

Consolidated Financial Results for the 1st Quarter ended June 30, 2020
(Japanese Generally Accepted Accounting Principles)



July 31, 2020

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 +81-3-6625-8960
Scheduled date of filing financial report	Statutory quarterly August 12, 2020		
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 FY2020, ended June 30, 2020 (April 1, 2020 - June 30, 2020)

(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 FY2020	92,528	(3.5)	11,046	10.7	17,710	29.0	11,419	32.3
1Q FY2019	95,856	(0.9)	9,976	(0.4)	13,723	8.5	8,628	(13.9)

(Note) Comprehensive income for 1Q FY2020 (9,686) million yen { - % } 1Q FY2019 5,790 million yen { 90.0% }

	Basic earnings per Share	Diluted earnings per Share
	yen	yen
1Q FY2020	71.27	—
1Q FY2019	53.87	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity to Asset Ratio
	million yen	million yen	%
1Q FY2020	609,163	398,823	60.0
FY2019	627,871	412,082	59.5

(Ref.) Equity for 1Q FY2020 365,349 million yen FY 2019 373,379 million yen

2. Dividends

(Base date)	Dividends per Share				
	1st Qrt.	2nd Qrt.	3rd Qrt.	Year End	Total
	yen	yen	yen	yen	yen
FY2019	—	23.00	—	23.00	46.00
FY2020	—				
FY2020 (Forecast)		24.00	—	24.00	48.00

(Note) Revision of the latest dividend forecast : No

3. Forecast for consolidated financial results for FY 2020 (April 1, 2020 - March 31, 2021)

(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 Qrt.	203,000	0.5	23,000	(3.1)	29,000	(4.3)	18,500	(10.4)	115.46
Annual	411,000	1.2	47,000	2.9	59,000	0.9	37,000	(6.9)	230.92

(Note) Revision of the latest financial forecast : No

*Notes

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

(Change in specified subsidiary with change in scope of consolidation)

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

Note: Details are stated on pg. 10 under “Notes on Quarterly Consolidated Financial Statements”

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

(a) Change in accounting policy with revision of accounting standard: No

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

(c) Change in accounting estimates: No

(d) Correction of prior period errors: No

(4) Shares issued (common stock)

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

1Q FY2020	171,045,418	FY2019	171,045,418
1Q FY2020	10,818,267	FY2019	10,836,662
1Q FY2020	160,221,070	1Q FY2019	160,190,511

(b) Number of treasury stocks

(c) Weighted average of number of shares
(cumulative figure for quarter)

*This financial report is not included in quarterly reviews by our external auditors.

*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, contained in this report are based on information currently available as well as certain assumptions considered reasonable. Actual results may vary considerably from these projections owing to a range of factors.

Assumptions upon which the forecast is based and notes on the use of the forecast are stated on pg. 5 under “Disclaimer of Future Outlook Including Consolidated Financial Results Forecast.”

Procedure for obtaining supplementary information on financial results

We plan to hold a conference call for analysts and institutional investors on July 31, 2020.

Materials used in the conference call will be posted on the company’s website.

Table of Contents

1. Qualitative Information Regarding Quarterly Consolidated Business Results	2
(1) Business Performance Overview	2
(2) Financial Position	5
(3) Disclaimer of Future Outlook Including Consolidated Financial Results Forecast	5
2. Quarterly Consolidated Financial Statements and Notes.....	6
(1) Quarterly Consolidated Balance Sheet.....	6
(2) Quarterly Consolidated Statements of Income and Comprehensive Income.....	8
Quarterly Consolidated Statement of Income	8
Quarterly Consolidated Statement of Comprehensive Income	9
(3) Notes on Quarterly Consolidated Financial Statements	10
(Notes Related to Going Concern Assumption)	10
(Notes on Significant Changes in the Amount of Shareholders' Equity)	10
(Special Accounting Treatment for Preparation of the Quarterly Consolidated Financial Statements)	10
(Quarterly Consolidated Statement of Income)	10
(Segment Information)	11

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, 2021, the Japanese economy faced extremely challenging circumstances due to the effects of the novel coronavirus. Nonetheless, policies to combat the virus have proved effective, and the economy is expected to make progress toward improvement.

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 and pharmaceutical businesses.

