

(English Translation)

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

February 7, 2018

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

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

Representative: Yuichi Tamura
President and CEO

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

Scheduled date of filing of quarterly report: February 14, 2018

Scheduled date of commencement of dividend payment: —

Presentation of supplementary materials on quarterly financial results: Yes

Holding of quarterly financial presentation meeting: No

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

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

(1) Consolidated Results of Operations (cumulative)

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

	Net sales	Operating income	Ordinary income	Net income attributable to shareholders of the parent company
Third quarter of fiscal year ending March 31, 2018	¥143,466 million (22.0%)	¥8,208 million (17.0%)	¥8,178 million (22.0%)	¥5,658 million (78.6%)
Third quarter of fiscal year ended March 31, 2017	¥117,582 million (8.5%)	¥7,013 million (-39.0%)	¥6,701 million (-40.4%)	¥3,168 million (-69.7%)

(Note)

Comprehensive income:

Third Quarter of Fiscal Year Ending March 31, 2018: 6,364 million yen (157.5%)
Third Quarter of Fiscal Year Ended March 31, 2017: 2,471 million yen (-73.0%)

	Net income per share	Net income (fully diluted) per share
Third quarter of fiscal year ending March 31, 2018	¥100.44	¥100.30
Third quarter of fiscal year ended March 31, 2017	¥55.44	¥55.35

(Note)

At the end of the fiscal year ended March 31, 2017, provisional accounting treatment of business combinations was finalized, and the figures pertaining to the third quarter of the fiscal year ended March 31, 2017 reflect the finalization of the provisional accounting treatment.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
Third quarter of fiscal year ending March 31, 2018	¥274,146 million	¥88,091 million	32.0%	¥1,557.38
Fiscal year ended March 31, 2017	¥270,890 million	¥87,580 million	32.2%	¥1,552.67

(Reference)

Equity:

Third Quarter of Fiscal Year Ending March 31, 2018: 87,836 million yen

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

2. Dividends

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

(Note)

Revisions to recently announced dividends forecast: None

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

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

	Net sales	Operating income	Ordinary income	Net income attributable to shareholders of the parent company	Net income per share
Annual	¥200,000 million (22.4%)	¥9,000 million (5.2%)	¥8,600 million (2.2%)	¥5,500 million (14.9%)	¥97.59

(Note)

Revisions to recently announced forecast of financial results: None

***Notes**

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

New: -

Excluded: -

(Note)

For details, please refer to “(3) Notes to Quarterly Consolidated Financial Statements (Additional Information)” in “2. Quarterly Consolidated Financial Statements and Primary Notes” on page 8 of the Attachment.

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

(Note)

For details, please refer to “(3) Notes to Quarterly Consolidated Financial Statements (Application of Accounting Treatment Specific to Preparation of Quarterly Consolidated Financial Statements)” in “2. Quarterly Consolidated Financial Statements and Primary Notes” on page 8 of the Attachment.

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

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

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

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

As of December 31, 2017: 60,662,652 shares

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

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

As of December 31, 2017: 4,262,551 shares

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

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

Third quarter of fiscal year ending March 31, 2018: 56,337,973 shares

Third quarter of fiscal year ended March 31, 2017: 57,155,294 shares

(Note)

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

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

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

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

(How to obtain supplementary materials for financial results)

Supplementary materials for financial results will be provided on the website of the Company on Wednesday, February 7, 2018.

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

(1) Explanation on Operating Results

During the first three quarters of the current fiscal year, Japanese economy made a moderate recovery due to factors such as private consumption picking up backed by an improving employment and growth in exports resulting from recovery of overseas economies. In the United States, further growth is expected due to factors such as continuing economic expansion and passing of the bill to reduce corporate taxes at the end of 2017.

In the generic drug industry, shares of generic drugs are anticipated to grow even more as the Cabinet decision in June 2017 clearly set forth a timeline by stating to aim “at an 80% usage rate of generic drugs by September 2020” while it was announced that the quantitative share of generic drugs was approximately 65.8% in the preliminary figures for the Drug Price Survey conducted in September 2017 (Ministry of Health, Labour and Welfare announcement of December 6, 2017).

Furthermore, the above Cabinet decision also stated that the government would “aim to double the number of biosimilar pharmaceuticals (number of ingredients basis) by the end of FY2020,” while Nichi-Iko’s biosimilar product Infliximab BS for I.V. Infusion 100mg “Nichi-Iko,” which was granted a marketing approval in September 2017, was listed in the NHI Drug Price Standard and simultaneously launched on November 29, 2017.

