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May 1, 2020

CMIC HOLDINGS Co., Ltd. Consolidated Financial Results For the 2nd Quarter Ended March 31, 2020

(The Fiscal Year Ending September 30, 2020, Japan Accounting Standards)

Highlights:

- **Sales grew 6.3% year on year to ¥38.9 billion on a consolidated basis**
- **Operating income decreased 31.6% to ¥1.97 billion**
- **Earnings per share ¥81.86**

Tokyo, May 1, 2020 – CMIC HOLDINGS Co., Ltd. (TSE Code: 2309) today reported financial results for the 2nd quarter ended March 31, 2020

CMIC group is rolling out a PVC (Pharmaceutical Value Creator) model, which is our unique business model contributing to increase additional values of pharmaceutical companies. We provide extensive support for development, manufacturing, sales and marketing value chains of pharmaceutical companies with our CRO (Contract Research Organization) business, CDMO (Contract Development Manufacturing Organization) business, CSO (Contract Sales Organization) business, and Healthcare business. In addition, our IPM (Innovative Pharma Model) business is providing new business solutions to pharmaceutical companies that combine marketing authorization licensing (intellectual properties) and value chains.

In the pharmaceutical industry, while creation of innovative drugs is anticipated towards providing personalized medicine or "precision medicine", drug pricing system is being revised, such as introduction of cost-effective assessment and consideration of special or specified medical care coverage, due to impact on the health insurance budget. Further improvement of productivity and technical capability is expected for the pharmaceutical industry for transformation to the industrial structure with more global competitiveness. New technologies called the Fourth Industrial Revolution such as artificial intelligence (AI) or IoT are bringing significant changes to the society, and as way of medicine and people's ideas of health change in the healthcare arena, industry, government, academia and civil society are collaborating to achieve innovation to address the decreasing birthrate and aging population.

The global epidemic of COVID-19 that started at the beginning of 2020 is significantly impacting the socioeconomics, increasing the uncertainty about the future. We are recognizing the importance of drug development that is leading to maintaining the lives of patients, and are requested to ensure stable supply of drugs by further promoting the domestic production of drug substances with high dependency on overseas production.

The CMIC Group has been promoting "Project Phoenix" to adapt ourselves to the rapidly changing external environment in a timely and flexible manner and to achieve sustainable growth. We have started "Project

Phoenix 3.0" to expand the application of our unique business model "PVC" (that provides end-to-end support for pharmaceutical companies) to the healthcare arena and promote new business creation. In addition, to achieve the mid-to-long-term corporate value improvement of our group, the mid-term plan (FY2019-2021) includes focus activity items such as acceleration of PVC model, expansion of globalization, and creation of healthcare business. We are implementing various group-wide measures to execute such activities continuously to achieve the mid-term plan.

As a life science company, CMIC Group will support the development of effective treatment and precautions against the new coronavirus, contribute to providing efficacious treatment for early recovery of patients and maintaining the hospital system, and deliver our mission as a healthcare company.

Sales and Operating Income

In the first half of the current fiscal year, we are addressing the top-priority items identified in the mid-term plan including business incubation in healthcare arena.

On the other hand, following the outbreak of COVID-19, we had no choice but to suspend or reduce sales activities including restriction on hospital visits, delayed collection of safety information, and cancellation of academic conferences and seminars.

Sales in the first half of fiscal year 2020 was 38.9 billion (grew 6.3% year-on-year) driven by the CDMO and CSO business growth. Operating income was 1,970 million (down 31.6% year-on-year) mainly due to decrease in profits of CRO business, despite the improvements of CDMO business and CSO business.

Segment Information

The business results by segment are listed as below:

Please note that reported segment was changed. We compare the percentage change in sales and operating income by segment versus the same period during the previous year, using the segments after the changes as the basis.

- **CRO (Contract Research Organization) Business**

	(Millions of yen)			
	1H FY2020	1H FY2019	YoY Change Amount	YoY Change %
Sales	17,898	18,797	(898)	(4.8)
Operating income	2,930	4,143	(1,212)	(29.3)

In this business, we provide services primarily to pharmaceutical companies to support drug development.

