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February 1, 2024

**Consolidated Financial Results
for the First Nine Months of the Fiscal Year Ending March 31, 2024
(Under Japanese GAAP)**

Listed Company: Zeria Pharmaceutical Co., Ltd.

(Stock Exchange: Tokyo Stock Exchange)

Code Number: 4559

(URL: <https://www.zeria.co.jp/>)

Representative: Mitsuhiro Ibe, Representative Director, President & COO

Person in charge of reference: Tomoyuki Nishizawa, Director, Public Relations Division

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Scheduled date to submit the Quarterly Securities Report: February 5, 2024

Scheduled date to commence dividend payments: –

Preparation of supplementary documents to the quarterly financial results: None

Holding of quarterly financial results presentation: None

(Amounts under a million yen are truncated.)

1. Consolidated Financial Highlights (April 1, 2023 through December 31, 2023)

(1) Consolidated Financial Results (cumulative)

(Percentage figures indicate changes from the same period of the previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended								
December 31, 2023	57,919	12.0	9,490	11.0	9,444	35.7	8,423	40.8
December 31, 2022	51,729	14.7	8,550	55.6	6,957	24.0	5,980	47.9

Note: Comprehensive income: For the nine months ended December 31, 2023: 14,999 million yen [15.0%]

For the nine months ended December 31, 2022: 13,040 million yen [501.0%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2023	191.09	–
December 31, 2022	135.31	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
December 31, 2023	153,067	78,737	51.3	1,780.16
March 31, 2023	135,034	65,680	48.5	1,484.79

Reference: Equity: As of December 31, 2023: 78,469 million yen

As of March 31, 2023: 65,449 million yen

2. Dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2023	–	18.00	–	22.00	40.00
Year ending March 31, 2024	–	22.00	–		
Year ending March 31, 2024 (Forecast)				22.00	44.00

Note: Revision of the forecast of dividends most recently announced: None

3. Consolidated Financial Forecast for Fiscal Year Ending March 31, 2024 (April 1, 2023 through March 31, 2024)

(Percentage figures indicate changes from the same period of the previous year.)

	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
Full year	73,000	6.8	9,100	0.9	9,000	18.7	7,000	13.0	158.80

Note: Revision of the financial forecast most recently announced: None

* Notes

(1) Changes in significant subsidiaries during the nine months ended December 31, 2023 (changes in specified subsidiaries resulting in changes in scope of consolidation): None

Inclusion: – (Company name: –) Exclusion: – (Company name: –)

(2) Application of special accounting for preparing the quarterly consolidated financial statements: Yes

Note: For details, please refer to “2. Quarterly Consolidated Financial Statements and Significant Notes Thereto, (3) Notes to quarterly consolidated financial statements” on page 8 of the Attached Material.

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

1) Changes in accounting policies due to revisions to accounting standards and other regulations: None

2) Changes in accounting policies due to other reasons: None

3) Changes in accounting estimates: None

4) Restatement of prior period financial statements after error corrections: None

(4) Number of shares issued (common shares)

1) Number of shares issued as of the end of the term (including treasury shares):

As of December 31, 2023: 53,119,190 shares As of March 31, 2023: 53,119,190 shares

2) Number of shares of treasury shares as of the end of the term:

As of December 31, 2023: 9,039,254 shares As of March 31, 2023: 9,038,982 shares

3) Average number of shares during the period (cumulative from the beginning of the fiscal year):

For the nine months ended December 31, 2023: 44,080,096 shares

For the nine months ended December 31, 2022: 44,200,883 shares

* Quarterly Results Reports Are Exempt from Quarterly Review Conducted by Certified Public Accountants or An Audit Corporation

* Cautionary Statement with Respect to Appropriate Use of Financial Forecast and Other Special Matters

The description about the future including the projection in this document is based on information available to the Company at present and certain presumptions which the Company considers reasonable. Consequently, any descriptions herein do not constitute assurances regarding actual results by the Company. The actual results for future terms may differ from the information in this document due to various factors. For the assumptions made in financial forecasts and cautions concerning the use thereof, please refer to “1. Qualitative Information on Quarterly Financial Results, (3) Explanation of consolidated financial forecasts and other forward-looking statements” on page 3 of the Attached Material.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of operating results

Net sales for the first nine months of the fiscal year ending March 31, 2024 were 57,919 million yen (up 12.0% from the same period of the previous fiscal year). As for profits, operating profit was 9,490 million yen (up 11.0% from the same period of the previous fiscal year), ordinary profit was 9,444 million yen (up 35.7% from the same period of the previous fiscal year), and profit attributable to owners of parent was 8,423 million yen (up 40.8% from the same period of the previous fiscal year). The significant difference in growth of operating profit and ordinary profit compared to the growth in the same period of the previous fiscal year was due to the relatively small amount of foreign exchange losses during the period under review compared to the significant foreign exchange losses recorded in the previous period. There was also less fluctuation in exchange rates during the period under review.

