Summary of Consolidated Financial Results for the Third Quarter of the Year Ending March 31, 2020 [IFRS]

January 30, 2020

Company Name: SUMITOMO DAINIPPON PHARMA CO., LTD.
Stock Exchange Listings: Tokyo
Security Code Number: 4506 (URL https://www.ds-pharma.com/)
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Filing Date of Quarterly Financial Report: February 5, 2020
Starting Date of Dividend Payments: －
Preparation of Supplementary Financial Data for Quarterly Financial Results: Yes
Information Meeting for Quarterly Financial Results to be held: Yes (for institutional investors and analysts)

(Note: All amounts are rounded to the nearest million yen)

1. Consolidated Financial Results for the Third Quarter of the Year Ending March 31, 2020 (April 1, 2019 to December 31, 2019)

(1) Results of Operations

(% represents changes from the previous year)

	Revenue		Core operating profit		Operating profit		Net profit		Net profit attributable to owners of the parent		Total comprehensive income	
	Yen million	%	Yen million	%	Yen million	%	Yen million	%	Yen million	%	Yen million	%
Nine months ended December 31, 2019	357,017	2.9	64,254	15.0	81,461	73.9	43,979	10.0	43,979	10.0	34,896	(37.8)
Nine months ended December 31, 2018	346,871	(2.3)	55,863	(28.4)	46,831	(33.9)	39,969	(8.9)	39,969	(8.9)	56,061	0.3

Note: Profit before taxes Nine months ended December 31, 2019: ¥84,422 million
Nine months ended December 31, 2018: ¥53,162 million

"Core operating profit" is calculated by deducting from operating profit any gains and losses resulting from nonrecurring factors that the Group designates (hereinafter, "non-recurring Items").

	Basic earnings per share	Earnings per share (diluted)
Nine months ended December 31, 2019	¥110.70	—
Nine months ended December 31, 2018	¥100.60	—

(2) Financial Position

(Millions of yen)

	Total assets	Net assets	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent to total assets	Equity attributable to owners of the parent per share (yen)
As of December 31, 2019	1,115,152	522,352	519,924	46.6%	¥1,308.66
As of March 31, 2019	834,717	498,138	498,138	59.7%	¥1,253.82

2. Dividends

	Dividends per share				
	1st quarter	2nd quarter	3rd quarter	Year-End	Annual
Year ended March 31, 2019	—	¥9.00	—	¥19.00	¥28.00
Year ending March 31, 2020	—	¥14.00			
Year ending March 31, 2020 (Forecasts)				¥14.00	¥28.00

Note: Revision of dividend forecasts from the latest announcement: None

3. Consolidated Financial Forecasts for the Year Ending March 31, 2020 （April 1, 2019 to March 31, 2020）

(% represents changes from the corresponding period of the previous year)

	Net sales		Core operating profit		Operating profit		Net profit		Net profit attributable to owners of parent		Basic earnings per share
	Yen million	%	Yen million	%	Yen million	%	Yen million	%	Yen million	%	
Year ending March 31, 2020	475,000	3.4	64,000	(17.2)	75,000	29.6	26,000	(46.5)	31,000	(36.2)	¥78.03

Note1: Profit before taxes Year ending March 31, 2020 : ¥78,000 million

2: Revision of consolidated financial forecasts from the latest announcement: Yes

Notes:

(1) Shift of significant subsidiaries during the period (shift of specified subsidiaries accompanied by changes in scope of consolidation): Yes

・Specified subsidiaries

(New : 20 Companies)

Sumitovant Biopharma Ltd.
Myovant Sciences Ltd.
Myovant Holdings Limited
Myovant Sciences GmbH
Myovant Treasury Holdings, Inc.
Myovant Treasury, Inc.
Urovant Sciences Ltd.
Urovant Holdings Limited
Urovant Sciences GmbH
Urovant Treasury Holdings, Inc.
Urovant Sciences Treasury, Inc.
Enzyvant Therapeutics Ltd.
Enzyvant Therapeutics General Ltd.
Enzyvant Therapeutics Holdings Limited
Enzyvant Therapeutics GmbH
Enzyvant Farber Ltd.
Altavant Sciences Ltd.
Altavant Sciences Holdings Limited
Altavant Sciences GmbH
Spirovant Sciences, Inc.

(Excluded : —)

(2) Changes in accounting policies, accounting estimates, and retrospective restatements

① Changes in accounting standards required by IFRS: Yes

② Changes due to changes in accounting standards other than (2),①: None

③ Changes in accounting estimates: None

(3) Number of shares outstanding (Common stock)

① Number of shares outstanding (Including treasury stock) at the end of period

December 31, 2019:	397,900,154 shares
March 31, 2019:	397,900,154 shares

② Number of treasury stock at the end of period

December 31, 2019:	604,695 shares
March 31, 2019:	603,851 shares

③ Average number of shares during the period

December 31, 2019:	397,295,852 shares
December 31, 2018:	397,297,342 shares

This summary of financial results is exempt from review procedures.