Following these efforts, consolidated net sales for the first quarter of this fiscal year declined 3.5% from the same period of the previous year to 92,528 million yen. However, operating profit increased 10.7% to 11,046 million yen, while ordinary profit increased 29.0% to 17,710 million yen. Profit attributable to owners of parent rose 32.3% to 11,419 million yen.

2 Overview by Segment

• Food and Beverages (Japan)

Our operating activities throughout Japan were impacted by the novel coronavirus pandemic, but we worked to ensure stable supplies of products and took measures to prevent the spread of infection as we continued our activities.

In our home delivery channel, we continued deliveries with a focus on the *Yakult 400* fermented milk drink series and *Yakult 1000* in particular, taking steps to prevent the spread of infection among either customers or employees, although we did suspend deliveries by Yakult Ladies in certain regions.

In the retail store channel, we experienced some impacts of the coronavirus, such as having to refrain from value dissemination initiatives through sampling. However, growing expectations with regard to lactic acid bacteria as a step in maintaining customers’ health led to increased demand, particularly for the fermented milk drinks *New Yakult* and *New Yakult Calorie Half*.

Meanwhile, vending machine sales decreased in markets including workplaces, leisure facilities, and public transportation due to the effects of curtailed operations, business shutdowns, and fewer trips outside the home by consumers.

In product specific initiatives, we sought to revitalize the *Joie* fermented milk brand, which had been revamped in March 2020, through initiatives that included running a television commercial featuring the boy band SixTONES. Meanwhile, having commenced initial sales of the fermented milk drink *Yakult 400W* in the Kyushu region in January 2020, by June we had extended the sales area for this product to the Chugoku, Shikoku, Kinki, Hokuriku, and Tokai regions. We also worked on brand revitalization for our *Toughman* series of energy drinks, updating the series in April.

Despite these efforts, consolidated net sales for the Food and Beverages segment (Japan) declined 0.7% from the same period of the previous fiscal year, totaling 51,461 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 39 countries and regions centered around 29 companies and one research center, with average daily bottle sales of approximately 32.75 million bottles as of June 2020.

The impacts of the novel coronavirus vary according to a range of factors, including the extent to which

infection has spread in each country or region, and the business restriction orders issued by each country's national and regional governments. We are therefore taking measures appropriate to each location and following the instructions of governmental agencies as we conduct our operations and manufacturing activities.

i. The Americas

Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Brazil, Mexico, and the United States. In these regions, we strived to increase revenue by reinforcing the sales networks within both the home delivery and retail store sales channels.

Nonetheless, consolidated net sales in the Food and Beverages (The Americas) segment decreased 8.4% from the same period of the previous year to 11,544 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, Myanmar, and China, among others, while also importing *Yakult* and other products for sale in the United Arab Emirates (UAE), among other nations.

In China, we set up the Hengyang Branch in Hengyang, Hunan Province, the Wuhu Branch in Wuhu, Anhui Province and the Zhaoqing Branch in Zhaoqing, Guangdong Province. These branches are starting to sell *Yakult* and *Yakult Light* through the retail store channel. This brings the number of sales bases in China to 49.

As a result of the above, consolidated net sales in the Food and Beverages (Asia and Oceania) segment rose 0.6% from the same period of the previous year to 25,807 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 difficult circumstances, the Yakult companies in each country aimed for sustainable growth by conducting sales activities tailored to their respective markets.

As a result of these efforts, consolidated net sales in the Food and Beverages (Europe) segment increased 3.5% from the same period of the previous year to 2,230 million yen.

• Pharmaceuticals

During the quarter under review, we refrained from visiting medical institutions in order to prevent the spread of the novel coronavirus. Instead, we made use of alternative methods such as online meetings, according to medical professionals' needs, to promote the awareness and proper use of our products specializing in oncology and related fields.

Regarding our mainstay, the antineoplastic drug *Elplat*, we endeavored to maintain our market share by providing information and holding seminars via online meetings, among other means. 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. At the same time, we sought to expand sales channels for our core generic product, the antineoplastic metabolite *Gemcitabine [Yakult]* and worked to increase revenue by swiftly building market awareness for the antineoplastic drugs *Capecitabine Tablets [Yakult]* and *Gefitinib Tablets [Yakult]*. In addition, having signed an agreement with Nihon Servier Co., Ltd. for the promotion in Japan of the antineoplastic drug *Onivyde®* (liposomal irinotecan), we commenced sales in June 2020 and worked to swiftly promote use of the drug and build market awareness.

