective restatement: No

(4) Number of shares issued (common stock)

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

FY 3/2020 2Q	76,758,362	FY 3/2019	76,758,362
FY 3/2020 2Q	249,881	FY 3/2019	300,631
FY 3/2020 2Q	76,472,210	FY 3/2019 2Q	76,457,973

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

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

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

○Contents of accompanying materials

1. Qualitative information on quarterly results	2
(1) Description of operating results	2
(2) Description of financial condition	3
(3) Description of projections of consolidated business results	3
2. Quarterly Consolidated Financial Statements and Key Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income	6
Quarterly Consolidated Statements of Income	
For the Second Quarter Consolidated Accumulative Term	6
Quarterly Consolidated Statements of Comprehensive Income	
For the Second Quarter Consolidated Accumulative Term	7
(3) Quarterly Consolidated Statements of Cash Flows	8
(4) Notes to the Quarterly Consolidated Financial Statements	10
(Notes on premise of a going concern)	10
(Notes on case of extreme change in shareholder's equity amount)	10
(Application of specific accounting treatment to the preparation of quarterly financial statements)	10

1. Qualitative information on quarterly results

(1) Description of operating results

In the first half under review, net sales rose 4.3% year on year, to 60,802 million yen.

Looking at profit, operating profit was 9,776 million yen (up 9.2% year on year), ordinary profit was 9,856 million yen (up 3.0% year on year), and profit attributable to owners of parent was 7,037 million yen (down 0.6% year on year). The cost-to-sales ratio rose 0.5 percentage points year on year. In addition, the cost-to-SGA ratio fell 1.2 percentage point year on year. As a result, the operating profit margin rose 0.7 percentage points year on year, to 16.1%.

[Consolidated business results]

(Unit: million yen)

	FY 3/2019 2Q	FY 3/2020 2Q	Year-on-year change (ratio of change)
Net sales	58,268	60,802	2,533 4.3%
Operating profit	8,950	9,776	826 9.2%
Ordinary profit	9,566	9,856	290 3.0%
Profit attributable to owners of parent	7,082	7,037	(44) (0.6)%

Net sales of overall prescription Kampo products grew 4.2% year on year. To expand the Kampo market and establish its presence there in a sustained manner, which is a strategic challenge adopted in the Medium-Term Management Plan, the Company has positioned geriatric field, cancer domain (supportive care) and Gynecology field as three important domains. The Company has been active in providing information on matters focused on five “Drug fostering” program formulations*1 and five “Growing” formulations*2.

Net sales for Daikenchuto, a “Drug fostering” program formulation that is a staple item for the Company, decreased 1.5% year on year in the first quarter, but increased 0.7% year on year in the first half under review. Aiming to enhance sales in the future, the Company will fully implement activities for providing information in the hospitals market and strengthen its actions for winning new markets by focusing on a sense of abdominal flatulence, the treatment of which is assumed to show a low degree of satisfaction among constipation symptoms in the practitioner market.

Net sales grew solidly for Rikkunshito, another “Drug fostering” program formulation, and Bakumondoto and Goreisan, both of which are “growing” formulations. In other formulations, net sales increased favorably for Ninjin’yoeito.

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

*1 five “Drug fostering” program formulations:

Formulations the Company is addressing by looking hard at the structure of diseases in recent years, targeting diseases that are difficult to treat with new drugs for which prescription Kampo preparations prove specifically effective in domains where demand for medical treatment is high, and calling the establishment of evidence “drug fostering”

*2 five “Growing” formulations:

Growth drivers aimed at registration in clinical practice guidelines as strategic formulations after five drug fostering program formulations by constructing evidence (such as data on safety and effectiveness) in domains where the degree of satisfaction with medical treatment and the degree of drug contribution are low

(2) Description of financial condition

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

Total assets at the end of the first half under review decreased 312 million yen from the end of the previous fiscal year, to 287,010 million yen. Current assets decreased 2,349 million yen from the end of the previous fiscal year mainly due to a decline in cash and deposits, while inventories increased. Non-current assets increased 2,036 million yen from the end of the previous fiscal year chiefly attributable to a rise in investment and other assets, while investment securities declined due to a fall in share prices.

Total liabilities were 80,170 million yen, a decrease of 1,010 million yen from the end of the previous fiscal year. Current liabilities decreased 97 million yen from the end of the previous fiscal year mainly due to a decline in other in current liabilities, despite an increase in income taxes payable. Non-current liabilities declined 912 million yen from the end of the previous fiscal year.