Explanation for Appropriate Use of Forecasts and Other Notes:

This material contains forecasts, projections, goals, plans, and other forward-looking statements regarding the Group’s financial results and other data. Such forward-looking statements are based on the Company’s assumptions, estimates, outlook, and other judgments made in light of information available at the time of preparation of such statements and involve both known and unknown risks and uncertainties. Accordingly, forecasts, plans, and other statements may not be realized as described, and actual financial results, success/failure or progress of development, and other projections may differ materially from those presented herein. Please refer to page 5, (4) Qualitative Information on Consolidated Financial Forecasts.

Supplementary financial data and the presentation materials for the earnings presentation are disclosed together with the summary of financial results.

The Company holds the conference call for institutional investors and analysts on Thursday, January 30, 2020. The audio of the conference call will be posted on our website promptly after the conference call.

【Attachment Documents】

1. Qualitative Information for the Nine Months ended December 31, 2019

The Group discloses its consolidated financial statements that are prepared in accordance with International Financial Reporting Standards (IFRS).
Forward-looking statements contained herein are based on the Group's judgments in light of information available as of the last day of the nine-month period under review.

(1) Qualitative Information on Business Results

About the performance indicator of "core operating profit"
The Group has set an original performance indicator for the Company's recurring profitability in the form of "core operating profit."
"Core operating profit" is calculated by deducting from operating profit any gains and losses resulting from nonrecurring factors designated by the Group. Among the main non-recurring items are impairment losses, restructuring costs and changes in fair value of contingent consideration related to company acquisitions.

Highlights of the Group's consolidated financial results for the first nine months of the fiscal year ending March 31, 2020 are as follows:

(Billions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019	Change	Change %
Revenue	346.9	357.0	10.1	2.9
Core operating profit	55.9	64.3	8.4	15.0
Operating profit	46.8	81.5	34.6	73.9
Profit before taxes	53.2	84.4	31.3	58.8
Net profit attributable to owners of the parent	40.0	44.0	4.0	10.0

On December 27, 2019, the Company completed the procedure related to stock transfers, etc. for the formation of a Strategic Alliance with Roivant Sciences Ltd. (hereinafter referred to as "Roivant"). The financial impact on the consolidated financial results for the nine-month period under review is immaterial.

Revenue increased by 2.9% year-on-year to 357.0 billion yen.
In the Japan segment, sales expansion of Trulicity® (therapeutic agent for type 2 diabetes) and the launch of Equa® and EquMet®, both of which are also indicated for the treatment of type 2 diabetes, helped to increase in revenue, despite the sales declines of long-listed drugs. Revenue growth was experienced in the North America segment as sales of atypical antipsychotic agent LATUDA®, one of the primary sources of revenue for the Group, continued to expand there. China segment also showed revenue growth.

Core operating profit increased by 15.0% year-on-year to 64.3 billion yen.
Core operating profit increased as gross profit grew on the back of a revenue increase and as selling, general and administrative expenses decreased.

Operating profit increased by 73.9% year-on-year to 81.5 billion yen.
Following the review of business plans, including development plans, in the oncology area, impairment losses on in-process research and development, which is included in intangible assets, were recorded. The review of business plans also resulted in a substantial decrease in the fair value of contingent consideration related to the acquisition of Boston Biomedical, Inc. and Tolero Pharmaceuticals, Inc., which then led to a reversal of expenses that exceeded the

impairment losses. As a result, operating profit registered a significant increase, on top of the increase in core operating profit.

Profit before taxes increased by 58.8% year-on-year to 84.4 billion yen.
Profit before taxes grew by a greater margin than operating profit did as finance income exceeded finance costs.

Net profit attributable to owners of the parent increased by 10.0% year-on-year to 44.0 billion yen.
Due to the decision to discontinue the Phase 3 study of napabucasin in patients with pancreatic cancer, the Group reversed deferred tax assets recognized in the United States. Primarily as a result of this, income tax expenses increased substantially. Nonetheless, net profit attributable to owners of the parent registered an increase, owing to the large increase in profit before taxes.

The ratio of net profit attributable to owners of the parent to revenue was 12.3%.

About the new segment performance indicator of “core segment profit”
For segment performance, the Group has set an original performance indicator for each segment’s recurring profitability in the form of “core segment profit.”
“Core segment profit” is each segment profit calculated by deducting from “core operating profit” any items such as R&D expenses and gains and losses on business transfers, which are managed globally and thus cannot be allocated to individual segments.

Operating results by segment are as follows.