Below are the results by business segment.

(i) *Ethical Pharmaceuticals Business*

As for our mainstay product, Asacol, a therapeutic agent for ulcerative colitis, sales in the domestic market faced challenging circumstances, owing in part to the impact of the NHI drug price revision implemented in April of 2023. Despite this, sales were steady overall as a result of strong performance in regions such as the UK, the Czech Republic, and Germany due to growth in sales of Asacol 1600 mg in overseas markets. Sales of DIFICLIR, a therapeutic agent for Clostridium difficile infections, achieved a significant sales growth as a result of continuous aggressive investment of sales resources in overseas markets, which lead to a significant increase in sales in France, the UK, and Spain. In April 2023, we were transferred approval from Astellas Pharma Inc. for the manufacturing and marketing of the drug in Japan and worked to promote the product (domestic sales name: Dafclir). However, sales of Entocort (domestic sales name: Zentacort), an inflammatory bowel disease (IBD) therapeutic agent, struggled after the launch of generic drugs in certain countries outside Japan. With regard to Ferinject, we are working to build the market, particularly in the obstetrics and gynecology and gastroenterology fields.

As a result, net sales in the business amounted to 37,548 million yen (up 15.8% from the same period of the previous fiscal year).

(ii) *Consumer Healthcare Business*

As for the Hepalyse range, our mainstay product, due to the relaxing of behavioral restrictions related to the COVID-19 pandemic and recovery in the flow of people, sales of both the pharmaceutical Hepalyse range and the Hepalyse W range for convenience stores increased. Sales of the Chondroitin range also remained strong, due in part to aggressive advertising and promotional investments. In addition, sales increased for both the European herbal preparation range, including Prefemin, a treatment for premenstrual syndrome (PMS), which transferred to a Type-2 OTC drug in April 2023, and the Masdent range of medicated toothpaste for preventing periodontal disease and bad breath.

Moreover, sales of dermatosis treatments Prevaline α Quick Ointment and Prevaline α Quick Cream were commenced during the first nine months of the current fiscal year. We will continue working to expand our lineup of products that address market needs.

As a result, net sales in the business amounted to 20,255 million yen (up 5.6% from the same period of the previous fiscal year).

(iii) *Other*

Net sales in this segment amounted to 115 million yen (up 2.3% from the same period of the previous fiscal year), mainly due to insurance agency business and real estate lease revenue.

(2) Explanation of financial position

Total assets at the end of the third quarter of the fiscal year ending March 31, 2024 were 153,067 million yen, an increase of 18,033 million yen from the end of the previous fiscal year. Current assets increased 12,381 million yen to 60,585 million yen from the end of the previous fiscal year, and non-current assets increased 5,651 million yen to 92,482 million yen from the end of the previous fiscal year. Major changes in current assets included an increase of 3,315 million yen in cash and deposits, an increase of 6,871 million yen in notes and accounts receivable - trade, and an increase of 1,682 million yen in inventories such as merchandise and finished goods. The changes in non-current assets were an increase of 1,351 million yen in property, plant and equipment, an increase of 2,037 million yen in intangible assets, and an increase of 2,262 million yen in investments and other assets.

Total liabilities at the end of the quarter under review were 74,330 million yen, an increase of 4,976 million yen from the end of the previous fiscal year. Current liabilities increased 8,640 million yen to 55,798 million yen from the end of the previous fiscal year, and non-current liabilities decreased 3,664 million yen to 18,531 million yen from the end of the previous fiscal year. The main changes in current liabilities were an increase of 1,389 million yen in accounts payable - trade, an increase of 4,401 million yen in short-term borrowings, an increase of 1,764 million yen in income taxes payable, and an increase of 1,818 million yen in other current liabilities including an increase in accounts payable - other. The main changes in non-current liabilities were a decrease of 3,169 million yen in long-term borrowings and a decrease of 897 million yen in provision for loss on cancellation of contracts.

