

Consolidated Financial Results for the 1st Quarter ended June 30, 2019
(Japanese Generally Accepted Accounting Principles)



July 30, 2019

Name of company	Yakult Honsha Co., Ltd.		
Stock exchange listing	First section in Tokyo Stock Exchange		
Code number	2267		
URL	https://www.yakult.co.jp/		
Representative	President and Representative	Takashige Negishi	
	Director		
Contact person	Executive officer	Shuichi Watanabe	TEL +81-3-3574-8960
Scheduled date of filing Statutory quarterly financial report	August 9, 2019		
Scheduled date of payment of dividends	—		
Preparation of support documentation of results	: Yes		
Holding of briefing for analysts and institutional investors	: Yes		

(Figures less than 1 million yen have been rounded down)

1. Consolidated financial results for the 1st quarter of FY2019, ended June 30, 2019 (April 1, 2019 - June 30, 2019)

(1) Consolidated Financial Results (Accumulated) (Percentage figures presents year-on-year changes)

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
1Q FY2019	95,856	(0.9)	9,976	(0.4)	13,723	8.5	8,628	(13.9)
1Q FY2018	96,691	2.3	10,013	0.3	12,652	5.2	10,023	24.7

(Note) Comprehensive income for 1Q FY2019 5,790 million yen {90.0%} 1Q FY2018 3,047 million yen {(73.7)%}

	Basic earnings per Share	Diluted earnings per Share
	yen	yen
1Q FY2019	53.87	—
1Q FY2018	62.46	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity to Asset Ratio
	million yen	million yen	%
1Q FY2019	618,543	394,309	57.8
FY2018	618,532	392,279	57.8

(Ref.) Equity for 1Q FY2019 357,629 million yen FY 2018 357,272 million yen

2. Dividends

(Base date)	Dividends per Share				
	1st Qt.	2nd Qt.	3rd Qt.	Year End	Total
	yen	yen	yen	yen	yen
FY2018	—	20.00	—	24.00	44.00
FY2019	—				
FY2019(Forecast)		23.00	—	23.00	46.00

(Note) Revision of the latest dividend forecast : No

3. Forecast for consolidated financial results for FY 2019 (April 1, 2019 - March 31, 2020)

(Percentage figures presents year-on-year changes)

	Net Sales		Operating Profit		Ordinary Profit		Profit attributable to owners of parent		Basic earnings per Share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
2nd Qt.	211,000	3.7	25,500	7.2	31,500	6.7	20,000	(6.2)	124.85
Annual	420,000	3.2	48,500	5.8	59,500	4.2	36,500	4.5	227.85

(Note) Revision of the latest financial forecast : No

*Notes

(1) Changes in important subsidiaries during the period: No

(2) Special Accounting Treatment for Preparation of the Quarterly Consolidated Financial Statements: Yes

Note: Details are stated on pg. 9 under “(3) Notes on Quarterly Consolidated Financial Statements”

(3) Change in accounting policies and estimates, correction of prior period error

(a) Change in accounting policy with revision of accounting standard: Yes

(b) Change in account policy other than (a): No

(c) Change in accounting estimates: No

(d) Correction of prior period error: No

(4) Shares issued (common stock)

(a) Number of shares issued
(including treasury stocks)

(b) Number of treasury stocks

(c) Weighted average of number of shares

1Q FY 2019	171,045,418	FY 2018	171,045,418
1Q FY 2019	10,854,940	FY 2018	10,819,582
1Q FY 2019	160,190,511	1Q FY 2018	160,495,608

*These consolidated financial results are not subjected to audit by our auditor.

*Explanation for the appropriate use of the financial forecast and other comments

Note concerning statements about the future, etc.

The statements about the future, including earnings projections, included in this report are based on information currently available and certain assumptions considered reasonable, which do not guarantee the achievement of such projected results. Actual results may vary considerably from these projections due to a range of factors.

Assumptions on which the forecast is based and notes on the use of the forecast are stated on pg. 4 under “Disclaimer of Future Outlook including Consolidated Financial Results Forecast”.

Procedure for obtaining supplementary information on financial results

We plan to hold a briefing (conference call) for analysts and institutional investors on July 30, 2019. Materials used in the briefing will be posted on the company’s website.

