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February 4, 2022

Consolidated Financial Results for the Third Quarter of the Term Ending March 31, 2022 (Under Japanese GAAP)

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Listing: Tokyo Stock Exchange
Securities code: 4540
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Scheduled date to file quarterly securities report: February 7, 2022
Scheduled date to commence dividend payments: -
Preparation of supplementary material on quarterly financial results: Yes
Holding of financial results briefing: Yes (for institutional investors and securities analysts)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated business results for the Third quarter of the term ending March 31, 2022 (from April 1, 2021 to December 31, 2021)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine-month period ended								
December 31, 2021	98,382	11.2	18,829	9.2	21,074	18.3	15,389	16.4
December 31, 2020	88,444	—	17,235	—	17,811	—	13,226	—

Note: Comprehensive income
Nine-month period ended December 31, 2021: ¥21,280 million [71.8 %]
Nine-month period ended December 31, 2020: ¥12,387 million [— %]

	Basic earnings per share	Diluted earnings per share
Nine-month period ended	Yen	Yen
December 31, 2021	201.15	—
December 31, 2020	172.88	—

Note:

(i) The Company has determined the provisional accounting treatment for business combinations in the fiscal year ended March 31, 2021, and figures for the third quarter of the term ended March 31, 2021 reflect the contents of the determined provisional accounting treatment.

(ii) The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. has been applied from the beginning of the first quarter under review, and figures for the third quarter of the fiscal year ended March 31, 2021 are those after retroactively applying the Accounting Standard, etc. Therefore, the ratio of year-on-year change is not stated for the third quarter of the fiscal year ended March 31, 2021.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
December 31, 2021	338,432	249,485	68.7
March 31, 2021	319,063	233,169	68.3

Reference: Equity

As of December 31, 2021: ¥232,511 million

As of March 31, 2021: ¥217,786 million

2. Dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2021	—	32.00	—	32.00	64.00
Fiscal year ending March 31, 2022	—	32.00	—		
Fiscal year ending March 31, 2022 (Forecast)				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, 2022 (From April 1, 2021 to March 31, 2022)

(Figures in percentage show the rate of increase or decrease from the previous fiscal year for full-year and from the second quarter of the previous fiscal year for second quarter (aggregate).)

	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	127,500	9.5	21,100	8.9	23,400	12.1	16,600	8.3	216.97

Note: Revisions to projections of consolidated business results published most recently: No

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: 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 policies, changes in accounting estimates, and restatement

- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
- (ii) Changes in accounting policies due to other reasons: None
- (iii) Changes in accounting estimates: None
- (iv) Restatement: None

Note: For details, see “2. Quarterly Consolidated Financial Statements and Key Notes (4) Notes to the Quarterly Consolidated Financial Statements (Changes in accounting policies)” on page 10 of the material attached hereto.

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2021	76,758,362 shares
As of March 31, 2021	76,758,362 shares

(ii) Number of treasury shares at the end of the period

As of December 31, 2021	251,143 shares
As of March 31, 2021	250,402 shares

(iii) Average number of shares outstanding during the period

Nine-month ended December 31, 2021	76,507,636 shares
Nine-month ended December 31, 2020	76,508,220 shares

* This Consolidated Financial Results is not subject to audit procedures performed by a certified public accountant or audit corporation.

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

Forward-looking statements such as financial projections, which are stated in this document, are based on information currently available to the Company and certain assumptions deemed reasonable. There is a possibility that actual results, etc. will differ materially from forecasts due to various 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.

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1. Qualitative information on quarterly results

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the first quarter and makes a comparative analysis with the second quarter of the previous fiscal year and the previous fiscal year, using figures after retroactively applying the Accounting Standard, etc.

In addition, for business combination with Ping An Tsumura Pharmaceutical Co., Ltd. and its five subsidiaries conducted on March 30, 2020, the purchase price allocation (PPA) was not completed in the second quarter of the previous fiscal year but was completed at the end of the previous fiscal year. Therefore, amounts reflecting the PPA are used for the comparative analysis with the second quarter of the previous fiscal year.