Net assets at the end of the quarter under review were 78,737 million yen, an increase of 13,057 million yen from the end of the previous fiscal year. This was mainly due to profit attributable to owners of parent of 8,423 million yen, payment of 1,939 million yen as dividends declared at the end of the previous period and in the current interim period, an increase of 1,860 million yen in valuation difference on available-for-sale securities, and an increase of 5,137 million yen in foreign currency translation adjustment.

As a result, the equity ratio at the end of the quarter under review increased by 2.8% from the end of the previous fiscal year to 51.3%.

(3) Explanation of consolidated financial forecasts and other forward-looking statements

Operating profit, ordinary profit, and profit attributable to owners of parent for the first nine months of the fiscal year ending March 31, 2024 each exceeded the forecasts for the full year.

Sales in the overseas Ethical Pharmaceuticals Business are growing faster than expected. However, the impact of soaring prices of raw materials and energy and foreign exchange trends are uncertain. The full-year consolidated financial forecast for the fiscal year ending March 31, 2024, therefore, remains unchanged from the consolidated financial forecast announced on May 11, 2023. If it becomes necessary to revise the financial forecast, we will disclose the revised forecast promptly.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly consolidated balance sheet

(Thousands of yen)

	As of March 31, 2023	As of December 31, 2023
Assets		
Current assets		
Cash and deposits	16,219,078	19,534,580
Notes and accounts receivable - trade	17,512,925	24,384,166
Merchandise and finished goods	6,843,723	7,473,192
Work in process	1,433,308	1,864,899
Raw materials and supplies	4,487,158	5,108,333
Other	1,800,930	2,329,515
Allowance for doubtful accounts	(93,366)	(109,161)
Total current assets	48,203,757	60,585,525
Non-current assets		
Property, plant and equipment		
Buildings, net	6,772,573	6,605,176
Land	12,359,997	12,583,136
Other, net	5,458,805	6,754,196
Total property, plant and equipment	24,591,375	25,942,508
Intangible assets		
Goodwill	5,299,798	4,960,490
Sales right	28,157,670	29,642,410
Other	8,473,201	9,365,457
Total intangible assets	41,930,669	43,968,358
Investments and other assets		
Investment securities	6,849,304	9,232,900
Retirement benefit asset	12,927,173	12,858,642
Other	578,716	521,034
Allowance for doubtful accounts	(46,460)	(41,021)
Total investments and other assets	20,308,733	22,571,556
Total non-current assets	86,830,779	92,482,423
Total assets	135,034,536	153,067,949
Liabilities		
Current liabilities		
Accounts payable - trade	1,996,122	3,385,617
Short-term borrowings	34,890,470	39,292,199
Income taxes payable	749,106	2,513,594
Provision for bonuses	1,554,662	820,678
Other	7,967,956	9,786,550
Total current liabilities	47,158,318	55,798,641
Non-current liabilities		
Long-term borrowings	14,541,480	11,372,100
Provision for loss on cancellation of contracts	897,300	-
Retirement benefit liability	234,465	220,657
Asset retirement obligations	56,031	56,187
Other	6,466,230	6,882,472
Total non-current liabilities	22,195,507	18,531,416
Total liabilities	69,353,826	74,330,057

(Thousands of yen)

	As of March 31, 2023	As of December 31, 2023
Net assets		
Shareholders' equity		
Share capital	6,593,398	6,593,398
Capital surplus	11,685,121	11,685,121
Retained earnings	53,462,589	59,946,394
Treasury shares	(18,264,989)	(18,265,590)
Total shareholders' equity	53,476,120	59,959,324
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(314,469)	1,546,298
Foreign currency translation adjustment	8,015,623	13,153,415
Remeasurements of defined benefit plans	4,272,642	3,810,340
Total accumulated other comprehensive income	11,973,796	18,510,053
Non-controlling interests	230,793	268,514
Total net assets	65,680,710	78,737,892
Total liabilities and net assets	135,034,536	153,067,949

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income

Quarterly consolidated statement of income

(Thousands of yen)

