

Consolidated Financial Results for the 1st Quarter of FY2018, ended June 30, 2018

(Japanese Generally Accepted Accounting Principles)

July 27, 2018

Name of company	Yakult Honsha Co., Ltd		
Stock exchange listing	First section of Tokyo Stock Exchange		
Code number	2267		
URL	http://www.yakult.co.jp/		
Representative	President and Representative	Takashige Negishi	
	Director		
Contact person	Executive officer	Shuichi Watanabe	Tel. (03) 3574 - 8960
Scheduled date of filing Statutory quarterly financial report	August 10, 2018		
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 FY2018, ended June 30, 2018 (April 1, 2018 - June 30, 2018)

(1) Consolidated Financial Results (Cumulative) (Percentage figures represent year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent	
	million yen	%	million yen	%	million yen	%	million yen	%
1Q FY2018	96,691	2.3	10,013	0.3	12,652	5.2	10,023	24.7
1Q FY2017	94,481	4.3	9,980	37.7	12,023	28.7	8,038	46.6

Note - Comprehensive income for 1Q FY2018: 3,047 million yen (-73.7%), 1Q FY2017: 11,589 million yen (-%)

	Earnings per Share - basic		Diluted Earnings per Share	
	yen		yen	
1Q FY2018	62.46		—	
1Q FY2017	48.61		—	

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio
	million yen	million yen	%
1Q FY2018	628,760	387,016	56.0
FY2017	627,031	386,674	56.2

Ref. - Shareholders' equity for 1Q FY2018: 352,293 million yen, FY2017: 352,178 million yen

2. Dividends

(Base date)	Dividend per Share				
	1Q	2Q	3Q	Year End	Total
	yen	yen	yen	yen	yen
FY2017	—	17.00	—	17.00	34.00
FY2018	—				
FY2018 (Forecast)		20.00	—	20.00	40.00

Note - Revision of the latest dividend forecast No

3. Forecast for consolidated financial results for FY2018 (April 1, 2018 - March 31, 2019)

(Percentage figures represent year-on-year changes)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent		Earnings per Share - basic
	million yen	%	million yen	%	million yen	%	million yen	%	yen
2Q (cumulative)	205,000	3.7	22,000	(3.5)	26,500	(1.3)	17,000	(4.9)	105.92
Annual	418,000	4.1	46,500	7.0	56,500	6.5	35,500	4.2	221.19

Note - Revision of the latest financial forecast No

*Notes

(1) Changes in important subsidiaries during the period No

(2) Adoption of simplified and specified accounting procedure: Yes

Note - Details are stated on p. 9. under "(3) Notes to 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)

1Q FY2018	171,045,418	FY2017	171,045,418
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(b) Number of treasury stocks

1Q FY2018	10,549,938	FY2017	10,549,711
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(c) Weighted average of number of shares

1Q FY2018	160,495,608	1Q FY2017	165,361,209
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*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 p. 4 under "Disclaimer on 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 27, 2018.

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, 2019, the Japanese economy remained on a gradual recovery path owing to continued improvement in income, however the outlook remained unclear as the result of increasingly uncertain economic conditions internationally.

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.

As a result of these efforts, the consolidated net sales for the first quarter of this fiscal year rose 2.3% from the same period of the previous year to 96,691 million yen. Operating income increased 0.3% to 10,013 million yen, while ordinary income climbed 5.2% to 12,652 million yen. Quarterly profit attributable to owners of the parent increased 24.7% to 10,023 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, and the value of, its proprietary living *Lactobacillus casei* strain Shirota and proactively conducted grassroots value dissemination initiatives utilizing scientific evidence.

Through our home delivery channel, we strived to create new customers for our mainstay fermented milk drinks *Yakult 400* and *Yakult 400LT* while also encouraging existing customers to continue drinking these products. In addition, we continued operation of *Yakult Delivery Net*, a new service that started last year which allows customers to order Yakult products via the internet, to selected regions of Japan, creating opportunities to engage new customers. We also aimed to enhance our home delivery organization by improving the working environment for Yakult Ladies, while continuing with hiring initiatives.