(1) Description of operating results

Consolidated business results for the Third quarter under review were as follows:

[Consolidated business results]		(Million yen)		
		FY 3/2021 3Q	FY 3/2022 3Q	YoY Change Percent Change
Net sales		88,444	98,382	9,938 11.2%
	Domestic sales	84,579	91,317	6,737 8.0%
	Overseas sales	3,864	7,065	3,200 82.8%
Cost of sales		41,693	47,997	6,304 15.1%
Selling, general and administrative expenses		29,514	31,554	2,040 6.9%
Operating profit		17,235	18,829	1,593 9.2%
Ordinary profit		17,811	21,074	3,262 18.3%
Profit attributable to owners of parent		13,226	15,389	2,162 16.4%

Net sales increased 11.2% year on year, to 98,382 million yen.

Domestic net sales were 91,317 million yen. In sales of prescription Kampo products of the Group, prescriptions for products to treat conditions such as mental illness, skin complaints and dizziness continued to grow with the promotion of activities for providing information in response to demand for medical services, although prescriptions for products to treat common cold symptoms were affected mainly by a continuing decline in the number of hospital visitors.

The sales of Daikenchuto, a mainstay item for the Company and a drug fostering program formulation*1, grew 2.9% year on year, reflecting increased prescription opportunities, particularly at general clinics, for feelings of abdominal flatulence. In Growing formulations*2, the sales of Goreisan grew 20.0% year on year, supported by increased prescription opportunities for the peripheral symptoms of dizziness, headache and circulatory organ ailments. As a result, sales for 129 prescription Kampo products increased 7.6% year on year.

Overseas net sales were 7,065 million yen. In the crude drug platforms provided by Ping An Tsumura Pharmaceutical Co., Ltd. and SHENZHEN TSUMURA MEDICINE CO., LTD., sales of crude drugs and crude drug pieces for decoction grew.

Cost of sales increased 15.1% year on year, to 47,997 million yen, reflecting the growth in net sales. The cost-to-sales ratio rose 1.7 percentage points year on year, to 48.8%.

Selling, general and administrative expenses increased 6.9% year on year, to 31,554 million yen. This was mainly due to a rise in expenses for activities associated with e-promotions. The SGA ratio fell 1.3 percentage points year on year, to 32.1%.

As a result, operating profit increased 9.2% year on year, to 18,829 million yen. The operating profit margin was 19.1%, falling 0.4 percentage points from a year ago. Ordinary profit rose 18.3% year on year, to 21,074 million yen, thanks to the impact of foreign exchange gains, and profit attributable to owners of parent increased 16.4% year on year, to 15,389 million yen.

*1 “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 “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

[Initiatives in response to COVID-19 pandemic]

In response to the COVID-19 pandemic, the Company ensured prevention of transmission to employees and business associates throughout the year and focused on the stable supply of products to fulfil its responsibility as a pharmaceuticals company. At this point, there was no impact on product supply either in Japan or overseas.

The Company will continue to pay attention to the impact of the COVID-19 pandemic on economic trends in each country and the Group's supply chains, while also taking the necessary steps to prevent transmission and maintain a stable supply of products.

(2) Description of financial condition

The financial position at the end of the third quarter under review was as follows:

Total assets at the end of the third quarter increased 19,368 million yen from the end of the previous fiscal year, to 338,432 million yen. Current assets increased 17,268 million yen from the end of the previous fiscal year, mainly due to a rise in inventories. Non-current assets increased 2,100 million yen from the end of the previous fiscal year, mainly due to an increase in property, plant and equipment, offsetting a decrease in investment securities.

Total liabilities were 88,946 million yen, an increase of 3,052 million yen from the end of the previous fiscal year. Notes and accounts payable – trade increased, but current liabilities shrank 6,394 million yen from the end of the previous fiscal year, mainly due to a decline in the current portion of long-term borrowings.