In the first half of the current fiscal year, we are supporting overseas companies entering the Japanese market and non-healthcare companies entering the healthcare sphere, promoting measures to address sophisticated development needs including biopharmaceuticals and regenerative medicines, and expanding our presence in Asia.

For clinical services, we are promoting our order-receiving activities for global studies and PVC projects involving

multiple business units, as well as for clinical trials using cutting-edge technologies that utilize digital technologies, and improving the expertise and technical capabilities of our human resources. For non-clinical services, our laboratories in Japan and the United States are further collaborating to provide drug discovery support for advanced medicine including nucleic acid drugs and regenerative medicine. Sales were below the same period last year due to the impact of delay in receiving orders and cancellation/postponement of existing projects. Operating income was also below the same period last year impacted by reduced operation rates and listing of unprofitable projects.

- **CDMO (Contract Development Manufacturing Organization) Business**

	(Millions of yen)			
	1H FY2020	1H FY2019	YoY Change Amount	YoY Change %
Sales	10,325	7,724	+2,601	+33.7
Operating income	147	(147)	+294	-

In this business, we provide services primarily to pharmaceutical companies to support drug formula development and manufacturing.

In the first half of the current fiscal year, CDMO business is further improving technical capabilities, developing low-cost production structure, and enhancing competitiveness through strategic capital investment as a global pharmaceutical drug manufacturing platform that includes formulation design, investigational new drug manufacturing, and commercial production.

Sales and operating income exceeded the same period last year thanks to increased contract volume in Japan and the sales contribution by CMIC CMO Nishine Co., Ltd., despite the reduction of contract volume following the inventory adjustment by customers in the United States.

- **CSO (Contract Sales Organization) Business**

	(Millions of yen)			
	1H FY2020	1H FY2019	YoY Change Amount	YoY Change %
Sales	4,313	3,701	+611	+16.5
Operating income	437	(33)	+471	-

In this business, we provide sales- and marketing-support services, primarily to pharmaceutical companies.

In the first half of the current fiscal year, in addition to the medical representative (MR) dispatch and other related services, we are providing comprehensive solution that combines multiple communication channels and various services including dispatch and training of Medical Affairs personnel.

Sales and operating income exceeded the same period last year thanks to the steady progress in MR dispatch projects acquired in the previous period and the operation rates maintained at the high level.

Healthcare Business

	(Millions of yen)			
	1H FY2020	1H FY2019	YoY Change Amount	YoY Change %
Sales	4,892	4,903	(11)	(0.2)
Operating income	262	579	(316)	(54.6)

In this business, we provide SMO services, healthcare services related to treating, maintaining, and promoting the health for medical institutions, patients and general consumer, and services related to BPO and human resources. In the first half of the current fiscal year, we are further strengthening the oncology capabilities in the SMO operations and providing new services. We are creating new business for early detection and prevention of aggravation of disease, including “harmo” electronic prescription record service and "SelCheck" (self-screening) service. We will strive to win new SMO business orders and aim to expedite the in-flow of income for the new healthcare business.

Sales were consistent with the corresponding period last year despite growth in both SMO operations and healthcare services, due to reduction in work volume for some BPO/Staffing services. Operating income was below the same period last year impacted by lower sales of BPO/Staffing services and prior investment cost to create new healthcare business models.

● IPM (Innovative Pharma Model) Business

	(Millions of yen)			
	1H FY2020	1H FY2019	YoY Change Amount	YoY Change %
Sales	1,912	1,881	+30	+1.6
Operating income	67	(108)	+175	-

IPM business provides new business solutions to pharmaceutical companies that combine value chains and marketing authorization licenses (intellectual properties) possessed by our group. We are mainly delivering development and marketing services for orphan drugs and diagnostics.

