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Stock code: 4547

**Supplementary
Explanatory Materials on
Financial Results for
the Fiscal Year Ended
March 31, 2024**

May 7, 2024

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Note:

- The forward-looking statements herein are based on the information available and the Company’s analysis of various trends as of May 2024. Actual results may differ greatly from these statements due to business risks and uncertainties.

[Excerpts from “Overview of Operating Results for the Fiscal Year under Review” of the Annual Financial Results]

• Net sales

Net sales of the Pharmaceutical Business were ¥63,348 million, an increase of 12.6% year on year. TAVALISSE[®] Tablets, a treatment for chronic idiopathic thrombocytopenic purpura, was launched in April 2023. KORSUVA[®] IV Injection Syringe, a treatment for pruritis in dialysis patients, was launched in December 2023. In addition to the sales of these new products, the sales of Beova[®] Tablets, an overactive bladder treatment, as well as TAVNEOS[®] Capsules for the treatment of microscopic polyangiitis and granulomatosis with polyangiitis, and CAROGRA[®] Tablets, a treatment for ulcerative colitis, both of which were launched in FY2022, increased. These increases, together with higher co-promotion fees and other items, contributed to the year-on-year increase in net sales.

Net sales of the Information Services Business were ¥8,399 million, an increase of 1.4% year on year, net sales of the Construction Business were ¥3,022 million, an increase of 29.0% year on year, and net sales of the Merchandising Business were ¥809 million, an increase of 30.4% year on year.

• Profit

Regarding profit, the Company recorded a higher operating profit, ordinary profit, and profit attributable to owners of parent due to an increase in net sales as well as an improvement in the cost of sales ratio and a decrease in selling, general and administrative expenses centering on R&D expenses. The Company also recorded a gain on sale of securities and a gain on valuation of securities as non-operating income and a gain on sale of investment securities as extraordinary income.

• R&D

Regarding a treatment of Non-muscle-invasive bladder cancer CG0070 (development code), the Company has participated in international collaborative Phase III clinical trials, led by CG Oncology, Inc. (U.S.), the licensor, and the clinical trials are now underway in Japan. Regarding Linzagolix (generic name, development code: KLH-2109), a treatment for uterine fibroids and endometriosis, which was created by the Company, Phase III clinical trials are continuing for the indication of uterine fibroids in Japan. In the meantime, the Company temporarily withdrew the application for marketing approval in Japan for a treatment for spinocerebellar degeneration Rovatirelin (generic name, development code: KPS-0373) in July 2023 and now is in consideration on the possibility of conducting additional clinical trials.

Overseas, regarding Linzagolix, preparations are now underway by Theramex (U.K.), the licensee, for launch in Europe during the first half of FY2024 as a treatment for uterine fibroids. The sublicensing agreement with Inmagene Biopharmaceuticals (China), which had been granting rights to develop and market fostamatinib (generic name, development code: R788), a treatment for chronic idiopathic thrombocytopenic purpura, in China, was terminated in December 2023. In addition, the licensing agreement with AffaMed Therapeutics (China), which had been granting rights to develop and market a treatment for Parkinson’s disease KDT-3594 (development code), which was discovered by the Company, in China and other countries, was also terminated in May 2024.

I. Consolidated Statements of Income

(Million yen)