Net assets were 206,839 million yen, an increase of 697 million yen from the end of the previous fiscal year. Shareholders' equity rose 4,742 million yen from the end of the previous fiscal year mainly due to an increase in retained earnings. Accumulated other comprehensive income decreased 3,996 million yen from the end of the previous fiscal year chiefly attributable to a decrease in deferred gains or losses on hedges. Non-controlling interests declined 47 million yen from the end of the previous fiscal year.

As a result, the equity ratio rose 0.4 percentage point, to 70.6%.

Cash flows in the first half under review were as follows:

At the end of the first half under review, cash provided by operating activities was 8,696 million yen, cash provided by investing activities was 4,739 million yen, and cash used in financing activities was 2,529 million yen.

Cash provided by operating activities was 8,696 million yen. Looking at the breakdown, the major cash inflow item was profit before income taxes of 9,837 million yen, while the major cash outflow item was decrease (increase) in inventories of 5,342 million yen. Compared to the first half of the previous fiscal year, cash inflow increased 4,217 million yen.

Cash provided by investing activities was 4,739 million yen. Looking at the breakdown, the major item was decrease (increase) in time deposits of 14,226 million yen. Compared to the first half of the previous fiscal year, cash inflow increased 9,273 million yen.

Cash used in financing activities was 2,529 million yen. Looking at the breakdown, the major item was dividends paid of 2,447 million yen. Compared to the first half of the previous fiscal year, cash outflow decreased 14,993 million yen.

As a result, cash and cash equivalents increased 10,556 million yen from the end of the previous fiscal year, to 66,800 million yen.

(3) Description of projections of consolidated business results

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

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: Million yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	72,240	68,389
Notes and accounts receivable-trade	44,524	42,955
Merchandise and finished goods	9,382	7,258
Work in process	11,125	13,493
Raw materials and supplies	31,299	35,974
Other	21,459	19,611
Allowance for doubtful accounts	(4)	(4)
Total current assets	190,027	187,678
Non-current assets		
Property, plant and equipment		
Buildings and structures	64,800	64,488
Other	85,673	88,927
Accumulated depreciation	(76,769)	(79,038)
Total property, plant and equipment	73,703	74,377
Intangible assets	872	1,144
Investment and other assets		
Investment securities	15,642	13,862
Retirement benefit asset	1,934	2,173
Other	5,143	7,773
Allowance for doubtful accounts	(0)	(0)
Total investment and other assets	22,719	23,810
Total non-current assets	97,295	99,331
Total assets	287,322	287,010

(Unit:Million yen)

	As of March 31, 2019	As of September 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,267	6,383
Short-term borrowings	10,314	10,314
Income taxes payable	2,101	2,991
Provision for sales returns	10	9
Other	14,626	13,524
Total current liabilities	33,320	33,222
Non-current liabilities		
Bonds payable	30,000	30,000
Long-term borrowings	9,376	9,376
Retirement benefit liability	74	73
Other	8,410	7,498
Total non-current liabilities	47,861	46,948
Total liabilities	81,181	80,170
Net assets		
Shareholders' equity		
Share capital	30,142	30,142
Capital surplus	14,027	14,041
Retained earnings	149,740	154,331
Treasury shares	(815)	(677)
Total shareholders' equity	193,095	197,838
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,697	4,463
Deferred gains or losses on hedges	740	(973)
Revaluation reserve for land	2,673	2,673
Foreign currency translation adjustment	(313)	(1,339)
Remeasurements of defined benefit plans	(76)	(99)
Total accumulated other comprehensive income	8,721	4,724
Non-controlling interests	4,324	4,276
Total net assets	206,141	206,839
Total liabilities and net assets	287,322	287,010

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
 Quarterly Consolidated Statements of Income / For the Second Quarter Consolidated Accumulative Term

(Unit:Million yen)

	Six-month period ended September 30, 2018 (From April 1, 2018 to September 30, 2018)	Six-month period ended September 30, 2019 (From April 1, 2019 to September 30, 2019)
Net sales	58,268	60,802
Cost of sales	23,536	24,893
Gross profit	34,732	35,908
Selling, general and administrative expenses	25,782	26,132
Operating profit	8,950	9,776
Non-operating income		
Interest income	129	315
Dividend income	124	133
Share of profit of entities accounted for using equity method	35	—
Foreign exchange gains	319	—
Other	136	104
Total non-operating income	745	552
Non-operating expenses		
Interest expenses	87	63
Share of loss of entities accounted for using equity method	—	39
Foreign exchange losses	—	237
Other	41	132
Total non-operating expenses	129	472
Ordinary profit	9,566	9,856
Extraordinary income		
Gain on sales of non-current assets	0	2
Gain on sales of investment securities	324	0
Total extraordinary income	325	2
Extraordinary losses		
Loss on sales of non-current assets	0	1
Loss on retirement of non-current assets	46	20
Total extraordinary losses	46	21
Profit before income taxes	9,844	9,837
Income taxes	2,575	2,729
Profit	7,268	7,108
Profit attributable to non-controlling interests	186	70
Profit attributable to owners of parent	7,082	7,037