Under such circumstances, we have been steadily implementing the three basic strategies of “Expansion,” “Production” and “Development” under the 7th Medium-term Business Plan entitled “Obelisk” which began in 2016, as well as the “Profit Management Plan 2019” which aimed at continual cost improvements with the objective of becoming a global top 10 generic pharmaceutical company.

In addition to the launch of new 5 products with 16 strengths including Olmesartan Tablets “Nichi-Iko” and Rosuvastatin Tablets “Nichi-Iko” in December 2017, an effort is being made toward “Expansion” by striving to eliminate differences with original drugs through the addition of efficacy/effects and usages/doses of Olanzapine tablets “Nichi-Iko” and other drugs to enable them to be safely used by patients and medical professionals.

In terms of “Development,” we negotiated business alliances concerning application for product approvals as well as distribution and marketing in the Philippines market, and concluded memorandums of understanding with Philippine-based Lloyd Laboratories Inc. and InnoGen Pharmaceuticals, Inc. to accelerate the penetration and expansion of the Nichi-Iko brand in Southeast Asia, where the pharmaceutical market is growing rapidly.

In addition, the Obelisk Building was completed in December 2017 which will enable production of 11 billion tablets at Toyama Plant 1 (in combination with the existing Pyramid Building and Pentagon Building) when fully operational, and we are steadily making an effort to expand “Production” to establish the capacity able to supply 21 billion tablets by the fiscal year ending March 31, 2021.

Moreover, due to the steady performance of U.S. subsidiaries and the reversal of deferred tax liabilities in response to tax reform in the United States, the third quarter cumulative period showed increased revenue and earnings with net sales of 143,466 million yen (22.0% increase year-on-year), operating income of 8,208 million yen (17.0% increase year-on-year), ordinary income of 8,178 million yen (22.0% increase year-on-year), and net income attributable to shareholders of the parent company of 5,658 million yen (78.6% increase year-on-year).

(2) Explanation on Financial Position

As of the end of the third quarter under review, total assets on a consolidated basis increased by 3,256 million yen from the previous fiscal year-end to 274,146 million yen. This was mainly attributable to property, plant and equipment increasing by 5,048 million yen, inventories assets increasing by 4,604 million yen, cash and deposits increasing by 4,096 million yen, in-process research and development decreasing by 5,504 million yen, and goodwill decreasing by 3,005 million yen.

Liabilities on a consolidated basis increased by 2,745 million yen from the previous fiscal year-end and ran up to 186,055 million yen. This was mainly attributable to long- and short-term loans payable increasing by 11,191 million yen, income taxes payable increasing by 1,442 million yen, deferred tax liabilities decreasing by 2,405 million yen, and net defined benefit liability decreasing by 2,365 million yen.

Net assets on a consolidated basis increased by 510 million yen from the previous fiscal year-end to 88,091 million yen mainly due to retained earnings increasing by 2,573 million yen.

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

There is no change to the forecast of consolidated financial results announced on November 8, 2017.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheet

	(in millions of yen)	
	Fiscal year ended March 31, 2017 (as of March 31, 2017)	Third quarter of fiscal year ending March 31, 2018 (as of December 31, 2017)
Assets		
Current assets		
Cash and deposits	14,894	18,991
Notes and accounts receivable	26,304	27,114
Electronically recorded monetary claims	1,680	1,922
Merchandise and finished goods	41,632	40,537
Work in process	9,143	10,273
Raw materials and supplies	16,811	21,381
Deferred tax assets	838	870
Other current assets	3,842	4,142
Allowance for doubtful accounts	(433)	(358)
Total current assets	114,714	124,875
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	19,211	19,518
Machinery and equipment, net	12,665	11,943
Tools, furniture and fixtures, net	1,521	1,693
Land	6,433	6,438
Lease assets, net	2,603	2,190
Construction in progress	5,004	10,703
Total property, plant and equipment	47,439	52,488
Intangible assets		
Goodwill	41,152	38,147
Lease assets	125	82
Marketing rights	23,766	24,110
In-process research and development	22,697	17,193
Other intangible assets	5,368	4,828
Total intangible assets	93,111	84,362
Investments and other assets		
Investment securities	9,954	8,731
Long-term loans receivable	2,971	1,180
Deferred tax assets	866	713
Other assets	3,452	3,420
Allowance for doubtful accounts	(1,620)	(1,624)
Total investments and other assets	15,625	12,421
Total fixed assets	156,175	149,271
Total assets	270,890	274,146