Through our retail store channel, promotion staff worked to communicate the value of our products to customers, with particular focus on the fermented milk drinks *New Yakult* and *New Yakult Calorie Half*. We also revamped the packaging for our *Symbiotics Yakult W* in April, and worked to increase sales as well as the number of retail outlets stocking this product.

We also worked to support the sales frontlines by strengthening advertising for our *Yakult* product series, including featuring actor Tori Matsuzaka for our *Yakult 400LT* advertising.

In juices and other beverages, we strove to increase sales focusing on our lactobacillus-fermented fruit drink, *Yakult no Oishii Hakko Kajitsu*, and *Toughman* nutritional drinks. We also worked to strengthen the *Toughman* brand with the launch of *Toughman Refresh* in late March.

As a result, consolidated net sales for the food and beverages segment (Japan) increased 8.2% from the same period of the previous fiscal year, totaling 56,238 million yen.

Food and Beverages (Overseas)

Yakult's operations outside of 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 37 countries and regions centered around 28 companies and one research center with average daily bottle sales of approximately 34.19 million bottles as of June 2018.

i. The Americas

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

During the quarter under review we worked to enhance our sales network in the region, including both our home delivery and retail store channels, and to achieve sales growth.

Despite this, however, consolidated net sales in the food and beverages (The Americas) segment declined 0.4% to 12,415 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, China, among others while also conducting import sales of *Yakult* in countries such as the United Arab Emirates .

In China, we established a new branch in Guiyang, Guizhou province and commenced retail sales of *Yakult* and *Yakult Light* in the city as well as surrounding cities from June. This brings the number of sales bases in China to 43.

In order to meet the demand for low-calorie products as consumers place an increasing focus on health, we commenced sales of the low calorie *Yakult Light* in the United Arab Emirates (UAE) in April and Thailand in June, following the product's release in India in February.

Meanwhile, we are proceeding with preparations for the manufacture and sale of *Yakult* in Myanmar.

As a result of the above, consolidated net sales in the food and beverages (Asia and Oceania) segment rose 12.6% from the same period of the previous year to 25,001 million yen.

iii. 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 have engaged in a variety of initiatives in our efforts to receive approval for health claims related to our products. Amidst a difficult sales environment, Yakult companies in each country worked to achieve sustainable growth by engaging in sales activities tailored to their respective markets.

As a result, consolidated net sales in the food and beverages (Europe) segment rose 17.1% from the same period of the previous year to 2,443 million yen.

Pharmaceuticals

During the quarter under review, we promoted the awareness and proper use of our products that specialize in oncology and related fields.

Regarding our mainstay, the antineoplastic drug *Elplat*, we proactively conducted presentations for medical professionals in order to maintain and grow our market share. Although medical institutions are increasingly switching to the generic versions of *Elplat* since they were launched, 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 trust we have gained with medical professionals. Regarding the antineoplastic drug *Zaltrap*®, which we are jointly promoting with Sanofi K.K. we endeavored to proactively provide information in order to advance market penetration in the colorectal cancer field. In addition, we worked to expand sales channels for our core generic products including antineoplastic metabolite *Gemcitabine Yakult*. Despite these efforts, revenue was significantly impacted by a decline in the price of most of our pharmaceutical products in accordance with the revisions made to the NHI Drug Price Standards in April.

Meanwhile, in R&D, we pushed forward with planned clinical developments, including oral HDAC inhibitor *Resminostat* by Germany's 4SC AG. In June, we concluded an exclusive license agreement

with Verastem Oncology (US) for the development and commercialization of PI3K inhibitor *Duvelisib* in Japan, and have begun preparations for its development and eventual new drug application (NDA). 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 15.6% to 5,651 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 continued to conduct home visit-based sales initiatives to consult with customers regarding our basic skin care products, centered on our core brands *Parabio*, *Revecy*, and *Revecy White*. As part of these initiatives, we focused on expanding our base of loyal customers by communicating the value of our proprietary moisturizing agent *S.E. (Shirota Essence)*, derived from our long history of research on lactic acid bacteria since the Company's foundation.

