

Consolidated Financial Results for the 2nd Quarter ended September 30, 2020
(Japanese Generally Accepted Accounting Principles)



November 13, 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 Statutory quarterly financial report	November 13, 2020		
Scheduled date of payment of dividends	December 7, 2020		
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 2nd quarter of FY2020, ended September 30, 2020 (April 1, 2020 - September 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	%
2Q FY2020	190,428	(5.7)	24,162	1.8	33,493	10.5	21,708	5.1
2Q FY2019	201,960	(0.8)	23,732	(0.3)	30,315	2.7	20,657	(3.1)

(Note) Comprehensive income for 2Q FY2020 5,257 million yen {(42.3)%} 2Q FY2019 9,107 million yen {(23.3)%}

	Basic earnings per Share	Diluted earnings per Share
	yen	yen
2Q FY2020	135.43	—
2Q FY2019	128.96	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity to Asset Ratio
	million yen	million yen	%
2Q FY2020	619,529	414,293	61.5
FY2019	627,871	412,082	59.5

(Ref.) Equity for 2Q FY2020 381,184 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	—	26.00			
FY2020 (Forecast)			—	26.00	52.00

(Note) Revision of the latest dividend forecast : Yes

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
Annual	388,000	(4.4)	43,000	(5.9)	58,500	0.0	40,000	0.7	249.30

(Note) Revision of the latest financial forecast : Yes

*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. 11 under “(3) 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)

(b) Number of treasury stocks

(c) Weighted average of number of shares

(cumulative figure for quarter)

2Q FY2020	171,045,418	FY2019	171,045,418
2Q FY2020	10,593,227	FY2019	10,836,662
2Q FY2020	160,293,956	2Q FY2019	160,190,460

*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 “(3) 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 November 13, 2020.

Materials used in the conference call 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 second quarter of the fiscal year ending March 31, 2021, the Japanese economy continued to face challenging circumstances as a result of the novel coronavirus. However, the effects of several policies, as well as improvement in overseas economies has led to some signs of recovery.

Against this background, the Yakult 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 half of this fiscal year declined 5.7% from the same period of the previous year to 190,428 million yen. However, operating profit increased 1.8% to 24,162 million yen, while ordinary profit increased 10.5% to 33,493 million yen. Profit attributable to owners of parent rose 5.1% to 21,708 million yen.

2 Overview by Segment

• Food and Beverages (Japan)

In Japan, we took measures to prevent infection from spreading among customers and employees as we pursued our operating activities amid the novel coronavirus pandemic.

In our home delivery channel, we placed particular focus on the *Yakult 400* series including the fermented milk drink *Yakult 400W*, as well as on *Yakult 1000*, as we utilized delivery methods tailored to the customers' needs, in order to encourage existing customers to continue drinking these products while also to creating new customers. Meanwhile, we raised the profile of the Yakult Delivery Net online ordering service through television commercials and other forms of advertising, which led to an increase in both users and sales.

In the retail store channel, higher expectations of lactic acid bacteria as an aid in maintaining customers' health led to increased demand for the fermented milk drinks *New Yakult* and *New Yakult Calorie Half*.

Meanwhile, vending machine sales decreased due to an increase in remote working and fewer trips outside the home by consumers.

In product specific initiatives, August 2020 saw the extension of the fermented milk drink *Yakult 1000*'s sales region from Tokyo and the six prefectures of the Kanto region to Hokkaido and the entire Tohoku region, as well as to the prefectures of Shizuoka, Yamanashi, Nagano, and Niigata. In September, we revamped the design of the *Mil-Mil* fermented milk brand and sought to revitalize the *Yakult* and *Mil-Mil* brands through television commercials and undertaking other advertising for these products.

Consequently, consolidated net sales for the Food and Beverages segment (Japan) increased 0.1% from the same period of the previous fiscal year, totaling 104,490 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 35.97 million bottles as of September 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 restrictions issued by 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 for both the home delivery and retail store sales channels.