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1. Qualitative Information Regarding Quarterly Consolidated Business Results

(1) Business Performance Overview

1. Performance Overview

During the first quarter of the fiscal year ending March 31, 2020, the Japanese economy maintained its gradual recovery amid continued improvement in the income environment, but the need to be mindful of the potential impact of volatility in the global economy remained.

Against this background, the Yakult Group (the “Group”) worked to build awareness and understanding of the probiotics that constitute the bedrock of our operations, while striving to communicate the superiority of our products. The Group also sought to improve its performance by enhancing its sales organization, developing new products, upgrading its production facilities, and actively engaging in its international business and pharmaceuticals business.

Despite these efforts, consolidated net sales for the first quarter of this fiscal year declined 0.9% from the same period of the previous year to 95,856 million yen. Operating profit fell 0.4% to 9,976 million yen, while ordinary profit rose 8.5% to 13,723 million yen. Profit attributable to owners of parent decreased 13.9% to 8,628 million yen.

2. Overview by Segment

Food and Beverages (Japan)

In dairy products for the Japanese market, Yakult focused on broadening recognition of the science behind its proprietary living *Lactobacillus casei* strain Shirota and *Bifidobacterium breve* strain Yakult, and continuously conducted grassroots value dissemination initiatives utilizing scientific evidence.

In our home delivery channel, we worked in conjunction with advertising campaigns to encourage existing customers to continue drinking our products, especially our fermented milk drinks *Yakult 400* and *Yakult 400LT*. In addition, we stepped up efforts to create a point of contact for new customers through Yakult Delivery Net, our online home-delivery ordering system. We also aimed to further enhance our home delivery organization by improving the working environment of Yakult Ladies, while continuing with hiring initiatives.

In the retail store channel, we advanced value dissemination initiatives through promotional staff offering product samples with a focus on the fermented milk drinks *New Yakult*, *New Yakult Calorie Half*, and *Yakult Five*, which was launched in March. As part of our efforts to revitalize retail channel products, in April we also revamped the package design for the fermented milk drink *Synbiotics Yakult W*.

To raise brand recognition among new user groups and motivate them to purchase products in the *Mil-Mil* fermented milk series, a TV commercial featuring the band Ikimonogakari started airing in April. We also introduced a tie-in with *Toy Story 4*, the latest Disney-Pixar movie, with package designs and TV commercials for the limited time flavor *Shun no Peach* (Seasonal Peach) in our *Joie* yoghurt drink series.

In other beverages, we reinforced the health drinks category by unveiling a revamped package design for our black vinegar *Kurozu Drink* in June.

Despite these efforts, consolidated net sales for the food and beverages segment (Japan) decreased 7.8% from the same period of the previous fiscal year, totaling 51,835 million yen.

Food and Beverages (Overseas)

Yakult’s operations outside Japan commenced in March 1964 with the establishment of Yakult Taiwan Co., Ltd., and now the manufacture and sale of *Yakult* outside of Japan spans 38 countries and regions centered around 28 companies and one research center with average daily bottle sales of 32.85 million

bottles as of June 2019.

i. The Americas

Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Brazil, Mexico, and the United States.

In May, we started sales of *Sofil LT Peach* hard-type yoghurt in Mexico.

As a result of these efforts, consolidated net sales in the food and beverages (The Americas) segment increased 1.5% from the same period of the previous year to 12,596 million yen.

ii. Asia and Oceania

Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Hong Kong, Singapore, Indonesia, Australia, Malaysia, Vietnam, India, and China, among others, while also importing *Yakult* for sale in the United Arab Emirates among other nations.

In China, we established branches in Lanzhou, Gansu Province; Nantong, Jiangsu Province; and Shaoxing, Zhejiang Province, and started sales of the *Yakult* and *Yakult Light* fermented milk drinks through supermarkets and other retail outlets from June 2019. This brings the number of sales bases in China to 46. We also completed the second plant building at our Wuxi Plant (Wuxi Yakult Co., Ltd.) and started production of *Yakult* in June 2019.

In Myanmar, we are proceeding with preparations to start manufacture and sale of *Yakult* in August 2019.