[Japan segment]
Revenue increased by 3.6% year-on-year to 104.3 billion yen.
Revenue increased as sales expansion of Trulicity® and the launch of Equa® and EquMet® successfully offset the declines in sales of long-listed products, including LONASEN® tablet/powder (atypical antipsychotic) and AIMIX® (therapeutic agent for hypertension).
Core segment profit decreased by 13.2% year-on-year to 20.1 billion yen.
This decrease is attributable to the decrease in gross profit due to the change in the product mix.

[North America segment]
Revenue increased by 2.6% year-on-year to 195.7 billion yen.
This increase is attributable to the sales expansion of APTIOM® (antiepileptic agent) and other products, in addition to LATUDA®.
Core segment profit increased by 9.4% year-on-year to 90.2 billion yen.
This increase is attributable to the increase in gross profit due to the revenue growth and the decline in selling, general and administrative expenses.

[China segment]
Revenue increased by 23.4% year-on-year to 20.2 billion yen.
This increase is attributable to the sales growth of MEROPEN® (carbapenem antibiotic) and other products.
Core segment profit increased by 40.4% year-on-year to 9.4 billion yen.
This major increase is attributable to the increase in gross profit due to the revenue growth.

[Other Regions segment]

Revenue decreased by 14.7% year-on-year to 8.7 billion yen.

This decrease is primarily attributable to the decrease in exports of MEROPEN®.

Core segment profit increased by 5.6% year-on-year to 3.2 billion yen.

This increase is primarily attributable to the decrease in selling, general and administrative expenses.

In addition to the above reportable segments, the Group is also engaged in sales of food ingredients, food additives, materials for chemical products, veterinary drugs, and other product lines, which together generated revenue of 28.2 billion yen (down by 2.9% year-on-year) and core segment profit of 2.5 billion yen (up by 4.9% year-on-year).

(2) Qualitative Information on Financial Condition

Non-current assets increased by 305.5 billion yen over the previous fiscal year-end as other financial assets under non-current assets increased substantially due to the acquisition of goodwill and Roivant's shares following the completion of the procedure related to stock transfers, etc. and for the formation of a Strategic Alliance with Roivant, while property, plant and equipment increased due to the adoption of IFRS 16 "Leases" from the beginning of the current fiscal year. This increase in non-current assets was despite a decrease in intangible assets primarily due to impairment losses on in-process research and development and to a decrease in deferred tax assets due to its reversal in the United States.

Current assets decreased by 25.1 billion yen from the previous fiscal year-end as other financial assets decreased due to a decline in cash and cash equivalents and short-term loan receivables.

As a result, total assets increased by 280.4 billion yen from the previous fiscal year-end to 1,115.2 billion yen.

Total liabilities increased by 256.2 billion yen from the previous fiscal year-end to reach 592.8 billion yen, as a result of a substantial increase in borrowings to finance payment of consideration for the Strategic Alliance in spite of the decline in other financial liabilities due to the decrease in the fair value of contingent consideration.

Equity increased by 24.2 billion yen from the previous fiscal year-end to 522.4 billion yen as a result of an increase in retained earnings.

Please note that the amounts of assets acquired and liabilities assumed through the Strategic Alliance at the end of the nine-month period under review are provisional as the evaluation of their fair value has yet to be completed.

The ratio of equity attributable to owners of the parent to total assets as of the end of the nine-month period under review was 46.6%.

(3) Qualitative Information on Cash Flows

Cash flows provided by operating activities increased by 17.6 billion yen year-on-year to 36.8 billion yen, primarily owing to an increase in profit before taxes.

Cash flows used in investing activities increased by 280.5 billion yen year-on-year to 284.7 billion yen, primarily owing to the purchase of investments of 109.8 billion yen as a result of the acquisition of Roivant's shares and the payment for the acquisition of control of the subsidiaries of 205.8 billion yen following the completion of the procedure for the formation of the Strategic Alliance with them.

Cash flows provided by financial activities increased by 268.1 billion yen year-on-year to 240.5 billion yen, primarily owing to a substantial increase in short-term borrowings payable as a result of financing 270 billion yen to pay consideration for the Strategic Alliance.

After factoring in the impact of foreign currency translations applied to cash and cash equivalents, the balance of cash and cash equivalents as of December 31, 2019 amounted to 129.3 billion yen, which represents a decrease of 7.9 billion yen from the previous fiscal year-end.

(4) Qualitative Information on Consolidated Financial Forecasts

Given the recent business performance trends, the Company has revised its consolidated financial forecasts for the full-year period ending March 31, 2020, which were announced on July 29, 2019.

