

May 13, 2022

To whom it may concern:

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Notice of Recording of Inventory Assets Appraisal Loss and Impairment Loss, Difference between Forecast of Full-Year Consolidated Results and Actual Results and Difference of Individual Financial Results Compared to Actual Results for the Previous Fiscal Year

We hereby announce as follows that it records an impairment loss and inventory assets appraisal loss for the fourth-quarter consolidated accounting period of the fiscal year ending March 2022 (January 1, 2022 – March 31, 2022), and that there are differences between the forecast of full-year consolidated results for the fiscal year ending March 2022 and the actual results announced today.

There are also differences regarding individual financial results for the year ending March 2022 compared to actual results for the previous fiscal year.

1. Recording of Impairment Loss

It is now certain that there will be a delay in the approval application for the launch (obtaining approval to market) of biosimilars (follow-up products to biopharmaceuticals) and orphan drugs (drugs for rare diseases) in the US market, which we are currently developing, and we have decided to reevaluate our overall future development plan. As a result, we have determined that the intangible assets for these formulations will no longer fulfill the requirements of capitalized development costs under international financial reporting standards (IFRS), and has decided to record an impairment loss of 14,820 million yen for Nichi-Iko group and 6,612 million yen for Sagent group for the fourth-quarter consolidated accounting period for the fiscal year ending March 2022.

Also, as a result of implementing impairment tests based on international financial reporting standards (IFRS) and based on an examination of the likelihood of future recoverability of fixed assets including the goodwill of our group, we have concluded that it loses expected revenue, and so has recorded a 34,249 million yen impairment loss for Nichi-Iko group and a 27,939 million yen impairment loss for Sagent group for the fourth-quarter consolidated accounting period of the fiscal year ending March 2022.

2. Recording of Inventory Assets Appraisal Loss

We have been gradually recommencing production and shipments at Toyama Plant 1 since April 2021 following a rigorous quality evaluation of all products manufactured at the plant, but after a review of the production recommencement schedule, has decided to record an inventory assets appraisal loss of 2,620 million yen for raw materials and work in progress that are highly likely to be disposed of in the fourth-quarter consolidated accounting period for the fiscal year ending March 2022.

3. Difference between Forecast of Consolidated Results for the Fiscal Year Ending March, 2022, and Actual Results

(1) Difference between forecast of consolidated results for the fiscal year ending March, 2022, (April 1, 2021 – March 31, 2022) and actual results

	Revenue	Core operating profit	Operating profit	Profit attributable to owners of parent	Basic earning per share
Previously announced forecast (A) (announced Nov 11, 2021)	Million yen 185,000	Million yen -11,900	Million yen -17,100	Million yen -18,600	Yen -275.39
Actual figure (B)	179,060	-16,776	-109,970	-104,874	-1,552.75
Difference (B – A)	-5,940	-4,876	-92,870	-86,274	—
Difference (%)	-3.2	—	—	—	—
(Reference) Previous fiscal year result (year ending March 2021)	188,218	977	107	-4,179	-65.28

(2) Reason for Difference

Revenue was 179,060 million yen, lower than our previous forecast, due to factors such as it taking longer than expected to recommence production and shipments due to the implementation of rigorous production and quality control in response to quality issues at Toyama Plant 1, voluntary product recalls and a plant production suspension following a production capacity review of SterRx LLC. of Sagent group.

Core operating loss was 16,776 million yen, a higher loss than our previous forecast, due to factors such as weaker profitability due to the above fall in sales revenue.

Operating loss was 109,970 million yen, a higher loss than our previous forecast, due to factors such as the impairment loss in “1. Recording of Impairment Loss” above, as well as the recording of the inventory assets appraisal stated in “2. Recording of Inventory Assets Appraisal Loss”.

The profit attributable to owners of parent was 104,874 million yen, a higher loss than our previous forecast, due to the above reasons for the operating loss and factors such as the recording of a foreign exchange gain, and a reversal of deferred tax liabilities caused by the recording of an impairment loss for capitalized development costs.

4. Difference between Individual Financial Results for the Year ending March 2022 and Actual Results for the Previous Fiscal Year

(1) Difference between Individual Financial Results for the Year ending March 2022 and Actual Results for the Previous Fiscal Year (April 1, 2021 – March 31, 2022)

	Revenue	Recurring profit	Current net income	Current net income per share
Previous fiscal year earnings (A) (year ending March 2021)	Million yen 178,643	Million yen -8,599	Million yen -13,269	Yen -207.25
Current earnings (B)	138,045	-28,334	-91,654	-1,357.01
Difference (B – A)	-40,597	-19,735	-78,385	—
Difference (%)	-22.7	—	—	—

(2) Reason for Difference

Revenue declined by 40,597 million yen YoY, boosted by Gifu Plant product sales, but weakened by a fall in drug prices due to drug price revisions, lower sales of products of Elmed Co., Ltd. (“Elmed”) due to the suspension of production and shipment by Kobayashi Kako Co., Ltd., the production subcontractor of a consolidated subsidiary of us Elmed, the impact of the delay in recommencing shipments of Toyama Plant 1-produced products, and an accounting standards change for recognition of profit.

We recorded a recurring loss, a YoY deterioration of 19,735 million yen, mainly caused by lower profitability due to falling sales, and the recording of an inventory assets appraisal loss for the Toyama Plant 1 production restart (7,389 million yen over the full year).

We booked a current net loss a YoY deterioration of 78,385 million yen, due to factors such as recording a fixed asset impairment loss (25,309 million yen) and recording an affiliate company share appraisal loss for shares of Sagent Pharmaceuticals, Inc., a consolidated subsidiary of us (38,496 million yen).

5. Other

We passed a resolution at a meeting of the Board of Directors held today to apply for the specified certified dispute resolution procedure (the “Business Turnaround ADR”) under the Act on Strengthening Industrial Competitiveness, and has made a formal application for the Business Turnaround ADR to the Japanese Association of Turnaround Professionals (an association that has been certified as a certified dispute resolution business operator by the Minister of Justice and has been accredited as a specified certified dispute resolution business operator by the Minister of Economy, Trade and Industry), with the application being accepted today.

Going forward, we will, while discussing with all financial institutions during the Business Turnaround ADR, ask the Japanese Association of Turnaround Professionals for investigation, guidance, and advice from a neutral standpoint, formulate a draft business rehabilitation plan. We will attempt to have the draft plan approved by all financial institutes according to the schedule set at the First Bondholder Meeting. Please see the Notice of Formal Application and Acceptance of Business Turnaround ADR released by us today for further details of the Business Turnaround ADR.

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