However, our revenue was impacted by the effects of the novel coronavirus combined with revisions to National Health Insurance drug prices in October 2019 and April 2020, which reduced prices for most of Yakult's pharmaceutical products.

In R&D, we continued to progress with the clinical development of items in our pipeline, including the PI3K inhibitor *duvelisib* [YHI-1702], 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.

Despite the above efforts, however, consolidated net sales in the Pharmaceuticals segment declined 18.6% to 4,442 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 inner and outer 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.

Our cosmetics operations were impacted by the spread of the novel coronavirus, with some beauty salons having to refrain from offering services. However, we took infection prevention measures that prioritized the safety of employees and customers, and continued our operating activities.

As specific examples of such activities, from June 2020 we embarked on brand development for our *Lactdew* series of basic skin care products and implemented a spring sales promotion campaign for our *Yakult Medicated APACOAT S.E. Nanotechnology* toothpaste in an effort to encourage continuing regular use of these products and increase sales.

Meanwhile, impacts on our professional baseball operations due to the spread of the novel coronavirus included the delay to the start of the season and the requirement to hold games without spectators. However, we are taking action to create an environment where fans can watch games with peace of mind, and to respond to fans' expectations in other ways.

Nonetheless, despite our initiatives, consolidated net sales in the Others segment declined 5.5% to 4,139 million yen.

Note: Consolidated sales for each segment include inter-segment sales. Sales figures for each segment do not include consumption tax, etc.

(2) Financial Position

Total assets at the fiscal quarter-end amounted to 609,163 million yen, a decrease of 18,707 million yen compared to the previous fiscal year end, three months prior.

Net assets decreased 13,259 million yen from the previous fiscal year end to 398,823 million yen. This was primarily due to a decrease in foreign currency translation adjustments caused by the yen's appreciation, which outweighed an increase in retained earnings from profit attributable to owners of parent.

The equity to asset ratio was 60.0%, a 0.5 percentage point increase from the previous fiscal year end.

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

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

As described in (1) Business Performance Overview, the impacts of the novel coronavirus have included restrictions on some business activities in our mainstay Food and Beverages segment both in Japan and overseas. However, the restrictions are now being relaxed, and in the retail store channel in particular, an increasing number of regions are witnessing growth in sales. Overall bottle sales of dairy products are marginally lower than planned, but remain within the range expected.

Meanwhile, for the professional baseball team operation in the Others segment, a deterioration in results is expected as originally assumed, due to the reduction in attendance as a result of factors including the delayed start of the season and games held without spectators.

At the current time, therefore, our original assumptions have not changed significantly. With regard to earnings forecasts, basic earnings per share were affected by changes in treasury stock but other earnings forecasts have remained unchanged since the announcement on May 14, 2020.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

	(Millions of yen)	
	Fiscal year 2019 As of March 31, 2020	Current period As of June 30, 2020
Assets		
Current Assets		
Cash and Deposits	175,638	154,923
Notes and accounts receivable-trade	51,832	53,746
Merchandises and Finished goods	10,232	10,442
Work in process	2,165	2,211
Raw materials and supplies	16,374	16,384
Others	9,814	11,276
Allowance for doubtful accounts	(249)	(206)
Total current assets	265,806	248,777
Non-Current Assets		
Property, plant and equipment		
Buildings and structures, net	86,081	83,898
Others, net	117,914	114,901
Total Property, plant and equipment	203,996	198,799
Intangible assets		
Software	2,121	2,050
Others	2,328	2,219
Total Intangible assets	4,450	4,270
Investments and other assets		
Investment securities	139,780	144,138
Others	13,938	13,270
Allowance for doubtful accounts	(101)	(92)
Total investments and other assets	153,617	157,315
Total non-current assets	362,064	360,385
Total assets	627,871	609,163

Yakult Honsha Co., Ltd. (2267) Financial Report for the 1st Quarter ended June 30, 2020

(Millions of yen)