(April 1, 2019 to March 31, 2020)

(Millions of yen)

	Revenue	Core operating profit	Operating profit	Net profit	Net profit attributable to owners of the parent	Basic earnings per share
Previous Forecasts (A)	475,000	77,000	88,000	36,000	36,000	¥90.61
Revised Forecasts (B)	475,000	64,000	75,000	26,000	31,000	¥78.03
Variance in amount (B－A)	－	(13,000)	(13,000)	(10,000)	(5,000)	－
Variance in percent (%)	－	(16.9)	(14.8)	(27.8)	(13.9)	－
[Reference] Previous year (Year ended March 31, 2019)	459,267	77,299	57,884	48,627	48,627	¥122.39

The previous forecast of revenue remains unchanged, as each reportable segment is faring well.

Core operating profit and operating profit are now forecasted to be 64.0 billion yen and 75.0 billion yen, respectively, both of which represent a decrease of 13.0 billion yen from the previous forecasts, as an increase in selling, general and administrative expenses and research and development expenses is expected due to the consolidation of Sumitovant Biopharma Ltd. (hereafter, ‘Sumitovant’) following the completion of the procedure for the formation of a Strategic Alliance with Roivant.

Net profit is now forecasted to be 26.0 billion yen, down by 10.0 billion yen from the earlier forecast, due to an anticipated decrease in finance costs, while net profit attributable to owners of the parent, which is net profit less non-controlling interest, has been revised downward to 31.0 billion yen, down by 5.0 billion yen from the earlier forecast.

(Note) Consolidated Financial Forecasts above are based on the certain assumptions considered reasonable and on information available at the time of preparation of such statements. Accordingly, actual financial results may differ from those presented herein.

2. Consolidated Financial Statements

(1) Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income

Consolidated Statement of Profit or Loss

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Revenue	346,871	357,017
Cost of sales	85,181	93,342
Gross profit	261,690	263,675
Selling, general and administrative expenses	149,457	97,800
Research and development expenses	61,969	83,696
Other income	644	773
Other expenses	4,077	1,491
Operating profit	46,831	81,461
Finance income	6,497	3,324
Finance costs	166	363
Profit before taxes	53,162	84,422
Income tax expenses	13,193	40,443
Net profit	39,969	43,979
Net profit attributable to:		
Owners of the parent	39,969	43,979
Net profit total	39,969	43,979
Earnings per share (yen)		
Basic earnings per share	100.60	110.70

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net profit	39,969	43,979
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	7,537	(6,300)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	8,532	(2,780)
Cash flow hedges	23	(3)
Total other comprehensive income	16,092	(9,083)
Total comprehensive income	56,061	34,896
Total comprehensive income attributable to:		
Owners of the parent	56,061	34,899
Non-controlling interests	−	(3)
Total comprehensive income	56,061	34,896

(2) Consolidated Statement of Financial Position

(Millions of yen)

	As of March 31, 2019	As of December 31, 2019
Assets		
Non-current assets		
Property, plant and equipment	59,485	71,087
Goodwill	99,348	331,346
Intangible assets	171,390	144,886
Other financial assets	74,668	175,201
Income taxes receivable	2,562	1,264
Other non-current assets	3,277	4,250
Deferred tax assets	50,719	38,912
Total non-current assets	461,449	766,946
Current assets		
Inventories	66,889	73,299
Trade and other receivables	118,760	127,820
Other financial assets	43,750	3,887
Income taxes receivable	483	2,032
Other current assets	6,090	11,820
Cash and cash equivalents	137,296	129,348
Total current assets	373,268	348,206
Total assets	834,717	1,115,152

(Millions of yen)

	As of March 31, 2019	As of December 31, 2019
Liabilities and equity		
Liabilities		
Non-current liabilities		
Bonds and borrowings	27,980	25,737
Other financial liabilities	80,387	49,111
Retirement benefit liabilities	23,613	23,936
Other non-current liabilities	6,425	4,927
Deferred tax liabilities	—	2
Total non-current liabilities	138,405	103,713
Current liabilities		
Bonds and borrowings	2,960	277,753
Trade and other payables	49,238	55,520
Other financial liabilities	8,673	14,335
Income taxes payable	15,723	15,597
Provisions	92,176	87,211
Other current liabilities	29,404	38,671
Total current liabilities	198,174	489,087
Total liabilities	336,579	592,800
Equity		
Share capital	22,400	22,400
Capital surplus	15,861	15,861
Treasury shares	(674)	(676)
Retained earnings	431,799	460,277
Other components of equity	28,752	22,062
Equity attributable to owners of the parent	498,138	519,924
Non-controlling interests	−	2,428
Total equity	498,138	522,352
Total liabilities and equity	834,717	1,115,152