In the first half of this fiscal year, we are selling orphan drugs, including products developed in-house. Further, we are strengthening business foundation through provision of IPM platform such as supporting foreign companies entering the Japanese market and providing strategic options to pharmaceutical companies in accordance with their business model changes. We will further expand the business scale and reach profitability by continuing to provide new business solutions.

Though sales were consistent with the corresponding period last year, due to the effect of cost reduction and commission income, operating surplus was recorded.

Ordinary Income

Ordinary income for the first half of the current fiscal year was ¥2,368 million (down 11.0% YoY).

For non-operating income, we recorded ¥492 million of share of profit of entities accounted for using equity method, for non-operating expenses we recorded ¥94 million of interest expenses.

Profit attributable to owners of parent

Current profit attributable to owners of parent for the first half of the current fiscal year was ¥1,479 million (down 3.7% YoY).

For extraordinary income, we recorded ¥5 million as gain on sales of non-current assets, and as for extraordinary losses, we recorded ¥114 million as loss on valuation of investment securities and loss on sales of non-current assets. ¥674 million was recorded as total income taxes, and ¥105 million as loss attributable to non-controlling interests.

Overview of the financial condition

Assets, liabilities, and net assets

Total assets at the end of the first half of the current fiscal year increased by ¥5,438 million YoY to ¥85.618 billion. This is mainly due to an increase in cash and deposits, notes and accounts receivable - trade, and tangible fixed assets of CDMO business, against a decrease investment securities.

Total liabilities increased by ¥4,543 million YoY to ¥51.729 billion. Most of the above is attributable to increase in borrowings from financial institutions anticipating the impact of COVID-19 and decrease in income taxes payable and provision for bonuses.

Total net assets increased by ¥895 million YoY to ¥33.889 billion. This is mainly due to an increase in retained earnings, against a decrease in unrealized gain (loss) on securities.

Future Outlook

CMIC Group supports pharmaceutical companies and medical institutions through drug development, manufacturing, sales and marketing. The cooperation of medical institutions is essential for conducting clinical trials to confirm the efficacy and safety of drug candidate substances and for the collection of safety information in the post-marketing period.

Due to the global pandemic of COVID-19, while there is an urgent need to develop drugs to treat COVID-19, many pharmaceutical R&D projects have been postponed and cancelled with no prospect of restart timing at present, in order to prevent the healthcare system from being overwhelmed.

CMIC Group business performance is significantly affected by when COVID-19 pandemic will end, because our group has been significantly restricted in its business activities, including its self-limited visits to medical institutions.

Since it is quite difficult to predict the impact of COVID-19 on CMIC Group future business performance, our future outlook is undetermined. We will closely monitor the development of COVID-19, and the future outlook will be announced immediately after reasonable calculation becomes possible.

Cautionary statement:

This material includes forward-looking statements based on assumptions and beliefs in light of the information currently available to management, and is subject to significant risks and uncertainties. Actual financial results may vary materially from the content of this material depending on a number of factors. While this material contains information on pharmaceuticals (including compounds under development), this information is not intended to make any representations or advertisements regarding the efficacy or effectiveness of their preparations, promote any kind of unapproved uses, nor provide medical advice of any kind.

Summary of Results for the 2nd Quarter Ended March 31, 2020 October 1, 2019 through March 31, 2020)

(1) Consolidated financial results (Millions of yen; amounts less than one million yen are omitted)
 (Percentage figures indicate increase compared with the corresponding period of the prior fiscal year)

	1H FY2020		1H FY2019	
		Change (%)		Change (%)
Net sales	38,958	6.3	36,633	8.9
Operating income	1,970	(31.6)	2,879	16.5
Ordinary income	2,368	(11.0)	2,661	19.6
Profit attributable to owners of parent	1,479	(3.7)	1,536	214.1
Earnings per share (Yen)	81.86		82.72	
Diluted net income per share (Yen)	—		—	

Reference: Comprehensive income: 1st half FY2020: ¥1,351 million (up72.6 % YoY), 1st half FY2019: ¥783 million (down 38.6% YoY)

(2) Consolidated financial position (Millions of yen; amounts less than one million yen are omitted)

	End Q2 FY2020	Year End FY2019
Total assets	85,618	80,179
Net assets	33,889	32,994
Equity ratio (%)	26.9	27.8
Book value per share (Yen)	1,273.17	1,231.65

Reference: Shareholders' equity: 2nd quarter FY2020: ¥23,026 million, year-end FY2019: ¥22,258 million.