Among initiatives to grow our sales and to deliver greater convenience for customers, in May we released a revamped version of our *Yakult Medicated Apacoat S.E. Nanotechnology* toothpaste that more effectively prevents cavities and gum disease while whitening teeth, as well as a new travel size version named *Yakult Medicated Apacoat S.E. Nanotechnology Portable*.

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

As a result, consolidated net sales in the "Others" segment rose 0.1% to 4,284 million yen.

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

N.B.: Consolidated sales for each segment include inter-segment sales.

(2) Financial Position

Total assets at the fiscal quarter-end amounted to 628,760 million yen, an increase of 1,728 million compared to the previous fiscal year end.

Net assets rose 341 million yen from the previous fiscal year end to 387,016 million yen. This was primarily due to an increase in retained earnings from profit attributable to owners of the parent, as well as an increase in valuation difference on available-for-sale securities resulting from rising share prices in spite of a decrease in foreign currency translation adjustments due to appreciation of the yen.

Shareholders' equity ratio was 56.0%, a 0.2% decline compared to the previous fiscal year end.

(3) Disclaimer on 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 full-year forecast announced on May 10, 2018.

2. Quarterly Consolidated Financial Statements and Relevant Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	FY2017 Year-End (March 31, 2018)	FY2018 Q1 (June 30, 2018)
Assets		
Current assets		
Cash and deposits	151,788	148,289
Notes and accounts receivable	56,479	59,547
Merchandise and finished products	9,089	9,765
Semi-finished products	2,449	2,542
Raw materials and supplies	16,598	17,733
Others	9,129	11,713
Allowance for doubtful accounts	(254)	(249)
Total current assets	245,281	249,342
Fixed assets		
Tangible fixed assets		
Buildings and structures (net)	87,387	85,013
Others (net)	113,811	114,925
Total tangible fixed assets	201,198	199,938
Intangible fixed assets		
Software	3,050	2,844
Others	2,676	2,708
Total intangible fixed assets	5,727	5,552
Investments and other assets		
Investment securities	163,591	162,746
Others	11,361	11,304
Allowance for doubtful accounts	(129)	(124)
Total investments and other assets	174,823	173,926
Total fixed assets	381,749	379,418
Total assets	627,031	628,760

(Millions of yen)

	FY2017 Year-End (March 31, 2018)	FY2018 Q1 (June 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable	29,528	32,155
Short-term borrowings	41,643	44,635
Long-term borrowings within a year payable within one year	45,570	45,536
Income tax payable	3,404	2,995
Allowance for bonuses	5,840	3,401
Others	35,812	35,898
Total current liabilities	161,800	164,622
Fixed liabilities		
Long-term borrowings	41,898	40,528
Allowance for retirement benefits for directors	395	340
Retirement benefit obligation	5,346	5,058
Asset retirement obligations	966	967
Others	29,949	30,227
Total fixed liabilities	78,557	77,121
Total liabilities	240,357	241,744
Net assets		
Shareholders' equity		
Capital	31,117	31,117
Capital surplus	41,528	41,528
Retained earnings	318,580	326,032
Treasury stock	(52,322)	(52,323)
Total shareholders' equity	338,903	346,354
Accumulated other comprehensive income (loss)		
Valuation difference on available-for-sale securities	35,215	36,701
Foreign currency translation adjustments	(20,721)	(29,652)
Remeasurements of defined benefit plans	(1,218)	(1,109)
Total accumulated other comprehensive income (loss)	13,274	5,938
Non-controlling interests	34,495	34,722
Total net assets	386,674	387,016
Total liabilities and net assets	627,031	628,760

(2) Quarterly Consolidated Statement of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

FY2018 Q1

(Millions of yen)