	Nine months ended December 31, 2022	Nine months ended December 31, 2023
Net sales	51,729,738	57,919,196
Cost of sales	14,480,435	15,048,408
Gross profit	37,249,303	42,870,787
Selling, general and administrative expenses	28,698,601	33,380,055
Operating profit	8,550,701	9,490,732
Non-operating income		
Interest income	35,835	87,845
Dividend income	226,956	285,814
Recoveries of written off receivables	–	92,935
Other	61,925	85,028
Total non-operating income	324,716	551,624
Non-operating expenses		
Interest expenses	265,520	346,315
Foreign exchange losses	1,628,114	142,536
Other	23,855	108,566
Total non-operating expenses	1,917,490	597,417
Ordinary profit	6,957,928	9,444,938
Extraordinary income		
Gain on sale of non-current assets	1,371	–
Gain on sale of investment securities	19,940	0
Reversal of provision for loss on cancellation of contracts	–	955,980
Total extraordinary income	21,312	955,980
Extraordinary losses		
Loss on retirement of non-current assets	3,736	6,693
Loss on valuation of investment securities	–	198,726
Provision for loss on cancellation of contracts	235,935	–
Total extraordinary losses	239,672	205,420
Profit before income taxes	6,739,567	10,195,499
Income taxes	742,857	1,757,619
Profit	5,996,710	8,437,879
Profit attributable to non-controlling interests	15,866	14,548
Profit attributable to owners of parent	5,980,843	8,423,331

Quarterly consolidated statement of comprehensive income

(Thousands of yen)

	Nine months ended December 31, 2022	Nine months ended December 31, 2023
Profit	5,996,710	8,437,879
Other comprehensive income		
Valuation difference on available-for-sale securities	187,648	1,860,767
Foreign currency translation adjustment	7,132,651	5,163,209
Remeasurements of defined benefit plans, net of tax	(276,885)	(462,302)
Total other comprehensive income	7,043,414	6,561,675
Comprehensive income	13,040,124	14,999,555
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	12,974,810	14,959,588
Comprehensive income attributable to non-controlling interests	65,313	39,966

(3) Notes to quarterly consolidated financial statements
(Notes on premise of a going concern)

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

Not applicable.

(Significant changes in subsidiaries during the period under review)

Not applicable.

During the quarter under review, the Company's consolidated subsidiary Tillotts Pharma AG established Mage Biologics Inc., which is now accounted for by the equity method, through a joint investment with TVM Capital Life Science.

(Adoption of special accounting methods for preparation of quarterly consolidated financial statements)

Calculation of tax expenses

Tax expenses were calculated by reasonably estimating the effective tax rate after applying tax effect accounting to the profit before income taxes for the fiscal year that includes the third quarter of the current fiscal year and multiplying profit before income taxes by such estimated effective tax rate.

(Segment information, etc.)

[Segment information]

I First nine months of the previous fiscal year (from April 1, 2022, to December 31, 2022)

1. Information on net sales and profit or loss by reportable segment

(Thousands of yen)

	Reportable segment			Other (Note 1)	Total	Adjustment (Note 2)	Amount recorded in quarterly consolidated statement of income (Note 3)
	Ethical Pharmaceuticals Business	Consumer Healthcare Business	Total				
Net sales							
Sales to external customers	32,434,601	19,181,759	51,616,360	113,377	51,729,738	–	51,729,738
Intersegment sales and transfers	2,784	105	2,890	379,294	382,185	(382,185)	–
Total	32,437,385	19,181,865	51,619,251	492,671	52,111,923	(382,185)	51,729,738
Segment profit	8,036,838	4,006,794	12,043,632	179,570	12,223,203	(3,672,502)	8,550,701

(Notes) 1. “Other” is a business segment not included in the reportable segments and includes the insurance agency business and real estate business.

- Adjustment of segment profit of (3,672,502) thousand yen is mainly corporate expenses, such as general and administrative expenses that are not allocated to reportable segments.
- Segment profit is adjusted with operating profit in the quarterly consolidated statement of income.

2. Information on impairment losses on non-current assets or goodwill by reportable segment
Not applicable.

II First nine months of the current fiscal year (from April 1, 2023 to December 31, 2023)

1. Information on net sales and profit or loss by reportable segment

(Thousands of yen)

	Reportable segment			Other (Note 1)	Total	Adjustment (Note 2)	Amount recorded in quarterly consolidated statement of income (Note 3)
	Ethical Pharmaceuticals Business	Consumer Healthcare Business	Total				
Net sales							
Sales to external customers	37,548,081	20,255,184	57,803,265	115,930	57,919,196	–	57,919,196
Intersegment sales and transfers	11,377	109	11,486	483,506	494,993	(494,993)	–
Total	37,559,459	20,255,293	57,814,752	599,437	58,414,190	(494,993)	57,919,196
Segment profit	8,952,129	4,184,170	13,136,300	188,828	13,325,128	(3,834,396)	9,490,732

(Notes) 1. “Other” is a business segment not included in the reportable segments and includes the insurance agency business and real estate business.