Non-current liabilities grew 9,446 million yen from the end of the previous fiscal year, mainly reflecting an increase in long-term borrowings.

Net assets totaled 249,485 million yen, an increase of 16,316 million yen from the end of the previous fiscal year. Shareholders' equity rose 10,433 million yen from the end of the previous fiscal year, mainly reflecting an increase in retained earnings. Accumulated other comprehensive income climbed 4,291 million yen from the end of the previous fiscal year, chiefly due to an increase in foreign currency translation adjustment. Non-controlling interests increased 1,591 million yen from the end of the previous fiscal year. As a result, the equity ratio rose 0.4 percentage points, to 68.7%.

Cash flows in the first three quarters under review were as follows:

During the first three quarters under review, cash provided by operating activities was 17,815 million yen, cash used in investing activities was 7,510 million yen, and cash used in financing activities was 5,192 million yen.

Cash provided by operating activities was 17,815 million yen. Looking at its breakdown, a major cash inflow item was profit before income taxes of 20,705 million yen, while a major cash outflow item was income taxes paid of 6,981 million yen. Compared to the first three quarters of the previous fiscal year, cash inflow increased 5,108 million yen.

Cash used in investing activities was 7,510 million yen. Looking at its breakdown, a major cash outflow item was the purchase of property, plant and equipment of 8,407 million yen. Compared to a year ago, cash outflow rose 2,534 million yen.

Cash used in financing activities was 5,192 million yen. Looking at its breakdown, a major cash outflow item was dividends paid of 4,887 million yen.

Compared to the first three quarters of the previous fiscal year, cash outflow dropped 4,515 million yen.

As a result, cash and cash equivalents increased 7,402 million yen from the end of the previous fiscal year, to 67,070 million yen.

(3) Description of projections of consolidated business results

The projections of consolidated business results for the fiscal year ending March 31, 2022, which were published on October 29, 2021, remain unchanged.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2021	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	61,310	67,080
Notes and accounts receivable-trade	48,623	54,112
Merchandise and finished goods	13,939	8,005
Work in process	13,396	14,140
Raw materials and supplies	53,419	65,072
Other	13,637	13,219
Allowance for doubtful accounts	(53)	(88)
Total current assets	204,273	221,541
Non-current assets		
Property, plant and equipment		
Buildings and structures	74,533	76,613
Other	97,252	103,855
Accumulated depreciation	(87,609)	(93,920)
Total property, plant and equipment	84,176	86,548
Intangible assets		
Goodwill	7,881	8,249
Other	3,561	3,704
Total intangible assets	11,443	11,953
Investment and other assets		
Investment securities	11,445	9,890
Retirement benefit asset	2,252	2,576
Other	5,472	5,922
Allowance for doubtful accounts	(0)	(0)
Total investment and other assets	19,170	18,388
Total non-current assets	114,789	116,890
Total assets	319,063	338,432

(Million yen)

	As of March 31, 2021	As of December 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	8,593	11,561
Short-term borrowings	10,472	10,313
Current portion of long-term borrowings	12,380	2,999
Income taxes payable	4,057	1,839
Other	12,876	15,273
Total current liabilities	48,380	41,986
Non-current liabilities		
Bonds payable	30,000	30,000
Long-term borrowings	—	9,377
Retirement benefit liability	61	55
Other	7,452	7,527
Total non-current liabilities	37,513	46,960
Total liabilities	85,894	88,946
Net assets		
Shareholders' equity		
Share capital	30,142	30,142
Capital surplus	13,789	13,732
Retained earnings	168,989	179,481
Treasury shares	(679)	(682)
Total shareholders' equity	212,241	222,674
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,180	2,095
Deferred gains or losses on hedges	1,233	1,427
Revaluation reserve for land	2,673	2,673
Foreign currency translation adjustment	(1,130)	4,035
Remeasurements of defined benefit plans	(412)	(396)
Total accumulated other comprehensive income	5,544	9,836
Non-controlling interests	15,382	16,974
Total net assets	233,169	249,485
Total liabilities and net assets	319,063	338,432