Nonetheless, consolidated net sales in the Food and Beverages (The Americas) segment decreased 14.5% from the same period of the previous year to 21,322 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 took action to further reinforce our sales network by increasing the number of sales offices to 49 by August 2020.

Nonetheless, consolidated net sales in the Food and Beverages (Asia and Oceania) segment declined 4.1% from the same period of the previous year to 56,149 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 have 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 4.2% from the same period of the previous year to 4,265 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 the needs of medical professionals in order to promote awareness of and the proper use of our products specializing in oncology and related fields.

Regarding our mainstay, the antineoplastic drug *Elplat*, although medical institutions are increasingly switching to generic versions of this drug, we boosted initiatives to encourage customers to continue choosing *Elplat* by leveraging our ability to provide relevant information about it—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 for the antineoplastic drug *Capecitabine Tablets [Yakult]*. In addition, we took aggressive action to promote rapid adoption by medical institutions and build market awareness for the antineoplastic drug *Onivyde*[®] (liposomal irinotecan), which was launched in June 2020 pursuant to a promotional agreement with Nihon Servier Co., Ltd.

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). In August 2020, Verastem Oncology signed an agreement to sell its rights in *duvelisib* to Secura Bio, Inc., a U.S. venture company; the product's transfer to Secura Bio was completed in September. Pursuant to the licensing agreement between Verastem Oncology and Yakult, the rights licensed to Yakult (including the rights to develop and market the drug in Japan) and the terms of the agreement itself are transferred to Secura Bio without any changes whatsoever.

Despite the above efforts, however, consolidated net sales in the Pharmaceuticals segment declined 14.2% to 8,925 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.

As a specific example of such activities, in July 2020 we launched two new products in the *Lactdew* series of highly moisturizing basic skin care products containing *S.E.*; these products were *Lactdew S.E. Cleansing (Oil)* and *Lactdew S.E. Washing*. By bolstering this series' product lineup, we sought to provide greater satisfaction for customers.

As a new initiative, moreover, we launched a flagship store on the Chinese e-commerce shopping site Tmall Global and commenced sales, striving to increase revenue.

Meanwhile, our professional baseball operations were impacted by the spread of the novel coronavirus as we were forced to limit the number of spectators at games. However, we took action to respond to fans' expectations by creating an environment where they could watch games with peace of mind while also engaging with them in various ways.

Despite our initiatives, however, consolidated net sales in the Others segment declined 33.9% to 7,807 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 619,529 million yen, a decrease of 8,341 million yen compared to the previous fiscal year end, six months prior.

Net assets increased 2,211 million yen from the previous fiscal year end to 414,293 million yen. This was primarily due to an increase in retained earnings from profit attributable to owners of parent, which outweighed a decrease in foreign currency translation adjustments caused by the yen's appreciation.

The equity to asset ratio was 61.5%, a 2.0 percentage point increase from the previous fiscal year end.

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

With regard to the above earnings forecasts, we revised the full-year consolidated earnings forecasts announced on May 14, 2020 based on business performance during the first two quarters and the recent business environment.

Consolidated Financial Results Forecast

(Millions of yen)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
Previously announced forecast (A)	411,000	47,000	59,000	37,000
Revised forecast (B)	388,000	43,000	58,500	40,000
Difference (B – A)	(23,000)	(4,000)	(500)	3,000

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. Even now, the pandemic is still spreading in some countries, but currently an increasing number of regions are free of restrictions on production activities and are witnessing a growth in sales.

Under these circumstances, we expect sales of dairy products in Food and Beverages (Japan) to increase as forecast, reflecting the positive effects of the launch of the new product, *Yakult 1000*, among other factors. However, we expect sales of other beverages to be lower than originally thought due to factors including reduced sales via vending machines as a result of fewer trips outside the home by consumers. We expect operating profit to be higher than originally planned, reflecting such factors as lower expenses due to refraining from sales activities.