Distribution of Profits and Dividends

We regard the return of profits to shareholders as one of our most important management policies. Our basic policy is to pay dividends in accordance with our business performance, while securing internal reserves to improve profitability and strengthen our business foundation. At the same time, we will maintain a consolidated dividend payout ratio of 30% and pay continuous and stable dividends. For the time being, the minimum annual dividend is set at ¥10.00 for stable dividends. As for the fiscal year-end dividend forecast for the fiscal year ending September 2020, we have decided that the consolidated earnings forecast is "undetermined." Therefore, we will withdraw the dividend forecast announced on November 7, 2019 and make it "undetermined."

Consolidated Financial Statements for the 2nd Quarter Ended March 1, 2020

(1) Consolidated Balance Sheets

(Millions of yen)

	Q2 FY2020 (March 31, 2020)	Year End FY2019 (September 30, 2019)
Assets		
Current assets		
Cash and deposits	14,334	12,146
Notes and accounts receivable - trade	13,637	13,082
Merchandise and finished goods	654	682
Work in process	3,952	4,074
Raw materials and supplies	2,657	2,578
Other	3,552	3,009
Allowance for doubtful accounts	(69)	(67)
Total current assets	38,718	35,506
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	14,252	13,471
Machinery, equipment and vehicles, net	10,647	9,848
Land	6,424	6,425
Other, net	5,283	4,004
Total property, plant and equipment	36,607	33,750
Intangible assets		
Goodwill	87	237
Other	1,406	1,338
Total intangible assets	1,493	1,575
Investments and other assets		
Investment securities	2,616	3,007
Lease and guarantee deposits	1,973	1,997
Other	4,779	4,921
Allowance for doubtful accounts	(570)	(579)
Total investments and other assets	8,798	9,347
Total non-current assets	46,900	44,673
Total assets	85,618	80,179

(Millions of yen)

	Q2 FY2020 (March 31, 2020)	Year End FY2019 (September 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	918	1,082
Short-term borrowings	3,918	3,018
Current portion of long-term debt	2,958	2,822
Commercial papers	4,000	2,000
Income taxes payable	424	647
Provision for bonuses	2,071	2,677
Provision for loss on orders received	612	561
Other	11,975	9,935
Total current liabilities	26,878	22,743
Non-current liabilities		
Long-term debt	12,050	11,356
Net defined benefit liability	9,077	8,721
Other	3,722	4,364
Total non-current liabilities	24,850	24,441
Total liabilities	51,729	47,185
Net assets		
Shareholders' equity		
Capital stock	3,087	3,087
Capital surplus	6,100	6,102
Retained earnings	15,119	14,121
Treasury shares	(1,551)	(1,578)
Total shareholders' equity	22,756	21,733
Accumulated other comprehensive income		
Unrealized gain(loss) on securities	358	613
Foreign currency translation adjustments	(57)	(35)
Remeasurements of defined benefit plans	(31)	(52)
Total accumulated other comprehensive income	269	525
Non-controlling interests	10,863	10,735
Total net assets	33,889	32,994
Total liabilities and net assets	85,618	80,179

(2) Consolidated Statement of Income

(Millions of yen)