(3) Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent					
					Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit liability (asset)
Balance as of April 1, 2018	22,400	15,860	(669)	396,037	31,735	–
Cumulative effects of changes in accounting policies	–	–	–	348	–	–
Restated balance	22,400	15,860	(669)	396,385	31,735	–
Net profit	–	–	–	39,969	–	–
Other comprehensive income	–	–	–	–	7,537	–
Total comprehensive income	–	–	–	39,969	7,537	–
Purchase of treasury shares	–	–	(5)	–	–	–
Dividends	–	–	–	(11,124)	–	–
Total transactions with owners	–	–	(5)	(11,124)	–	–
Balance as of December 31, 2018	22,400	15,860	(674)	425,230	39,272	–

Balance as of April 1, 2019	22,400	15,861	(674)	431,799	32,611	–
Net profit	–	–	–	43,979	–	–
Other comprehensive income	–	–	–	–	(6,300)	–
Total comprehensive income	–	–	–	43,979	(6,300)	–
Purchase of treasury shares	–	–	(2)	–	–	–
Dividends	–	–	–	(13,111)	–	–
Acquisition of subsidiaries	–	–	–	–	–	–
Reclassification from other components of equity to retained earnings	–	–	–	(2,390)	2,390	–
Total transactions with owners	–	–	(2)	(15,501)	2,390	–
Balance as of December 31, 2019	22,400	15,861	(676)	460,277	28,701	–

(Millions of yen)

	Equity attributable to owners of the parent					
	Other components of equity					
	Exchange differences on translation of foreign operations	Cash flow hedges	Total	Total	Non-controlling interests	Total equity
Balance as of April 1, 2018	(12,619)	(21)	19,095	452,723	－	452,723
Cumulative effects of changes in accounting policies	－	－	－	348	－	348
Restated balance	(12,619)	(21)	19,095	453,071	－	453,071
Net profit	－	－	－	39,969	－	39,969
Other comprehensive income	8,532	23	16,092	16,092	－	16,092
Total comprehensive income	8,532	23	16,092	56,061	－	56,061
Purchase of treasury shares	－	－	－	(5)	－	(5)
Dividends	－	－	－	(11,124)	－	(11,124)
Total transactions with owners	－	－	－	(11,129)	－	(11,129)
Balance as of December 31, 2018	(4,087)	2	35,187	498,003	－	498,003

Balance as of April 1, 2019	(3,853)	(6)	28,752	498,138	－	498,138
Net profit	－	－	－	43,979	－	43,979
Other comprehensive income	(2,777)	(3)	(9,080)	(9,080)	(3)	(9,083)
Total comprehensive income	(2,777)	(3)	(9,080)	34,899	(3)	34,896
Purchase of treasury shares	－	－	－	(2)	－	(2)
Dividends	－	－	－	(13,111)	－	(13,111)
Acquisition of subsidiaries	－	－	－	－	2,431	2,431
Reclassification from other components of equity to retained earnings	－	－	2,390	－	－	－
Total transactions with owners	－	－	2,390	(13,113)	2,431	(10,682)
Balance as of December 31, 2019	(6,630)	(9)	22,062	519,924	2,428	522,352

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Cash flows from operating activities		
Net profit	39,969	43,979
Depreciation and amortization	10,473	12,902
Impairment losses	−	22,457
Changes in fair value of contingent consideration	5,458	(40,811)
Interest and dividend income	(2,634)	(3,321)
Interest expenses	142	278
Income tax expenses	13,193	40,443
(Increase) decrease in trade and other receivables	(6,352)	(8,467)
(Increase) decrease in inventories	(1,523)	(7,365)
Increase (decrease) in trade and other payables	(7,531)	8,567
Increase (decrease) in retirement benefits liabilities	31	331
Increase (decrease) in provisions	1,972	(3,719)
Others, net	(12,854)	(6,560)
Subtotal	40,344	58,714
Interest received	1,727	2,454
Dividends received	828	1,113
Interest paid	(119)	(219)
Income taxes paid	(23,629)	(25,289)
Net cash provided by (used in) operating activities	19,151	36,773
Cash flows from investing activities		
Purchase of property, plant and equipment	(7,745)	(6,465)
Proceeds from sales of property, plant and equipment	1,450	544
Purchase of intangible assets	(2,763)	(3,371)
Purchase of investments	(2,234)	(112,615)
Proceeds from sales and redemptions of investments	−	490
Payments for acquisition of control of subsidiaries	−	(205,774)
Net (increase) decrease in short-term loan receivables	7,430	42,462
Others, net	(352)	17
Net cash provided by (used in) investing activities	(4,214)	(284,712)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings payable	(3,500)	270,000
Repayments of long-term borrowings	(2,220)	(13,188)
Redemption of bonds	(10,000)	−
Repayments of lease liabilities	(774)	(3,237)
Dividends paid	(11,114)	(13,098)
Others, net	(5)	(2)
Net cash provided by (used in) financing activities	(27,613)	240,475
Net increase (decrease) in cash and cash equivalents	(12,676)	(7,464)
Cash and cash equivalents at beginning of year	147,775	137,296
Effect of exchange rate changes on cash and cash equivalents	4,460	(484)
Cash and cash equivalents at end of period	139,559	129,348

(5) Notes to Consolidated Financial Statements

Notes on Premise of Going Concern

Not applicable.