In Food and Beverages (Overseas), bottle sales of dairy products in some countries are expected to be lower than originally thought due to the effects of the novel coronavirus pandemic, among other factors. With the addition of negative exchange rate effects due to the yen appreciating more than foreseen, we expect both net sales and operating profit to be lower than originally planned.

For the professional baseball team operation in the Others segment, we are expecting a deterioration in results broadly in line with original assumptions, due to the reduction in attendance as a result of factors including the delayed start of the season and games held without spectators.

In light of the above, operating profit overall is expected to be lower than originally thought, but profit attributable to owners of parent is expected to be higher as we are projecting income including foreign exchange gains in non-operating income and gains on sales of investment securities in extraordinary income.

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.

Reference: Non-consolidated Financial Results Forecast

(Millions of yen)

	Net sales	Operating profit	Ordinary profit	Profit
Previously announced forecast (A)	172,500	5,000	25,000	22,000
Revised forecast (B)	170,000	7,000	27,000	24,000
Difference (B – A)	(2,500)	2,000	2,000	2,000

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 September 30, 2020
Assets		
Current assets		
Cash and deposits	175,638	163,066
Notes and accounts receivable-trade	51,832	54,695
Merchandises and finished goods	10,232	10,407
Work in process	2,165	2,609
Raw materials and supplies	16,374	17,573
Others	9,814	11,644
Allowance for doubtful accounts	(249)	(206)
Total current assets	265,806	259,790
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	86,081	83,427
Others, net	117,914	115,677
Total property, plant and equipment	203,996	199,105
Intangible assets		
Software	2,121	1,987
Others	2,328	2,683
Total intangible assets	4,450	4,670
Investments and other assets		
Investment securities	139,780	143,106
Others	13,938	12,947
Allowance for doubtful accounts	(101)	(90)
Total investments and other assets	153,617	155,963
Total non-current assets	362,064	359,739
Total assets	627,871	619,529

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(Millions of yen)

	Fiscal year 2019 As of March 31, 2020	Current period As of September 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable-trade	26,210	24,455
Short-term loans payable	27,272	25,822
Current portion of long-term loans payable	5,467	5,467
Income taxes payable	4,430	6,107
Provision for bonuses	5,879	6,682
Others	39,803	33,124
Total current liabilities	109,062	101,660
Non-current liabilities		
Long-term loans payable	70,683	68,249
Provision for directors' retirement benefits	359	350
Net defined benefit liability	6,408	5,695
Asset retirement obligations	1,676	1,611
Others	27,596	27,667
Total non-current liabilities	106,725	103,575
Total liabilities	215,788	205,235
Net assets		
Shareholders' equity		
Capital stock	31,117	31,117
Capital surplus	41,475	40,903
Retained earnings	379,948	397,972
Treasury shares	(54,933)	(52,724)
Total Shareholders' equity	397,607	417,269
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	19,950	23,363
Foreign currency translation adjustment	(40,150)	(55,689)
Remeasurements of defined benefit plans	(4,028)	(3,758)
Total accumulated other comprehensive income	(24,228)	(36,084)
Non-controlling interests	38,702	33,109
Total net assets	412,082	414,293
Total liabilities and net assets	627,871	619,529

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(Millions of yen)