Item	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024			Fiscal year ending March 31, 2025 (Forecast)		
		Forecast*1	Results	YoY	Full year	YoY	1st half
Net sales	67,493	77,500	75,579	12.0%	83,000	9.8%	41,000
Pharmaceutical Business	56,243	65,000	63,348	12.6%	70,500	11.3%	35,000
Pharmaceuticals	47,077	54,500	54,237	15.2%	60,000	10.6%	29,000
Therapeutic and Care Foods	3,461	3,600	3,545	2.4%	3,600	1.5%	1,800
Technical Fees*2	1,053	1,900	714	(32.2)%	2,100	193.9%	2,000
Other*3	4,650	5,000	4,850	4.3%	4,800	(1.0)%	2,200
Information Services Business	8,285	8,400	8,399	1.4%	8,500	1.2%	4,200
Construction Business	2,343	3,300	3,022	29.0%	3,150	4.2%	1,300
Merchandising Business	621	800	809	30.4%	850	5.0%	500
[Export sales included in net sales]	[4,584]	[5,600]	[4,510]	[(1.6)%]	[6,100]	[35.2%]	[3,800]
Cost of sales	35,118	39,300	38,238	8.9%	42,000	9.8%	20,500
[Cost of sales ratio]	[52.0]	[50.7]	[50.6]		[50.6]		[50.0]
Gross profit	32,374	38,200	37,341	15.3%	41,000	9.8%	20,500
Selling, general and administrative expenses	33,503	33,200	33,324	(0.5)%	36,800	10.4%	19,000
R&D expenses	10,391	9,400	9,474	(8.8)%	12,000	26.7%	6,600
[Ratio to net sales]	[15.4]	[12.1]	[12.5]		[14.5]		[16.1]
Operating profit (loss)	(1,129)	5,000	4,017	—	4,200	4.6%	1,500
Non-operating income	1,837	2,000	2,329	26.8%	1,300	(44.2)%	750
Interest and dividend income	1,402		1,319	(5.9)%			
Other	434		1,009	132.6%			
Non-operating expenses	109	300	203	86.6%	100	(50.9)%	50
Interest expenses	20		18	(9.8)%			
Other	89		185	108.5%			
Ordinary profit	598	6,700	6,142	925.9%	5,400	(12.1)%	2,200
Extraordinary income	13,086	7,000	8,349	(36.2)%	10,000	19.8%	5,000
Extraordinary losses	4	200	43	809.5%	—	—	—
Profit before income taxes	13,680	13,500	14,449	5.6%	15,400	6.6%	7,200
Income taxes - current	2,113	2,500	3,263	54.4%	3,850	18.0%	1,900
Income taxes - deferred	932	900	(104)	—	150	—	50
Profit attributable to non-controlling interests	105	100	128	22.1%	100	(22.3)%	50
Profit attributable to owners of parent	10,528	10,000	11,160	6.0%	11,300	1.2%	5,200
[Comprehensive income]		[(4,229)]	[36,044]	[—]			

*1: Forecast values presented in the financial statements for the six months ended September 30, 2023.

*2: Includes revenue contracting fees related to out-licensing, milestone payments, and running royalties.

*3: Includes revenue from supply to domestic sales partners and revenue from co-promotion fees.

Net sales	<p>Results:</p> <p>Pharmaceutical Business: 12.6% increase in net sales Sales of pharmaceuticals increased. Net sales increased mainly because of increases in sales of Beova[®], TAVNEOS[®], CAROGRAM[®], and other products, the introduction into the market of TAVALISSE[®] and KORSUVA[®], and an increase in export sales. Sales of therapeutic and care foods slightly increased and revenue from technical fees decreased, while other sales, primarily revenue from co-promotion fees, increased.</p> <p>Other businesses: 8.7% increase in net sales Net sales of the Information Services Business increased 1.4%, net sales of the Construction Business increased 29.0%, and net sales of the Merchandising Business increased 30.4%.</p> <p>Forecast:</p> <p>Pharmaceutical Business: 11.3% increase in net sales Sales of pharmaceuticals are expected to increase mainly because of the Company's ongoing efforts to promote its products, such as Beova[®], TAVNEOS[®] and CAROGRAM[®], in addition to TAVALISSE[®] and KORSUVA[®], which are new products. Sales of therapeutic and care foods are expected to increase slightly, technical fees are expected to increase, while other sales are expected to decrease slightly.</p> <p>Other businesses: 2.2% increase in net sales Net sales in all sectors of the Information Services Business, the Construction Business and the Merchandising Business are expected to increase.</p>
Cost of sales	<p>Results: 1.4-percentage-point improvement in cost of sales ratio The cost of sales ratio of the Pharmaceutical Business improved owing mainly to the change in the composition of product sales, and the increase in revenue from co-promotion fees. In addition, the cost of sales of the other businesses also improved owing mainly to the change in the business structure.</p> <p>Forecast: Same percentage-point in cost of sales ratio The cost of sales ratio of the Pharmaceutical Business is expected to be almost the same percentage-point owing mainly to a revision of drug price despite revenue from technical fees. In addition, the cost of sales of the other businesses is also expected to be almost the same percentage-point.</p>
Selling, general and administrative expenses	<p>Results: 0.5% decrease YoY General and administrative expenses, and R&D expenses decreased, and selling expenses increased. A decrease in R&D expenses is mainly caused from expenses for overseas clinical trials taken over from ObsEva recorded in the fiscal year ended March 31, 2023. The increase in selling expenses was due to increases in expenses for operating activities and in depreciation.</p> <p>Forecast: 10.4% increase YoY All of selling expenses, general and administrative expenses and R&D expenses are expected to increase. The increase in selling expenses is due to similar reasons as in the previous fiscal year. R&D expenses are expected to increase mainly due to lump-sum payment for contracts of new in-licensing, and research expenses for beginning of clinical trials of drug discovery themes.</p>
Non-operating income and expenses	<p>Results: Main items included increases in gain on sale of securities and gain on valuation of securities</p> <p>Forecast: No extraordinary items are expected.</p>
Extraordinary income and losses	<p>Results: The main item was a decrease in gain on sale of investment securities.</p> <p>Forecast: A gain on sale of investment securities is expected to be recorded.</p>