- Adjustment of segment profit of (3,834,396) thousand yen is mainly corporate expenses, such as general and administrative expenses that are not allocated to reportable segments.
- Segment profit is adjusted with operating profit in the quarterly consolidated statement of income.

2. Information on impairment losses on non-current assets or goodwill by reportable segment
Not applicable.

3. Supplemental Information

(1) Sales results

The table below shows sales results by business segment in the first nine months of the current fiscal year.

(Thousands of yen)

Name of segment	First nine months of the current fiscal year (from April 1, 2023 to December 31, 2023)	Increase/(decrease) over the same period of the previous fiscal year (%)
Ethical Pharmaceuticals Business	37,548,081	15.8
Consumer Healthcare Business	20,255,184	5.6
Total reportable segment	57,803,265	12.0
Other	115,930	2.3
Total	57,919,196	12.0

(Note) Inter-segment transactions are offset and eliminated.

(2) Sales of major products and merchandise Consolidated

(Thousands of yen)

	First nine months of the previous fiscal year (from April 1, 2022 to December 31, 2022)	First nine months of the current fiscal year (from April 1, 2023 to December 31, 2023)	Percentage change (%)
1. Ethical Pharmaceuticals Business	32,434,601	37,548,081	15.8
Asacol	14,707,351	15,882,926	8.0
DIFICLIR	6,176,534	10,092,320	63.4
Entocort	4,264,496	3,910,148	(8.3)
Acofide	2,373,300	2,384,276	0.5
Other	4,912,917	5,278,408	7.4
2. Consumer Healthcare Business	19,181,759	20,255,184	5.6
Hepalyse range	7,766,749	8,773,756	13.0
Chondroitin range	4,208,322	4,452,297	5.8
WithOne range	962,794	972,652	1.0
Other	6,243,893	6,056,478	(3.0)
3. Other Business	113,377	115,930	2.3
Total	51,729,738	57,919,196	12.0

(3) Status of pipeline of new drugs

I. Domestic

As of February 1, 2024

Stage	Development Code/ Generic Name	Development	Indications	Classification	Origin
NDA filed	ZG-801/Patiromer Sorbitex Calcium	Zeria	Hyperkalemia	Potassium binder	In-licensed
Phase III	Z-338/Acotiamide	Zeria	Pediatric functional dyspepsia	Upper gastrointestinal motility modulator	Original
Phase II	ZG-802/Acotiamide	Zeria	Underactive bladder	Lower urinary tract function modulator	Original
Phase II* (Investigator- Initiated Trial)	Z-338/Acotiamide	Kyushu University	Esophagogastric junction outflow obstruction	Upper gastrointestinal motility modulator	Original

*: Supported by a grant from Japan Agency for Medical Research and Development (AMED)

II. Overseas

Stage	Development Code/ Generic Name	Development	Indications	Classification	Origin
Phase III (Europe)	Z-338/Acotiamide	Zeria	Functional dyspepsia	Upper gastrointestinal motility modulator	Original
NDA approved (Honduras, Dominican Republic, Ecuador, Chile, El Salvador, Peru)	Z-338/Acotiamide	Faes Farma	Functional dyspepsia	Upper gastrointestinal motility modulator	Original (Out-licensed)
NDA approved (Thailand)	Z-338/Acotiamide	Meiji Seika Pharma	Functional dyspepsia	Upper gastrointestinal motility modulator	Original (Out-licensed)
NDA filed (Vietnam)	Z-338/Acotiamide	Pharmaceutical Joint Stock Company of February 3rd	Functional dyspepsia	Upper gastrointestinal motility modulator	Original
NDA filed (Colombia, Costa Rica, Guatemala, Panama, Nicaragua)	Z-338/Acotiamide	Faes Farma	Functional dyspepsia	Upper gastrointestinal motility modulator	Original (Out-licensed)

Launched in Overseas

Launch Date	Development Code/ Generic Name	Development	Indications	Classification	Origin
October 2023 (Mexico)	Z-338/Acotiamide	Faes Farma	Functional dyspepsia	Upper gastrointestinal motility modulator	Original (Out-licensed)