	FY2017 Q1 (April 1, 2017 to June 30, 2017)	FY2018 Q1 (April 1, 2018 to June 30, 2018)
Net Sales	94,481	96,691
Cost of sales	39,917	40,102
Gross profit	54,564	56,589
Selling, general and administrative expenses	44,583	46,576
Operating income (loss)	9,980	10,013
Non-operating income		
Interest income	940	1,062
Dividends income	962	974
Investment gains on the equity method	857	968
Others	555	550
Total non-operating income (loss)	3,315	3,556
Non-operating expenses		
Interest expenses	157	182
Foreign exchange loss	1,052	599
Others	61	134
Total non-operating expenses	1,272	917
Ordinary income	12,023	12,652
Extraordinary gain		
Gain on sale of fixed assets	44	15
Gain on sales of investment securities	-	1,372
Others	1	1
Total extraordinary gain	46	1,389
Extraordinary loss		
Loss on sale of fixed assets	3	4
Loss on retirement of fixed assets	25	69
Others	0	1
Total extraordinary loss	30	74
Quarterly income before income taxes and minority interests	12,040	13,966
Income taxes	2,978	2,946
Quarterly profit	9,061	11,020
Quarterly profit attributable to non-controlling interests	1,023	996
Quarterly profit attributable to owners of parent	8,038	10,023

Quarterly Consolidated Statement of Comprehensive Income

FY2018 Q1

(Millions of yen)

	FY2017 Q1 (April 1, 2017 to June 30, 2017)	FY2018 Q1 (April 1, 2018 to June 30, 2018)
Quarterly profit	9,061	11,020
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	3,283	1,598
Foreign currency translation adjustments	(918)	(9,684)
Remeasurements of defined retirement benefit plans	187	109
Share of other comprehensive income of entities accounted for using equity method	(24)	4
Total other comprehensive income (loss)	2,528	(7,972)
Quarterly comprehensive income	11,589	3,047
Total quarterly comprehensive income (loss) attributable to:		
Owners of parent	10,089	2,806
Non-controlling interests	1,500	241

(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 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) from the first quarter of the current fiscal year.

This change had minimal effect on the Company's consolidated quarterly financial statements.

(Additional Information)

The Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Corporate Accounting Standards Application Guidelines No. 28, February 16, 2018) to its accounting from the beginning of the first quarter of the current fiscal year. Accordingly, deferred tax assets are stated under investments and other assets, while deferred tax liabilities are stated under fixed liabilities.

(Segment Information)

I Sales and profit (loss) in each reportable segment during the first quarter of fiscal 2017 (April 1 to June 30, 2017)

Millions of yen

	Food and Beverages			
	Japan	The Americas	Asia and Oceania	Europe
Sales				
Sales to external customers	47,393	12,463	22,201	2,086
Intersegment sales or transfers	4,584	—	—	—
Total	51,977	12,463	22,201	2,086
Segment profit (loss)	4,448	3,207	5,953	133

	Pharmaceuticals	Others	Adjustment	Consolidated
Sales				
Sales to external customers	6,698	3,639	—	94,481
Intersegment sales or transfers	—	639	(5,223)	—
Total	6,698	4,278	(5,223)	94,481
Segment profit (loss)	905	(19)	(4,647)	9,980

Notes: Adjustments are as follows:

- (1) The (4,647 million) yen adjustment in segment profit (loss) includes (3,472 million) yen of corporate expense that is not allocated to each segment. Company-wide costs 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 income under the quarterly consolidated statements of income.
- (3) Countries/regions belonging to each geographic segment outside Japan.

1 The Americas	Mexico, Brazil, United States of America
2 Asia and Oceania	Hong Kong, China, Indonesia, Singapore, Malaysia, Australia, India, Vietnam, United Arab Emirates, Myanmar
3 Europe	Netherlands, United Kingdom, Germany, Belgium, Austria, Italy

II 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
Sales				
Sales to external customers	47,530	12,415	25,001	2,443
Intersegment 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	Adjustment	Consolidated
Sales				
Sales to external customers	5,651	3,649	—	96,691
Intersegment 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 expense that is not allocated to each segment. Company-wide costs 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 income under the quarterly consolidated statements of income.
- (3) Countries/regions in each geographic segment outside Japan.

1 The Americas	• • • •	Mexico, Brazil, United States of America
2 Asia and Oceania	• • • •	Hong Kong, China, Indonesia, Singapore, Malaysia, Australia, India, Vietnam, United Arab Emirates, Myanmar
3 Europe	• • • •	Netherlands, United Kingdom, Germany, Belgium, Austria, Italy