Significant Accounting Policies

The significant accounting policies applied to this Quarterly Consolidated Financial Statements are the same as those for the prior fiscal year's consolidated financial statements except for the accounting standards provided below.

Income tax expenses for the Nine months ended December 31, 2019 are calculated based on the estimated average annual effective tax rate.

Introduction or Revision of Standards and Interpretations		Overview of introduction or Revision
IFRS 16	Leases	Revised accounting standards for recognition of leases

Starting from the Nine months ended December 31, 2019, the Group adopted IFRS 16 "Leases" (issued in January 2016, hereinafter "IFRS 16").

The Group assesses whether the contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

If it is determined that a contract is, or contains, a lease, the Group recognizes right-of-use assets and lease liabilities at the commencement date of the lease.

(1) Right-of-use asset

The right-of-use asset is measured at cost. The cost of the right-of-use asset is measured at the amount of the initial measurement of the lease liability at the commencement date of the lease adjusted for the initial direct costs, etc.

The Group applies a cost model for subsequent measurement of right-of-use asset. After initial recognition, the right-of-use asset is depreciated using the straight-line method over the shorter of lease term of underlying asset or its estimated useful life.

The right-of-use asset is stated at cost less accumulated depreciation and accumulated impairment losses and included in property, plant and equipment in the consolidated statement of financial position.

(2) Lease liability

The lease liability is initially recognized at the present value of the lease payments that are not paid at the commencement date. The Group normally uses the incremental borrowing rate as a discount rate. After the initial recognition, the lease liability is measured by increasing and reducing the carrying amount to reflect interest on the lease liability and the lease payments made by using the effective interest method. The lease liability is included in other financial liabilities in the consolidated statement of financial position.

Lease payments are allocated between finance costs which are the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability, and the payment portion of lease liabilities. Finance costs are separated from depreciation expenses of the right-of-use asset in the consolidated statement of profit or loss.

As for short-term leases and leases of low-value assets, the Group basically does not recognize right-of-use assets and lease liabilities, but charges the lease payments associated with short-term leases and leases of low-value assets to the net profit or loss on a straight-line basis over the lease term.

(3) Impact on the Consolidated Financial Statements

The Group adopted IFRS 16 by using the following transition method (modified retrospective approach) of IFRS 16.

(i) To recognize the cumulative effect of adopting IFRS 16 at the date of initial application

(ii) For leases previously classified as operating leases

(a) To measure the lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

(b) To measure and recognize the right-of-use asset by using either of the followings.
- To recognize the carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application
- To recognize the measurement amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments

In transitioning to IFRS 16, the Group chose the adoption of practical expedient which succeeded the previous judgement related to whether an arrangement is a lease.

As a result, the impact on the financial position at the date of initial application of the Group is that Total assets and Total liabilities in the consolidated statement of financial position increased by ¥14,626 million and ¥14,626 million, respectively. However, such impact on the performance is immaterial

The weighted average incremental borrowing rate applied to lease liabilities at the date of initial application is 1.5%.
The following is a difference between the total future minimum lease payments of non-cancellable operating lease at the end of the annual reporting period immediately preceding the date of initial application and lease liabilities recognized in the consolidated statement of financial position at the date of initial application.

(Millions of yen)

Total future minimum lease payments of non-cancellable operating lease as of March 31, 2019	9,543
Discounted using the incremental borrowing rate as of April 1, 2019	8,790
Finance lease obligations recognized as of March 31, 2019	2,043
Additional recognition of lease liabilities by revising the lease term	6,525
Lease liabilities as of April 1, 2019	17,358

Operating Segments

The Group has set an original performance indicator for the Company's recurring profitability in the form of "core operating profit."
"Core operating profit" is calculated by deducting from operating profit any gains and losses resulting from nonrecurring factors designated by the Group. Among the main non-recurring items are impairment losses, restructuring costs and changes in fair value of contingent consideration related to company acquisitions.

(1) Reportable segments

The Group is mainly engaged in manufacture, purchase and sales of pharmaceuticals for medical treatment and manages the performance of pharmaceutical business by market in Japan, North America, China and etc. Therefore, the Group has four reportable segments: Japan, North America, China, and Other Regions.

The Group's reportable segments are the components of the Group for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resources to be allocated to the segments and assess their performances.

(2) Revenues and operating results of the reportable segments

Revenues, profit or loss and other items by each of the Group's reportable segments are shown below.