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

(Million yen)

	Nine-month period ended December 31,2020 (From April 1, 2020 to December 31, 2020)	Nine-month period ended December 31,2021 (From April 1, 2021 to December 31, 2021)
Net sales	88,444	98,382
Cost of sales	41,693	47,997
Gross profit	46,750	50,384
Selling, general and administrative expenses	29,514	31,554
Operating profit	17,235	18,829
Non-operating income		
Interest income	377	331
Dividend income	249	248
Share of profit of entities accounted for using equity method	76	—
Foreign exchange gains	—	1,421
Other	285	410
Total non-operating income	989	2,411
Non-operating expenses		
Interest expenses	219	141
Foreign exchange losses	167	—
Other	26	25
Total non-operating expenses	414	166
Ordinary profit	17,811	21,074
Extraordinary income		
Gain on sales of non-current assets	0	24
Gain on sales of investment securities	4	—
Total extraordinary income	4	24
Extraordinary losses		
Loss on sales of non-current assets	0	0
Loss on retirement of non-current assets	33	392
Total extraordinary losses	33	392
Profit before income taxes	17,782	20,705
Total income taxes	4,971	5,219
Profit	12,810	15,486
Profit (loss) attributable to non-controlling interests	(415)	97
Profit attributable to owners of parent	13,226	15,389

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

(Million yen)

	Nine-month period ended December 31,2020 (From April 1, 2020 to December 31, 2020)	Nine-month period ended December 31,2021 (From April 1, 2021 to December 31, 2021)
Profit	12,810	15,486
Other comprehensive income		
Valuation difference on available-for-sale securities	(453)	(1,084)
Deferred gains or losses on hedges	541	194
Foreign currency translation adjustment	(572)	6,626
Remeasurements of defined benefit plans, net of tax	67	15
Share of other comprehensive income of entities accounted for using equity method	(6)	41
Total other comprehensive income	(423)	5,793
Comprehensive income	12,387	21,280
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	12,752	19,680
Comprehensive income attributable to non-controlling interests	(364)	1,599

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	Nine-month period ended December 31,2020 (From April 1, 2020 to December 31, 2020)	Nine-month period ended December 31,2021 (From April 1, 2021 to December 31, 2021)
Cash flows from operating activities		
Profit before income taxes	17,782	20,705
Depreciation	6,060	6,496
Amortization of goodwill	302	329
Increase (decrease) in allowance for doubtful accounts	2	30
Interest and dividend income	(627)	(580)
Interest expenses	219	141
Share of loss (profit) of entities accounted for using equity method	(76)	—
Loss (gain) on sales and retirement of property, plant and equipment	33	368
Decrease (increase) in trade receivables	(2,459)	(5,048)
Decrease (increase) in inventories	(2,025)	(2,461)
Increase (decrease) in trade payables	(88)	2,193
Loss (gain) on sales of short-term and long-term investment securities	(4)	—
Decrease (increase) in retirement benefit asset	(213)	(310)
Increase (decrease) in retirement benefit liability	0	2
Other, net	(921)	2,516
Subtotal	17,984	24,383
Interest and dividend income received	748	583
Interest paid	(236)	(171)
Income taxes paid	(5,789)	(6,981)
Net cash provided by (used in) operating activities	12,706	17,815
Cash flows from investing activities		
Decrease (increase) in time deposits	2,312	1,727
Purchase of property, plant and equipment	(6,402)	(8,407)
Proceeds from sales of property, plant and equipment	0	58
Purchase of intangible assets	(347)	(295)
Purchase of short-term and long-term investment securities	(21,216)	(14,522)
Proceeds from sales and redemption of short-term and long-term investment securities	21,231	14,514
Purchase of investments in capital of subsidiaries	(451)	—
Loan advances	(155)	(0)
Proceeds from collection of loans receivable	1	1
Other, net	50	(586)
Net cash provided by (used in) investing activities	(4,975)	(7,510)