[Other Items (Consolidated)]

(Million yen)

Item	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024			Fiscal year ending March 31, 2025 (Forecast)		
		Forecast*	Results	YoY	Full year	YoY	1st half
Depreciation	4,109	4,300	4,254	3.5%	4,900	15.2%	2,400
Capital investment	2,187	2,000	1,879	(14.1)%	4,300	128.8%	2,900
Main items	Production equipment, etc. 110 Other 2,077	Production equipment, etc. 800 Other 1,200	Production equipment, etc. 733 Other 1,145		Production equipment, etc. 2,000 Other 2,300		Production equipment, etc. 1,600 Other 1,300
Number of employees at end of period	1,795	—	1,779	(16)	—	—	—

*: Forecast values presented in the financial statements for the six months ended September 30, 2023.

II. Consolidated Balance Sheets

(Million yen)

Fiscal year		Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024	Change
Item				
Assets	Current assets	100,641	104,551	3,910
	Cash and deposits	25,893	22,894	(2,999)
	Notes receivable - trade, accounts receivable - trade, and contract assets	22,780	28,680	5,899
	Investments in specified trusts and securities	27,541	24,901	(2,639)
	Inventories	22,798	26,297	3,498
	Other current assets	1,627	1,778	151
	Non-current assets	120,558	156,377	35,818
	Property, plant and equipment	24,579	24,861	281
	Intangible assets	1,507	1,992	485
	Investments and other assets	94,472	129,523	35,051
	Investment securities	74,769	106,361	31,592
	Long-term prepaid expenses	15,209	14,219	(989)
	Retirement benefit asset	3,089	7,311	4,221
	Deferred tax assets	433	608	175
	Other	988	1,040	51
Allowance for doubtful accounts	(18)	(18)	—	
Total assets		221,200	260,929	39,729

Cash and deposits	<ul style="list-style-type: none"> Decreased mainly due to some of the accounts receivable - trade that remained unsettled because March 31, 2024 was a bank holiday, despite an increase due to profit
Notes receivable - trade, accounts receivable - trade, and contract assets	<ul style="list-style-type: none"> Increases in the Pharmaceutical Business and the other businesses and an increase due to some of the accounts receivable - trade that remained unsettled because March 31, 2024 was a bank holiday
Inventories	<ul style="list-style-type: none"> An increase in products and raw materials in the Pharmaceutical Business and an increase in work in process in the Information Services Business
Other current assets	<ul style="list-style-type: none"> A decrease in accounts receivable in the Pharmaceutical Business and the Construction Business
Property, plant and equipment	<ul style="list-style-type: none"> An increase in construction in progress in the Pharmaceutical Business despite a decrease due to depreciation
Intangible assets	<ul style="list-style-type: none"> An increase in goodwill in the Information Services Business despite a decrease due to amortization
Investment securities	<ul style="list-style-type: none"> An increase in unrealized gains due to fair value evaluation
Long-term prepaid expenses	<ul style="list-style-type: none"> Increased owing to acquisition of new assets in the Pharmaceutical Business despite a decrease caused by depreciation