The Group sets core segment profit, which is an indicator showing each segment's recurring profitability, as its own indicator of segment business performance management.

Core segment profit is each segment profit calculated by deducting from core operating profit R&D expenses, gains and losses on sales of operations and etc. which are not allocated to each segment because such expenses are managed on a global basis.

① Nine months ended December 31, 2018

(Millions of yen)

	Reportable Segments					Other Business (Note)	Total
	Pharmaceuticals						
	Japan	North America	China	Other Regions	Subtotal		
Revenues from external customers	100,646	190,612	16,331	10,180	317,769	29,102	346,871
Inter-segment revenues and transfers	55	—	—	—	55	25	80
Total	100,701	190,612	16,331	10,180	317,824	29,127	346,951
Segment profit (Core segment profit)	23,188	82,502	6,661	3,002	115,353	2,316	117,669

(Note) The “Other Business” category incorporates operations not included in reportable segments, including food ingredients, food additives, chemical product materials, veterinary drugs, diagnostics and other products.

② Nine months ended December 31, 2019

(Millions of yen)

	Reportable Segments					Other Business (Note)	Total
	Pharmaceuticals						
	Japan	North America	China	Other Regions	Subtotal		
Revenues from external customers	104,274	195,658	20,152	8,685	328,769	28,248	357,017
Inter-segment revenues and transfers	69	—	—	—	69	37	106
Total	104,343	195,658	20,152	8,685	328,838	28,285	357,123
Segment profit (Core segment profit)	20,131	90,239	9,355	3,169	122,894	2,438	125,332

(Note) The “Other Business” category incorporates operations not included in reportable segments, including food ingredients, food additives, chemical product materials, veterinary drugs, and other products.

(3) Reconciliations between the total amounts of reportable segments and the amounts in the consolidated financial statements (reconciliation items)

The details of reconciliation are as follows:

(Millions of yen)

Revenue	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Total of reportable segments	317,824	328,838
Revenue of Other Business	29,127	28,285
Elimination of inter-segment revenue	(80)	(106)
Revenue on the consolidated financial statements	346,871	357,017

(Millions of yen)

Profit	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Total of reportable segments	115,353	122,894
Segment profit of Other Business	2,316	2,438
Elimination of inter-segment profit	22	14
Research and development expenses (Note)	(61,969)	(61,210)
Gains on business transfers	124	121
Others	17	(3)
Core operating profit	55,863	64,254
Change in fair value of contingent consideration	(5,458)	40,811
Impairment losses	–	(22,457)
Other income	503	655
Other expenses	(4,077)	(1,491)
Others	–	(311)
Operating profit in the consolidated financial statements	46,831	81,461

(Note) The Group does not allocate research and development expenses to the operating segments because such expenses are managed on a global basis.

Differences from Research and development expenses on Consolidated Financial Statements consist of impairment losses and R&D related costs excluded from calculation of core operating profit.

Impairment loss

Impairment losses on intangible assets amounting to 22,457 million yen recognized for nine months ended December 31, 2019 were recorded in Research and development expenses in the Consolidated Statement of Profit or Loss.

Impairment losses on intangible assets were impairment loss on in-process research and development of alvocidib (product code: DSP-2033) amounting to 17,385 million yen, which is being developed as a small molecule inhibitor of cyclin-dependent kinase 9 (CDK9), anti-cancer drug amcasertib (product code: BBI503) amounting to 1,739 million yen and regenerative cell medicine SB623 for chronic stroke in North America (the United States and Canada) amounting to 3,333 million yen in North America segment of pharmaceutical business.

As for in-process research and development of alvocidib, the carrying amount was reduced to the extent of the recoverable amount of 8,763 million yen as the expected profitability would not be achieved. As for amcasertib, the total carrying amount is reduced due to the discontinuation of its clinical development. As for SB623, the total carrying amount is reduced due to the terminate the joint development and license agreement and return the rights in North America.

The recoverable amount is measured based on value in use, using the pre-tax discount rate of 17.0%.

Business Combinations

(1) Overview of business combinations

① Sumitovant Biopharma Ltd.

（ⅰ） Name of acquired company and business description

Name of acquired company: Sumitovant Biopharma Ltd.

Business description: Holding company

（ⅱ） Percentage of voting rights acquired:

100％

② Sumitovant Biopharma, Inc.

（ⅰ） Name of acquired company and business description

Name of acquired company: Sumitovant Biopharma, Inc.

Business description: Management of group companies, business and sales development, promotion of utilization of healthcare technology platforms and so forth.

（ⅱ） Percentage of voting rights acquired:

100％

③ Myovant Sciences Ltd.

（ⅰ） Name of acquired company and business description

Name of acquired company: Myovant Sciences Ltd.