As a result of the above, consolidated net sales in the food and beverages (Asia and Oceania) segment rose 2.6% from the same period of the previous year to 25,658 million yen.

iii. Europe

In Europe, Yakult manufactures the fermented milk drink *Yakult* and other products in the Netherlands, and sells them in the Netherlands, Belgium, the United Kingdom, Germany, Austria, Italy, and other countries.

In the European market, where the promotion of probiotics faces strict regulation, we are engaged in a variety of initiatives in our efforts to receive approval for health claims related to our products. Under these circumstances, Yakult companies in each country aimed for sustainable growth by conducting sales initiatives tailored to their respective markets.

Despite this, however, consolidated net sales in the food and beverages (Europe) segment declined 11.8% from the same period of the previous year to 2,155 million yen.

Pharmaceuticals

During the quarter under review, we promoted awareness of our products specializing in oncology and related fields, as well as their correct usage.

Regarding our mainstay, the antineoplastic drug *Elplat*, we proactively conducted presentations targeting medical professionals in order to maintain our market share. Although medical institutions are increasingly switching to generic versions of *Elplat*, we boosted initiatives to encourage customers to continue choosing *Elplat* by leveraging our ability to provide relevant information about the drug, a Company strength as the developer of the original drug, as well as the relationships of trust we have built with medical professionals. We also sought to expand sales channels for our core generic product, the antineoplastic metabolite *Gemcitabine [Yakult]* and other products. In addition, we launched the generic antineoplastic drugs *Capecitabine Tablets [Yakult]* and *Gefitinib Tablets [Yakult]* in June, and swiftly worked to build market awareness. However, the revision of NHI Drug Price Standards in April 2018 resulted in lower prices for

most of our drug products, and this had a major impact on our revenue. Having achieved the goals set for market penetration of the antineoplastic drug *ZALTRAP*[®], the joint promotion contract we had concluded with Sanofi S.A. was terminated by mutual agreement at the end of April.

Meanwhile, in R&D, we continued to progress with the clinical development of items in our pipeline, including the PI3K inhibitor duvelisib [YHI1702], for which we concluded an exclusive licensing agreement for development and commercialization in Japan with Verastem Oncology (U.S.), and the HDAC inhibitor resminostat [YHI-1001], licensed from 4SC AG (Germany). Through these efforts, we aim to further strengthen our position in oncology and related fields.

As a result, consolidated net sales in the Pharmaceuticals segment declined 3.4% to 5,460 million yen.

Others

This segment encompasses Yakult's cosmetics manufacturing and sales as well as its professional baseball team operations.

In our cosmetics operations, we worked to help customers realize their internal and external beauty and to increase the number of regular users of our cosmetics by focusing on initiatives to disseminate the value of our proprietary moisturizing agent *S.E. (Shirota Essence)*, which is the result of our extensive research on lactic acid bacteria since the Company's foundation. In May we started promoting awareness of dental and oral health to invigorate our *Yakult Medicated APACOAT S.E. Nanotechnology* toothpaste on the first anniversary of its re-launch. Through this, we worked to encourage continuing regular use of the product and increase sales.

In our professional baseball operations, we are working to boost attendance at Tokyo's Jingu Stadium and expand sales through proactive fan engagement including diverse events and promotions at the stadium, as well as active information dissemination.

As a result, consolidated net sales in the Others segment rose 2.2% to 4,379 million yen.

Sales figures for each segment do not include consumption tax, etc.

Note: Consolidated sales for each segment include inter-segment sales.

(2) Financial Position

Total assets at the fiscal quarter-end amounted to 618,543 million yen, an increase of 10 million yen compared to the previous fiscal year-end, 3 months prior.

Net assets rose 2,030 million yen from the previous fiscal year end to 394,309 million yen. This was primarily due to an increase in retained earnings from profit attributable to owners of the parent, which offset a decrease in valuation difference on available-for-sale securities resulting from declining share prices.

The equity to asset ratio was 57.8%, remaining unchanged from the previous fiscal year end.

(3) Disclaimer of Future Outlook including Consolidated Financial Results Forecast

The above forecast is based on certain information available to management at the time of announcement. Actual operating results may differ from these projections due to various factors in the future.

There are no changes to the earnings forecast announced on May 14, 2019.