(Million yen)

Fiscal year		Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024	Change
Item				
Liabilities	Total liabilities	26,385	39,793	13,407
	Current liabilities	14,957	17,663	2,705
	Notes and accounts payable - trade	4,617	4,893	275
	Short-term borrowings	1,490	1,340	(150)
	Income taxes payable	408	2,380	1,972
	Contract liabilities	1,846	1,486	(359)
	Other	6,594	7,562	967
	Non-current liabilities	11,428	22,129	10,701
	Deferred tax liabilities	10,426	21,188	10,762
	Other	1,001	941	(60)
Net assets	Total net assets	194,814	221,136	26,321
	Shareholders' equity	161,246	162,683	1,437
	Share capital	24,356	24,356	—
	Capital surplus	24,226	24,226	(0)
	Retained earnings	125,576	127,310	1,734
	Treasury shares	(12,912)	(13,209)	(296)
	Total accumulated other comprehensive income	32,653	57,344	24,690
	Non-controlling interests	914	1,107	192
Total liabilities and net assets		221,200	260,929	39,729

Notes and accounts payable - trade	<ul style="list-style-type: none"> Decreased in the Pharmaceutical Business and increased in the Information Services Business
Income taxes payable	<ul style="list-style-type: none"> Increased due to an increase in income of the Pharmaceutical Business
Other current liabilities	<ul style="list-style-type: none"> Increases in accrued consumption taxes in the Pharmaceutical Business and Information Services Business
Deferred tax liabilities	<ul style="list-style-type: none"> Increased due to an increase in unrealized gains on investment securities
Retained earnings	<ul style="list-style-type: none"> Dividends paid: -¥3,722 million; Cancellation of treasury shares: -¥5,704 million; Profit attributable to owners of parent: +¥11,160 million
Total accumulated other comprehensive income	<ul style="list-style-type: none"> An increase in valuation difference on available-for-sale securities due to an increase in unrealized gains on investment securities; an increase in remeasurements of defined benefit plans

III. Consolidated Statements of Cash Flows

(Million yen)

Item	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024	Change
Cash flows from operating activities	(6,679)	(1,677)	5,001
Cash flows from investing activities	6,001	8,690	2,689
Cash flows from financing activities	(3,420)	(10,006)	(6,586)
Effect of exchange rate change on cash and cash equivalents	(21)	(3)	18
Net increase (decrease) in cash and cash equivalents	(4,120)	(2,997)	1,122
Cash and cash equivalents at beginning of period	53,004	48,884	(4,120)
Cash and cash equivalents at end of period	48,884	45,887	(2,997)

Main factors for increases and decreases (from the fiscal year ended March 31, 2023)

1. Cash flows from operating activities: Increased

Net cash used in operating activities amounted to ¥1,677 million for the fiscal year ended March 31, 2024. This was mainly due to an increase in trade receivables and contract assets, despite a decrease in income taxes paid.

2. Cash flows from investing activities: Increased

Net cash provided by investing activities amounted to ¥8,690 million for the fiscal year ended March 31, 2024, up ¥2,689 million from the previous fiscal year-end. This was attributable to an increase in reduction of investments in specified trusts, as well as a decrease in purchase of long-term prepaid expenses, and other factors.

3. Cash flow from financing activities: Decreased (higher cash outflows)

Net cash used in financing activities was ¥10,006 million for the fiscal year ended March 31, 2024, up ¥6,586 million from the previous fiscal year-end, mainly due to purchase of treasury shares and dividends paid.

IV. Trends in Dividends

(Yen)

Item	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024	Fiscal year ending March 31, 2025 (Forecast)
Interim dividend	28	40	41	45
Annual dividend	56	80	82	90

(%)

Payout ratio	20.0	35.0	33.3	35.2
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(Reference)

(Million yen)

Purchase of treasury shares	—	—	6,000	—
(Number of shares purchased)	—	—	(1,910 thousand shares)	—
Cancellation of treasury shares	—	—	5,704	—
(Number of shares cancelled)	—	—	(2,500 thousand shares)	—

V. Trends in Main Product Sales

(Million yen)