Business description: Research and development of pharmaceutical of Relugolix and MVT-602, etc.

（ⅱ） Percentage of voting rights acquired:

50％

④ Urovant Sciences Ltd.

（ⅰ） Name of acquired company and business description

Name of acquired company: Urovant Sciences Ltd.

Business description: Research and development of pharmaceutical of Vibegron and URO-902, etc.

（ⅱ） Percentage of voting rights acquired:

75％

⑤ Enzyvant Therapeutics Ltd.

（ⅰ） Name of acquired company and business description

Name of acquired company: Enzyvant Therapeutics Ltd.

Business description: Research and development of pharmaceutical of RVT-802 and RVT-801, etc.

（ⅱ） Percentage of voting rights acquired:

100％

⑥ Altavant Sciences Ltd.

（ⅰ） Name of acquired company and business description

Name of acquired company: Altavant Sciences Ltd.

Business description: Research and development of pharmaceutical of Rodatristat ethyl, etc.

（ⅱ） Percentage of voting rights acquired:

100％

⑦ Spirovant Sciences Ltd.

（ⅰ） Name of acquired company and business description

Name of acquired company: Spirovant Sciences Ltd.

Business description: Research and development of pharmaceutical of SPIRO-2101 and SPIRO-2102, etc.

（ⅱ） Percentage of voting rights acquired:

100％

(2) Acquisition date

December 27, 2019

(3) Method for gaining control of acquired company

Acquisition of shares by cash consideration

(4) Main reason for business combination

The Company has completed the share transfer procedures and etc. in accordance with the strategic alliance with Roivant Sciences Ltd. (hereafter, “The Strategic Alliance”) as of December 27, 2019.

In order to achieve sustainable growth even after the expiration of the term for market exclusivity of LATUDA® (atypical antipsychotic) in North America, which has been the primary source of the Group’s earnings, the Company established “establishment of growth engines” and “building of flexible and efficient organization” as a basic policy in “Mid-term Business Plan 2022” and reshaped business foundation.

Roivant Sciences Ltd. aims at contributing to health by providing innovative medicines and healthcare technologies rapidly to patients through building multiple Vants, which are biopharmaceutical companies focusing on business agility and entrepreneurship. Each Vant conducts research and development and sales efficiently through unique method of talent employment and introduction of technologies.

Under the Strategic Alliance, the Company aims for achieving medium-to-long term growth through acquisition of many pipelines including products under development which are expected to launch before FY2022 and anticipated to become blockbuster products in the future, as well as improving R&D productivity of the whole group and accelerating the digital transformation.

Through the Strategic Alliance, Roivant Sciences Ltd. transferred its ownership of share of interests of five subsidiaries (Myovant Sciences Ltd., Urovant Sciences Ltd., Enzyvant Therapeutics Ltd., Altavant Sciences Ltd., and Spirovant Sciences Ltd.) to the new company, Sumitovant, and the Company has acquired all the shares of Sumitovant.

As a result of the acquisition of shares of Sumitovant by the Company, a total of 33 companies become consolidated subsidiaries of the Company, including the subsidiaries of the Sumitovant and its five subsidiaries.

(5) The details of acquisition cost of acquired company and consideration transferred by type

Consideration transferred	Cash	224,555 million yen
Acquisition cost		224,555 million yen

(6) Acquisition-related costs

Acquisition-related costs are 4,072 million yen and recognized in selling, general and administrative expenses in the Consolidated Statement of Profit or Loss.

(7) The details of fair value of assets acquired and liabilities assumed, non-controlling interests and goodwill

(Millions of yen)

Account	Amount
Non-current assets	3,165
Current assets	23,532
Non-current liabilities	12,902
Current liabilities	20,114
Net assets	(6,319)
Non-controlling interests (Note 2)	2,431
Goodwill (Note 3)	233,305

(Note)1: The appraisal of fair value of assets acquired and liabilities assumed performed by independent outside expert has not been completed at date of approval of the current summarized quarterly consolidated financial statements. Thus, the above items are reported by provisional amount.

2: Non-controlling interests are measured by multiplying provisional fair value of identifiable net assets of acquired company at acquisition date by percentage of share of interests after business combination, excluding the portion specifically attributable to non-controlling shareholders.

3: Acquisition cost is greater than the net amount provisionally allocated based on assets acquired and liabilities assumed. Therefore, the excess amount is recognized as goodwill. Such goodwill is not deductible for tax purpose.

(8) Cash outflows arising from acquisition of subsidiaries

(Millions of yen)

Account	Amount
Cash consideration	224,555
Cash and cash equivalents owned by acquired company on acquisition date	18,781
Cash outflows arising from acquisition of subsidiaries	205,774

Significant subsequent event

Not applicable.