2. Quarterly Consolidated Financial Statements and Notes
 (1) Quarterly Consolidated Balance Sheet

	(Millions of yen)	
	Fiscal year 2018 As of March 31, 2019	Current period As of June 30, 2019
Assets		
Current Assets		
Cash and Deposits	156,484	153,543
Notes and accounts receivable-trade	52,880	56,914
Merchandises and Finished goods	9,404	10,207
Work in process	2,143	2,342
Raw materials and supplies	17,565	18,492
Others	9,421	12,431
Allowance for doubtful accounts	(262)	(273)
Total current assets	247,637	253,657
Non-Current Assets		
Property, plant and equipment		
Buildings and structures, net	82,753	84,421
Others, net	117,318	119,910
Total property, plant and equipment	200,071	204,331
Intangible assets		
Software	2,463	2,289
Others	2,318	2,366
Total Intangible assets	4,782	4,656
Investments and other assets		
Investment securities	155,306	145,265
Others	10,849	10,743
Allowance for doubtful accounts	(114)	(112)
Total investments and other assets	166,040	155,897
Total non-current assets	370,895	364,885
Total assets	618,532	618,543

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(Millions of yen)

	Fiscal year 2018 As of March 31, 2019	Current period As of June 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable-trade	27,983	26,848
Short-term loans payable	34,598	36,172
Current portion of long-term loans payable	5,542	5,549
Income taxes payable	3,984	3,348
Provision for bonuses	6,023	3,491
Others	37,322	39,732
Total Current liabilities	115,455	115,142
Non-current liabilities		
Long-term loans payable	76,344	74,956
Provision for directors' retirement benefits	392	326
Net defined benefit liability	5,463	5,127
Asset retirement obligations	981	989
Others	27,616	27,690
Total non-current liabilities	110,798	109,090
Total liabilities	226,253	224,233
Net assets		
Shareholders' equity		
Capital stock	31,117	31,117
Capital surplus	41,742	41,750
Retained earnings	347,740	352,525
Treasury shares	(54,833)	(55,104)
Total shareholders' equity	365,767	370,288
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	30,465	24,610
Foreign currency translation adjustment	(36,304)	(34,724)
Remeasurements of defined benefit plans	(2,655)	(2,545)
Total accumulated other comprehensive income	(8,495)	(12,659)
Non-controlling interests	35,007	36,680
Total net assets	392,279	394,309
Total liabilities and net assets	618,532	618,543

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(Millions of yen)

	Previous period From April 1, 2018 to June 30, 2018	Current period From April 1, 2019 to June 30, 2019
Net Sales	96,691	95,856
Cost of sales	40,102	39,334
Gross profit	56,589	56,522
Selling, general and administrative expenses	46,576	46,545
Operating profit	10,013	9,976
Non-operating income		
Interest income	1,062	1,310
Dividend income	974	965
Share of profit of entities accounted for using equity method	968	1,119
Others	550	789
Total non-operating income	3,556	4,184
Non-operating expenses		
Interest expenses	182	207
Foreign exchange losses	599	119
Others	134	110
Total non-operating expenses	917	437
Ordinary profit	12,652	13,723
Extraordinary income		
Gain on sales of non-current assets	15	20
Gain on sales of investment securities	1,372	974
Others	1	32
Total extraordinary income	1,389	1,027
Extraordinary losses		
Loss on sales of non-current assets	4	5
Loss on retirement of non-current assets	69	204
Loss on valuation of investment securities	—	743
Others	1	1
Total extraordinary losses	74	955
Profit before income taxes	13,966	13,795
Income taxes	2,946	3,964
Profit	11,020	9,831
Profit attributable to non-controlling interests	996	1,202
Profit attributable to owners of parent	10,023	8,628

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Previous period From April 1, 2018 to June 30, 2018	Current period From April 1, 2019 to June 30, 2019
Profit	11,020	9,831
Other comprehensive income		
Valuation difference on available-for-sale securities	1,598	(5,868)
Foreign currency translation adjustment	(9,684)	1,449
Remeasurements of defined benefit plans, net of tax	109	110
Share of other comprehensive income of entities accounted for using equity method	4	267
Total other comprehensive income	(7,972)	(4,041)
Comprehensive income	3,047	5,790
Comprehensive income attributable to:		
Owners of parent	2,806	4,464
Non-controlling interests	241	1,325

(3) Notes on Quarterly Consolidated Financial Statements

(Notes Related to Going Concern Assumption)

None.