	(in millions of yen)	
	Fiscal year ended March 31, 2017 (as of March 31, 2017)	Third quarter of fiscal year ending March 31, 2018 (as of December 31, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable	22,853	20,777
Electronically recorded debts	17,646	17,624
Short-term loans payable	23,789	26,920
Current portion of long-term loans payable	6,444	7,057
Lease debts	964	799
Other payable	8,471	7,941
Accrued expenses	3,338	3,429
Income taxes payable	389	1,832
Deposits payable	1,499	961
Allowance for sales returns	909	1,452
Allowance for bonuses	1,244	586
Other current liabilities	277	355
Total current liabilities	87,829	89,737
Fixed liabilities		
Long-term loans payable	80,104	87,553
Lease debts	1,994	1,670
Deferred tax liabilities	5,862	3,456
Deferred tax liabilities for land revaluation	219	219
Net defined benefit liability	3,489	1,123
Asset retirement obligations	55	56
Other fixed liabilities	3,754	2,237
Total fixed liabilities	95,480	96,317
Total liabilities	183,309	186,055
Net assets		
Shareholders' equity		
Common stock	19,976	19,976
Capital surplus	18,838	18,806
Retained earnings	45,350	47,924
Treasury stock	(9,401)	(9,134)
Total shareholders' equity	74,764	77,572
Other comprehensive income		
Valuation difference on available-for-sale securities	1,378	789
Revaluation reserve for land	333	333
Foreign currency translation adjustment	10,975	9,233
Accumulated adjustments in retirement benefits	(105)	(92)
Total other comprehensive income	12,582	10,264
Stock acquisition rights	234	254
Total net assets	87,580	88,091
Total liabilities and net assets	270,890	274,146

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

(Quarterly Consolidated Statements of Income)

(Third Quarter Consolidated Cumulative Period)

	(in millions of yen)	
	Third quarter of previous fiscal year (from April 1, 2016 to December 31, 2016)	Third quarter of current fiscal year (from April 1, 2017 to December 31, 2017)
Net sales	117,582	143,466
Cost of sales	75,422	93,749
Gross profit	42,160	49,717
Allowance for sales returns	-	287
Reversal of allowance for sales returns	7	-
Gross profit, net	42,167	49,430
Selling, general and administrative expenses	35,154	41,221
Operating income	7,013	8,208
Non-operating income		
Interest income	67	24
Dividends income	56	42
Compensation income	20	514
Income from subsidiaries	50	17
Foreign exchange gains	-	153
Others	253	306
Total non-operating income	447	1,059
Non-operating expenses		
Interest payment	163	475
Commissions paid	29	41
Loss on sales of accounts receivables	144	167
Foreign exchange losses	294	-
Equity in losses of affiliates	57	360
Others	70	44
Total non-operating expenses	759	1,089
Ordinary income	6,701	8,178
Extraordinary income		
Gain on change in equity	324	251
Gain on contribution of securities to retirement benefit trust	-	1,255
Others	0	0
Total extraordinary income	324	1,507
Extraordinary loss		
Loss on disposal of fixed assets	168	9
Loss on valuation of investment securities	39	-
Impairment loss	-	2,975
Acquisition related expenses	1,542	-
Others	0	-
Total extraordinary loss	1,750	2,984
Net income before provision for income taxes	5,275	6,700
Income taxes	2,107	1,042
Net income	3,168	5,658
Net income attributable to shareholders of the parent company	3,168	5,658

(Quarterly Consolidated Statements of Comprehensive Income)

(Third Quarter Consolidated Cumulative Period)

	(in millions of yen)	
	Third quarter of previous fiscal year (from April 1, 2016 to December 31, 2016)	Third quarter of current fiscal year (from April 1, 2017 to December 31, 2017)
Net income	3,168	5,658
Other comprehensive income		
Valuation difference on available-for-sale securities	(7)	(593)
Foreign currency translation adjustment	(664)	1,210
Adjustments in retirement benefits	21	15
Share of other comprehensive income of affiliates accounted for using equity method	(46)	73
Total other comprehensive income	(697)	705
Comprehensive income	2,471	6,364
(Comprehensive income attributable to:)		
Comprehensive income attributable to shareholders of the parent company	2,471	6,364
Comprehensive income attributable to non-controlling interests	-	-

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on Premise of Going Concern)

Not applicable.

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

Not applicable.

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

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

(Additional Information)

(1) Changes in Significant Subsidiaries during the Consolidated Cumulative Quarter under Review

Not applicable.

Although it does not fall under changes in specified subsidiaries, the consolidated subsidiary Nichi-Iko Pharma Tech Co., Ltd. was absorbed in an absorption type merger on October 1, 2017.

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

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

As a result of this change in the fiscal year, the consolidated financial statements reflect the business results of the aforementioned consolidated subsidiaries for the nine months from April 1, 2017 to December 31, 2017.

Profit and loss for the consolidated subsidiaries from January 1, 2017 to March 31, 2017 has been adjusted as increase or decrease of retained earnings.