Product name	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024			Fiscal year ending March 31, 2025 (Forecast)		
		Forecast*1	Results	YoY	Full year	YoY	1st half
Overactive Bladder Treatment Beova [®]	11,795	15,800	15,335	30.0%	17,500	14.1%	8,400
DESMOPRESSIN Formulations MINIRIN MELT [®] , etc.*2	3,703	3,450	3,662	(1.1)%	3,200	(12.6)%	1,600
Dysuria Treatment URIEF [®]	2,345	2,100	2,076	(11.5)%	1,400	(32.6)%	700
Hyperphosphatemia Treatment P-TOL [®]	5,665	5,800	5,241	(7.5)%	5,300	1.1%	2,700
Treatment for Pruritis in Dialysis KORSUVA [®]	—	500	757	—	3,600	375.1%	1,500
Treatment for Renal Anemia Darbepoetin Alfa BS Injection [JCR]	4,386	4,100	4,077	(7.0)%	3,600	(11.7)%	1,800
Treatment for Renal Anemia Epoetin Alfa BS Injection [JCR]	3,055	2,300	2,336	(23.5)%	1,800	(23.0)%	900
Treatment for Diabetes GLUBES [®] , GLUFAST [®]	4,061	3,800	3,806	(6.3)%	3,300	(13.3)%	1,700
Treatment for Diabetes MARIZEV [®]	1,059	1,200	1,073	1.3%	1,100	2.5%	600
Treatment of Dry Mouth Symptoms SALAGEN [®]	1,073	1,000	980	(8.6)%	850	(13.3)%	450
Treatment for MPA ^{*3} and GPA ^{*4} TAVNEOS [®]	1,029	5,000	5,161	401.3%	7,000	35.6%	3,300
Treatment for Ulcerative Colitis CAROGRA [®]	500	1,400	1,091	118.1%	1,800	64.9%	800
Treatment for Chronic ITP ^{*5} TAVALLISSE [®]	21	700	818	—	2,500	205.5%	1,100

*1: Forecast values presented in the financial statements for the six months ended September 30, 2023.

*2: MINIRIN MELT[®], DESMOPRESSIN Intranasal, DESMOPRESSIN Nasal Spray, and DESMOPRESSIN I.V. Injection

*3: Microscopic polyangiitis

*4: Granulomatosis with polyangiitis

*5: Idiopathic thrombocytopenic purpura

VI. R&D Pipeline (In-house)

(As of May 2024)

Generic name / Development code	Expected indications	Category	Development stage	Development classification
CG0070	Non-muscle-invasive bladder cancer	Oncolytic Viral Therapy	Phase III	In-licensed / CG Oncology (U.S.)
Linzagolix / KLH-2109	Uterine fibroids	GnRH receptor antagonist	Phase III	Kissei
	Endometriosis		Phase II	Kissei
KDT-3594	Parkinson's disease	Dopamine receptor agonist	Phase II	Kissei
KSP-0243	Ulcerative colitis		Phase II	Kissei

* Rovatirelin (spinocerebellar degeneration):

Under consideration on the possibility of conducting additional clinical trials

* Changes from previous release (January 2024):

None

VII. R&D Pipeline (Out-licensing)

(As of May 2024)

Generic name / Development code	Expected indications	Category	Countries & Regions	Development company	Development stage
Linzagolix	Uterine fibroids	GnRH receptor antagonist	EU	Theramex (U.K.)	Approved
			China	Bio Genuine (China)	Phase III
			Taiwan	Synmosa Biopharma (Taiwan)	NDA
	Endometriosis		EU	Theramex (U.K.)	Phase III
			China	Bio Genuine (China)	Phase III
Fostamatinib	Chronic idiopathic thrombocytopenic purpura	Tyrosine kinase inhibitor	Korea	JW Pharmaceutical (Korea)	NDA
Silodosin	Dysuria associated with benign prostatic hyperplasia	Alpha 1A adrenergic receptor antagonist	Vietnam, etc.	Eisai (Japan)	NDA

* Changes from previous release (January 2024):

Linzagolix (uterine fibroids, Taiwan): NDA preparation → NDA

KDT-3594 (China, etc.): Phase II → The licensing agreement with AffaMed Therapeutics was terminated (deleted)