(Million yen)

	Nine-month period ended December 31, 2020 (From April 1, 2020 to December 31, 2020)	Nine-month period ended December 31, 2021 (From April 1, 2021 to December 31, 2021)
Cash flows from financing activities		
Proceeds from short-term borrowings	1,845	—
Repayments of short-term borrowings	(13,380)	(168)
Proceeds from long-term borrowings	—	9,377
Repayments of long-term borrowings	—	(9,376)
Proceeds from share issuance to non-controlling shareholders	7,567	—
Dividends paid	(4,888)	(4,887)
Dividends paid to non-controlling interests	(49)	(87)
Payments from changes in ownership interests in investments in capital of subsidiaries that do not result in change in scope of consolidation	(760)	—
Other, net	(41)	(49)
Net cash provided by (used in) financing activities	(9,708)	(5,192)
Effect of exchange rate change on cash and cash equivalents	(183)	2,289
Net increase (decrease) in cash and cash equivalents	(2,160)	7,402
Cash and cash equivalents at beginning of period	57,692	59,668
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	3,519	—
Cash and cash equivalents at end of period	59,051	67,070

(4) Notes to the Consolidated Financial Statements

(Notes on premise of a going concern)

There are no applicable matters.

(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)."

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Company has decided to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter the "Revenue Recognition Accounting Standard"), etc. from the beginning of the first quarter and recognize revenue from goods or services which the Group promised to provide at an amount expected to be received in exchange for the goods or services at the time when control over the promised goods or services has been transferred to a customer.

As a result, some expenses which were recorded in cost of sales and selling, general and administrative expenses in the past are deducted from net sales.

In addition, provision for sales returns, which was recorded in current liabilities in the past, is presented in "Other" under current liabilities as refund liabilities.

This change in accounting policies is applied retroactively, in principle, and quarterly consolidated financial statements and consolidated financial statements for the first quarter of the previous fiscal year and the previous fiscal year are those after retroactively applying the change. However, the following method stipulated in Paragraph 85 of the Revenue Recognition Accounting Standard is applied.

(1) For contracts in which the amounts of almost all revenues were recognized in accordance with the previous accounting treatment prior to the beginning of the previous fiscal year, comparative information shall not be adjusted retroactively.

As a result, net sales for the third quarter of the previous fiscal year decreased 11,038 million yen, cost of sales decreased 4 million yen, and selling, general and administrative expenses decreased 11,033 million yen, compared to before retroactive application.

However, this does not have an impact on operating profit, ordinary profit and profit attributable to owners of parent. There is also no impact on the balance of retained earnings at the beginning of the previous fiscal year.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Company has decided to apply the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter the "Fair Value Measurement Accounting Standard"), etc. from the beginning of the first quarter and apply the new accounting policy stipulated in the Fair Value Measurement Accounting Standard, etc. according to the provisional treatment stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019) into the future. The application of the Fair Value Measurement Accounting Standard and others mentioned above does not have no impact on quarterly consolidated financial statements.

(Business combinations)

Material review in the initially allocated amounts of acquisition costs in comparative information

With respect to the business combination with Ping An Tsumura Pharmaceutical Co., Ltd. and its five subsidiaries, which took place on March 30, 2020, the Company applied provisional accounting treatment in the third quarter of the previous fiscal year, but it was finalized at the end of the previous fiscal year.

Associated with the finalization of the provisional accounting treatment, a material review is reflected on the initially allocated amounts of acquisition costs in comparative information that is included in quarterly consolidated financial statements for the third quarter under review.

As a result, operating profit, ordinary profit, profit before income taxes and profit decreased 325 million yen, respectively, and profit attributable to owner of parent declined 130 million yen in the quarterly consolidated statement of income for the third quarter of the previous fiscal year.