	1H FY2020 (October 1, 2019– March 31, 2020)	1H FY2019 (October 1, 2018– March 31, 2019)
Net sales	38,958	36,633
Cost of sales	30,782	28,240
Gross profit	8,176	8,392
Selling, general and administrative expenses	6,205	5,513
Operating income	1,970	2,879
Non-operating income		
Interest income	2	2
Share of profit of entities accounted for using equity method	421	-
Other	68	48
Total non-operating income	492	50
Non-operating expenses		
Interest expenses	57	56
Share of loss of entities accounted for using equity method	-	108
Foreign exchange losses	13	77
Other	23	25
Total non-operating expenses	94	268
Ordinary income	2,368	2,661
Extraordinary income		
Gain on sales of non-current assets	5	6
Total extraordinary income	5	6
Extraordinary losses		
Impairment loss	-	124
Loss on retirement of non-current assets	47	50
Loss on valuation of investment securities	66	-
Total extraordinary losses	114	174
Profit before income taxes	2,259	2,493
Current	684	1,035
Deferred	(10)	107
Total income taxes	674	1,142
Profit	1,585	1,350
Profit(loss) attributable to non-controlling interests	105	(185)
Profit attributable to owners of parent	1,479	1,536

(3) Consolidated Statement of Comprehensive Income

(Millions of yen)

	1H FY2020 (October 1, 2019– March 31, 2020)	1H FY2019 (October 1, 2018– March 31, 2019)
Profit	1,585	1,350
Other comprehensive income		
Valuation difference on available-for-sale securities	(254)	(583)
Foreign currency translation adjustments	(16)	(23)
Remeasurements of defined benefit plans	38	39
Total other comprehensive income	(233)	(567)
Comprehensive income	1,351	783
Comprehensive income attributable to		
Owners of parent	1,223	977
Non-controlling interests	127	(194)

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	1H FY2020 (October 1, 2019– March 31, 2020)	1H FY2019 (October 1, 2018– March 31, 2019)
Cash flows from operating activities:		
Profit before income taxes	2,259	2,493
Depreciation	1,993	1,728
Impairment loss	-	124
Amortization of goodwill	148	140
Increase (decrease) in allowance for doubtful accounts	(7)	0
Increase (decrease) in provision for bonuses	(605)	(546)
Increase (decrease) in provision for directors' bonuses	-	(63)
Increase (decrease) in net defined benefit liability	398	285
Interest and dividend income	(2)	(2)
Interest expenses	57	56
Foreign exchange losses (gains)	7	68
Share of loss (profit) of entities accounted for using equity method	(421)	108
Decrease (increase) in notes and accounts receivable - trade	(555)	(836)
Decrease (increase) in inventories	73	92
Increase (decrease) in notes and accounts payable - trade	(164)	102
Increase (decrease) in accrued expenses	(131)	(89)
Increase (decrease) in advances received	221	196
Other, net	(689)	(578)
Subtotal	2,581	3,281
Interest and dividend income received	2	14
Interest expenses paid	(56)	(66)
Income taxes paid	(960)	(1,488)
Proceeds from subsidy income	7	2
Net cash provided by (used in) operating activities	1,574	1,744

Cash flows from investing activities		
Net decrease (increase) in short-term loans receivable	(90)	-
Purchase of property, plant and equipment	(2,244)	(1,374)
Purchase of intangible assets	(203)	(287)
Payments for lease and guarantee deposits	(361)	(42)
Proceeds from collection of lease and guarantee	385	30
Other	(6)	(13)
Net cash provided by (used in) investing activities	(2,519)	(1,687)
Cash flows from financing activities		
Net increase (decrease) in short-term loans	900	34
Net increase (decrease) in commercial papers	2,000	2,000
Proceeds from long-term loans payable	2,250	2,000
Repayments of long-term loans payable	(1,420)	(2,604)
Repayments of lease obligations	(82)	(70)
Cash dividends paid	(490)	(420)
Other	(0)	(6)
Net cash provided by (used in) financing activities	3,156	931
Effect of exchange rate change on cash and cash equivalents	(8)	(28)
Net increase (decrease) in cash and cash equivalents	2,202	960
Cash and cash equivalents at beginning of period	12,144	13,976
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(14)	-
Cash and cash equivalents at end of period	14,332	14,937