	Previous period From April 1, 2019 to September 30, 2019	Current period From April 1, 2020 to September 30, 2020
Net sales	201,960	190,428
Cost of sales	84,507	77,290
Gross profit	117,453	113,138
Selling, general and administrative expenses	93,720	88,976
Operating profit	23,732	24,162
Non-operating income		
Interest income	2,617	2,142
Dividend income	1,153	1,208
Share of profit of entities accounted for using equity method	2,715	2,051
Foreign exchange gains	—	3,175
Others	1,148	1,386
Total non-operating income	7,633	9,964
Non-operating expenses		
Interest expenses	436	384
Foreign exchange losses	354	—
Others	259	248
Total non-operating expenses	1,050	633
Ordinary profit	30,315	33,493
Extraordinary income		
Gain on sales of non-current assets	47	188
Gain on sales of investment securities	1,858	1,173
Others	32	70
Total extraordinary income	1,938	1,432
Extraordinary losses		
Loss on sales of non-current assets	12	19
Loss on retirement of non-current assets	366	148
Loss on valuation of investment securities	804	754
Expense related to a novel coronavirus	—	1,137
Others	274	121
Total extraordinary losses	1,457	2,181
Profit before income taxes	30,797	32,744
Income taxes	7,657	8,738
Profit	23,140	24,005
Profit attributable to non-controlling interests	2,482	2,296
Profit attributable to owners of parent	20,657	21,708

Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

	Previous period From April 1, 2019 to September 30, 2019	Current period From April 1, 2020 to September 30, 2020
Profit	23,140	24,005
Other comprehensive income		
Valuation difference on available-for-sale securities	(6,780)	3,431
Foreign currency translation adjustment	(7,922)	(22,664)
Remeasurements of defined benefit plans, net of tax	220	266
Share of other comprehensive income of entities accounted for using equity method	449	218
Total other comprehensive income	(14,033)	(18,748)
Comprehensive income	9,107	5,257
Comprehensive income attributable to:		
Owners of parent	7,316	9,852
Non-controlling interests	1,790	(4,595)

(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 second 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 second quarter under review.

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

(Quarterly Consolidated Statement of Income)

Expense Related to the Novel Coronavirus (Extraordinary Losses)

Such expenses primarily comprised compensation for absence from work paid to Yakult Ladies in Japan and overseas, along with fixed costs in our professional baseball operations corresponding to the reduced number of games held during the regular season.

(Segment Information)I Net sales and profit (loss) in each reportable segment during the second quarter of FY2019
(April 1 to September 30, 2019)

(Millions of yen)

	Food and Beverages			
	Japan	The Americas	Asia and Oceania	Europe
Net sales				
Net sales to external customers	93,359	24,951	58,543	4,092
Intersegment net sales or transfers	10,999	—	—	—
Total	104,358	24,951	58,543	4,092
Segment profit (loss)	9,244	6,775	15,349	351

	Pharmaceuticals	Others	Adjustments	Consolidated results
Net sales				
Net sales to external customers	10,404	10,609	—	201,960
Intersegment net sales or transfers	—	1,193	(12,192)	—
Total	10,404	11,802	(12,192)	201,960
Segment profit (loss)	93	1,130	(9,212)	23,732

Notes: Adjustments are as follows:

1. The (9,212) million yen of adjustment in segment profit (loss) includes (6,724) 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, 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 Netherland, The United Kingdom, Germany, Belgium, Austria, Italy |

II Net sales and profit (loss) in each reportable segment during the second quarter of FY2020
(April 1 to September 30, 2020)

(Millions of yen)

	Food and Beverages			
	Japan	The Americas	Asia and Oceania	Europe
Net sales				
Net sales to external customers	93,022	21,322	56,149	4,265
Intersegment net sales or transfers	11,468	—	—	—
Total	104,490	21,322	56,149	4,265
Segment profit (loss)	12,364	5,636	14,193	669

	Pharmaceuticals	Others	Adjustments	Consolidated results
Net sales				
Net sales to external customers	8,925	6,743	—	190,428
Intersegment net sales or transfers	—	1,063	(12,531)	—
Total	8,925	7,807	(12,531)	190,428
Segment profit (loss)	600	(193)	(9,109)	24,162

Notes: Adjustments are as follows:

1. The (9,109) million yen of adjustment in segment profit (loss) includes (6,568) million yen of corporate expense 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, 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 Netherland, The United Kingdom, Germany, Belgium, Austria, Italy |