	Fiscal year 2019 As of March 31, 2020	Current period As of June 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable-trade	26,210	25,358
Short-term loans payable	27,272	27,272
Current portion of long-term loans payable	5,467	5,467
Income taxes payable	4,430	4,268
Provision for bonuses	5,879	3,419
Others	39,803	39,398
Total Current liabilities	109,062	105,185
Non-current Liabilities		
Long-term loans payable	70,683	69,316
Provision for directors' retirement benefits	359	337
Net defined benefit liability	6,408	5,937
Asset retirement obligations	1,676	1,610
Others	27,596	27,952
Total non-current liabilities	106,725	105,154
Total Liabilities	215,788	210,339
Net assets		
Shareholders' equity		
Capital stock	31,117	31,117
Capital surplus	41,475	41,420
Retained earnings	379,948	387,683
Treasury shares	(54,933)	(54,761)
Total Shareholders' equity	397,607	405,459
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	19,950	24,146
Foreign currency translation adjustment	(40,150)	(60,360)
Remeasurements of defined benefit plans	(4,028)	(3,896)
Total accumulated other comprehensive income	(24,228)	(40,109)
Non-controlling interests	38,702	33,474
Total net assets	412,082	398,823
Total liabilities and net assets	627,871	609,163

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(Millions of yen)

	Previous period From April 1, 2019 to June 30, 2019	Current period From April 1, 2020 to June 30, 2020
Net Sales	95,856	92,528
Cost of sales	39,334	37,300
Gross profit	56,522	55,228
Selling, general and administrative expenses	46,545	44,181
Operating profit	9,976	11,046
Non-operating income		
Interest income	1,310	1,243
Dividend income	965	1,044
Share of profit of entities accounted for using equity method	1,119	911
Foreign exchange gains	—	3,083
Others	789	736
Total non-operating income	4,184	7,019
Non-operating expenses		
Interest expenses	207	195
Foreign exchange losses	119	—
Others	110	160
Total non-operating expenses	437	355
Ordinary profit	13,723	17,710
Extraordinary income		
Gain on sales of non-current assets	20	25
Gain on sales of investment securities	974	—
Others	32	70
Total extraordinary income	1,027	95
Extraordinary losses		
Loss on sales of non-current assets	5	12
Loss on retirement of non-current assets	204	31
Loss on valuation of investment securities	743	—
Expense related to a novel coronavirus	—	648
Others	1	4
Total extraordinary losses	955	697
Profit before income taxes	13,795	17,108
Income taxes	3,964	3,905
Profit	9,831	13,203
Profit attributable to non-controlling interests	1,202	1,784
Profit attributable to owners of parent	8,628	11,419

Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

	Previous period From April 1, 2019 to June 30, 2019	Current period From April 1, 2020 to June 30, 2020
Profit	9,831	13,203
Other comprehensive income		
Valuation difference on available-for-sale securities	(5,868)	4,213
Foreign currency translation adjustment	1,449	(27,112)
Remeasurements of defined benefit plans, net of tax	110	128
Share of other comprehensive income of entities accounted for using equity method	267	(119)
Total other comprehensive income	(4,041)	(22,889)
Comprehensive income	5,790	(9,686)
Comprehensive income attributable to:		
Owners of parent	4,464	(4,462)
Non-controlling interests	1,325	(5,224)

(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.

(Quarterly Consolidated Statement of Income)

Expenses Related to the Novel Coronavirus

Such expenses primarily comprised compensation for absence from work paid to Yakult Ladies in Japan and overseas.

(Segment Information)

I Net sales and profit (loss) in each reportable segment during the first three months 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 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 three months of fiscal 2020 (April 1 to June 30, 2020)

(Millions of yen)

	Food and Beverages			
	Japan	The Americas	Asia and Oceania	Europe
Net sales				
Net sales to external customers	44,849	11,544	25,807	2,230
Intersegment net sales or transfers	6,611	—	—	—
Total	51,461	11,544	25,807	2,230
Segment profit (loss)	6,004	2,901	6,250	276

	Pharmaceuticals	Others	Adjustments	Consolidated results
Net sales				
Net sales to external customers	4,442	3,653	—	92,528
Intersegment net sales or transfers	—	486	(7,098)	—
Total	4,442	4,139	(7,098)	92,528
Segment profit (loss)	223	82	(4,693)	11,046

Notes: Adjustments are as follows:

1. The (4,693) million yen adjustment in segment profit (loss) includes (3,462) 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