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

None.

(Special Accounting Treatment for Preparation of the Quarterly Consolidated Financial Statements)

Calculation of Tax Expenses

Tax expenses for the Company and its consolidated subsidiaries in Japan are calculated by multiplying income before income taxes for the first quarter under review by the reasonably estimated effective tax rate after applying tax effect accounting to the income before income taxes for the current consolidated fiscal year, including the first quarter under review.

In addition, income taxes—deferred are included in income taxes.

(Changes in Accounting Policies)

The Company's consolidated subsidiaries outside Japan began preparing their financial statements based on IFRS 16 (Leases) from the first quarter of the current fiscal year, and in principle recognize all leases as assets and liabilities on their balance sheets.

As a result, at fiscal quarter-end "Property, plant and equipment" increased by 5,162 million yen, "Others" recorded under current liabilities rose by 2,227 million yen, and "Others" recorded under non-current liabilities increased by 2,683 million yen.

This change had minimal effect on the Company's profit/loss and had no impact on the balance of retained earnings at the beginning of the quarter under review.

(Segment Information)

I Net Sales and profit (loss) in each reportable segment during the first quarter of fiscal 2018 (April 1 to June 30, 2018)

(Millions of yen)

	Food and Beverages			
	Japan	The Americas	Asia and Oceania	Europe
Net Sales				
Net Sales to external customers	47,530	12,415	25,001	2,443
Intersegment net sales or transfers	8,708	—	—	—
Total	56,238	12,415	25,001	2,443
Segment profit (loss)	4,905	3,402	6,817	308

	Pharmaceuticals	Others	Adjustments	Consolidated results
Net Sales				
Net Sales to external customers	5,651	3,649	—	96,691
Intersegment net sales or transfers	—	634	(9,343)	—
Total	5,651	4,284	(9,343)	96,691
Segment profit (loss)	(727)	(21)	(4,670)	10,013

Notes: Adjustments are as follows:

1. The (4,670) million yen adjustment in segment profit (loss) includes (3,454) million yen of corporate expenses not allocated to specific segments. Corporate expenses include those of administrative divisions of the Company, such as the general affairs department, that cannot be attributed to any specific reportable segments.
2. Segment profits are adjusted with operating profit under the quarterly consolidated statements of income.
3. Countries / regions in each geographic segment outside Japan.
 - (1) The Americas Mexico, Brazil, The United States of America
 - (2) Asia and Oceania Hong Kong, China, Indonesia, Singapore, Malaysia, Australia, India, Vietnam, The United Arab Emirates, Myanmar
 - (3) Europe The Netherlands, The United Kingdom, Germany, Belgium, Austria, Italy

II Net Sales and profit (loss) in each reportable segment during the first quarter of fiscal 2019 (April 1 to June 30, 2019)

(Millions of yen)

	Food and Beverages			
	Japan	The Americas	Asia and Oceania	Europe
Net Sales				
Net Sales to external customers	46,203	12,596	25,658	2,155
Intersegment net sales or transfers	5,631	—	—	—
Total	51,835	12,596	25,658	2,155
Segment profit (loss)	4,545	3,646	5,788	106

	Pharmaceuticals	Others	Adjustments	Consolidated results
Net Sales				
Net Sales to external customers	5,460	3,781	—	95,856
Intersegment net sales or transfers	—	597	(6,229)	—
Total	5,460	4,379	(6,229)	95,856
Segment profit (loss)	602	63	(4,776)	9,976

Notes: Adjustments are as follows:

1. The (4,776) million yen adjustment in segment profit (loss) includes (3,571) million yen of corporate expense not allocated to specific segments. Corporate expenses include expenses of administrative divisions of the Company, such as the general affairs department, that cannot be attributed to any specific reportable segments.
2. Segment profits are adjusted with operating profit under the quarterly consolidated statements of income.
3. Countries / regions in each geographic segment outside Japan.
 - (1) The Americas Mexico, Brazil, The United States of America
 - (2) Asia and Oceania Hong Kong, China, Indonesia, Singapore, Malaysia, Australia, India, Vietnam, The United Arab Emirates, Myanmar
 - (3) Europe The Netherlands, The United Kingdom, Germany, Belgium, Austria, Italy