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

(Unit:Million yen)

	Six-month period ended September 30, 2018 (From April 1, 2018 to September 30, 2018)	Six-month period ended September 30, 2019 (From April 1, 2019 to September 30, 2019)
Profit	7,268	7,108
Other comprehensive income		
Valuation difference on available-for-sale securities	1,254	(1,233)
Deferred gains or losses on hedges	182	(1,714)
Foreign currency translation adjustment	(1,515)	(1,135)
Remeasurements of defined benefit plans, net of tax	33	(23)
Share of other comprehensive income (loss) of entities accounted for using equity method	(26)	(8)
Total other comprehensive income (loss)	(71)	(4,115)
Comprehensive income	7,197	2,993
Comprehensive income attributable to		
Owners of parent	7,120	3,040
Non-controlling interests	76	(47)

(3) Quarterly Consolidated Statements of Cash Flows

(Unit:Million yen)

	Six-month period ended September 30, 2018 (From April 1, 2018 to September 30, 2018)	Six-month period ended September 30, 2019 (From April 1, 2019 to September 30, 2019)
Cash flows from operating activities		
Profit before income taxes	9,844	9,837
Depreciation	3,146	3,243
Increase (decrease) in allowance for doubtful accounts	(0)	(0)
Interest and dividend income	(254)	(448)
Interest expenses	87	63
Share of loss(profit) of entities accounted for using equity method	(35)	39
Loss (gain) on sales and retirement of property, plant and equipment	45	19
Decrease (increase) trade receivables	1,555	1,550
Decrease (increase) in inventories	(1,152)	(5,342)
Increase (decrease) trade payables	1,073	204
Loss (gain) on sales of short-term and long-term investment securities	(324)	(0)
Decrease (increase) in retirement benefit asset	(193)	(280)
Increase (decrease) in retirement benefit liability	2	6
Other	(6,266)	1,266
Subtotal	7,528	10,157
Interest and dividends received	286	475
Interest paid	(94)	(62)
Income taxes paid	(3,241)	(1,873)
Net cash provided by (used in) operating activities	4,479	8,696
Cash flows from investing activities		
Decrease (increase) in time deposits	(1,000)	14,226
Purchase of property, plant and equipment	(6,049)	(6,065)
Proceeds from sales of property, plant and equipment	1	4
Purchase of intangible assets	(194)	(335)
Purchase of short-term and long-term investment securities	(3,806)	(21,127)
Proceeds from sales and redemption of short-term and long-term investment securities	7,501	21,121
Purchase of investments in capital of subsidiaries	(952)	(2,996)
Loan advances	(1)	(0)
Collection of loans receivable	1	1
Other	(33)	(88)
Net cash provided by (used in) investing activities	(4,534)	4,739

(Unit:Million yen)

	Six-month period ended September 30, 2018 (From April 1, 2018 to September 30, 2018)	Six-month period ended September 30, 2019 (From April 1, 2019 to September 30, 2019)
Cash flows from financing activities		
Repayments of long-term borrowings	(15,000)	—
Dividends paid to non-controlling interests	(2,446)	(2,447)
Dividends paid	(54)	(56)
Other	(22)	(25)
Net cash provided by (used in) financing activities	(17,523)	(2,529)
Effect of exchange rate change on cash and cash equivalents	(720)	(349)
Net increase (decrease) in cash and cash equivalents	(18,299)	10,556
Cash and cash equivalents at beginning of period	78,313	56,243
Cash and cash equivalents at end of period	60,014	66,800

(4) Notes to the Quaterly Consolidated Financial Statements

(Notes on premise of a going concern)

No relevant items.

(Notes on case of extreme change in shareholder's equity amount)

No relevant items.

(Application of specific accounting treatment to the preparation of quarterly financial statements)

(Deferment of cost variance)

Cost variance caused by seasonal changes in operation rates, etc. is expected to be eliminated for the most part by the end of the cost accounting period, which is, therefore, deferred as “current assets (other) or current liabilities (other).”