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April 27, 2018

CMIC HOLDINGS Co., Ltd. Consolidated Financial Results

For the 2nd Quarter Ended March 31, 2018

(The Fiscal Year Ending September 30, 2018, Japan Accounting Standards)

Highlights:

- **Sales grew 6.0% year on year to ¥33.640 billion on a consolidated basis**
- **Operating income increased 29.9% to ¥2.471 billion**
- **Earnings per share ¥26.14**

Tokyo, April 27, 2018 – CMIC HOLDINGS Co., Ltd. （TSE Code: 2309） today reported financial results for the 2nd quarter ended March 31, 2018

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, toward provision of "precision medicine", technological innovation and creation of innovative drugs through close industry-government-university collaboration is anticipated. On the other hand, 2018 National Health Insurance (NHI) drug price revision included the key points such as drastic review of premium for new drug development (PMP, the price maintenance premium), price revision of long-listed products, and introduction of cost-effectiveness evaluations on a trial basis. MHLW revised the "Comprehensive Strategy to Strengthen the Pharmaceutical Industry" in December 2017, and the following seven focus items were set out promoting the pharmaceutical industry to transition from the model that depends on the long-term listed drugs to the industrial structure with strong drug discovery capabilities: 1) Improvement of R&D environment to develop discovery seeds originating in Japan, 2) Cost reduction and efficiency improvement through regulatory reform, 3) Improvement of productivity and manufacturing infrastructure building for medicinal products,4) Environment and infrastructure improvement for appropriate evaluation, 5) International expansion of Japan-origin pharmaceuticals, 6) Creation of global venture companies to promote renewal of the drug discovery industry, and 7) Improvement of prescription drug distribution. Pharmaceutical companies will likely accelerate efforts to bolster new drug development capacity towards promotion of innovation and discovery of innovative drugs that can contribute to improve the quality of medical care while considering possible business model changes. This will lead to continued increases in outsourcing with the aim of further improving productivity and efficiency.

To achieve sustainable growth in the healthcare and pharmaceutical industry at this time of change, CMIC Group is pushing forward "Project Phoenix". Project Phoenix 1.0 started in the fiscal year started in September 2015, paved the way for positive turnaround of unprofitable businesses and cost structure reform, and established "CMIC'S CREED" —our corporate philosophy that expresses the founding spirit and the starting point of CMIC Group. Project Phoenix 2.0 started in the 2nd half of 2017 to address changes in the pharmaceutical and healthcare industry in a timely manner. While establishing the agile management style, we are promoting the provision of new business solution that combines the system to support all value chains and manufacturing authorization and other licenses (intellectual properties) held by CMIC Group. In April 2018, organizational and functional changes were implemented for the top management in the group to further promote globalization, and Project Phoenix 3.0 has started in preparation for new initiatives including digitalization in the healthcare arena.

Sales and Operating Income

CMIC HOLDINGS Co., Ltd. concluded the 2nd quarter of fiscal year 2018 with the following results:
During the 2nd quarter of the current fiscal year, due to the growth of CRO businesses with strong order intake, sales during this consolidated cumulative period were ¥33.640 billion (up 6.0% YoY) and operating income was ¥2.471 billion (up 29.9% YoY).

Segment Information

The business results by segment are listed as below:

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

（Millions of yen）

	Q2 FY2018	Q2 FY2017	YoY Change Amount	YoY Change %
Sales	**18,553**	16,508	＋2,045	＋12.4
Operating income	**3,929**	2,913	＋1,015	＋34.9

In this business, we provide services primarily to pharmaceutical companies to support drug development.
In the 2nd quarter of the current fiscal year, we bolstered human resource development with the aim of further improving our expertise and quality in order to meet diverse client needs such as anti-cancer drugs and regenerative medicine.
While striving to secure human resources to meet robust demand in clinical services, we have decided to integrate CMIC Co., Ltd. and CMIC-PMS Co., Ltd. on October 1, 2018 to further enhance the post-marketing and clinical research support business using our database. Preparation is underway to establish an organization to provide end-to-end support that covers from clinical trial to PMS.
For non-clinical services, CMIC Pharma Science Co., Ltd. and CMIC, INC. in the United States have enhanced their collaboration to provide drug discovery support for next-generation drugs including nucleic acid drugs and regenerative medicine.
Sales and operating income exceeded those from the same period of the previous year thanks to robust growth in new and existing contracts.

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

（Millions of yen）

	Q2 FY2018	Q2 FY2017	YoY Change Amount	YoY Change %
Sales	**6,786**	6,643	＋143	＋2.2
Operating income	**(525)**	(169)	(355)	-

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

In the 2nd quarter of the current fiscal year, we are moving forward with establishing a low-cost production structure in the pursuit of productivity and efficiency through total service provision for drug manufacturing that includes formulation design, investigational new drug manufacturing, and commercial production. In addition, the Ashikaga Plant is making progress in constructing a new injection building, which is scheduled to start operating in October 2018. In March 2018, CMIC HOLDINGS Co., Ltd. announced a capital and business tie-up agreement with Development Bank of Japan Inc. (hereafter "DBJ") to promote broader strategies and expand our business through utilization of DBJ funding, personnel, and network in Japan and overseas, in addition to our growth based on existing business.

Sales exceeded that of the same period last year thanks to robust progress of new contract manufacturing projects. Operating loss was recorded due to production volume decrease of existing orders at CMIC CMO USA Corporation and the commercial production start-up expenses for the new injection building in Ashikaga.

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

（Millions of yen）

	Q2 FY2018	Q2 FY2017	YoY Change Amount	YoY Change %
Sales	**3,486**	3,452	＋34	＋1.0
Operating income	**153**	247	(93)	(37.7)

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

In the 2nd quarter of the current fiscal year, while CMIC Ashfield Co., Ltd. has worked steadily to strengthen its capacity to meet demand for medical representative (MR) dispatch services and move through existing projects, they are also providing comprehensive commercial solution that combines various services to meet customer demands.

Sales exceeded that of the same period last year thanks to robust progress of new contract projects, but operating income was less than that of the same period last year due to the hiring costs generated to take on large-scale projects. We will continue to steadily execute the large projects we have won and strive to win new projects.

- **Healthcare Business**

（Millions of yen）

	Q2 FY2018	Q2 FY2017	YoY Change Amount	YoY Change %
Sales	**3,607**	4,023	(415)	(10.3)
Operating income	**465**	616	(150)	(24.5)

In this business, we provide site management organization (SMO) and healthcare information services, primarily to medical institutions, patients, and general consumers, to support maintaining and promoting health and healthcare.

In the 2nd quarter of the current fiscal year, Site Support Institute Co., Ltd. has acquired new orders and provided new services such as Medical Concierge Services.　In addition, we have jointly developed a clinical trial support solution with NEC Corporation using AI voice recognition technology to promote efficiency and quality of SMO operations.

Sales and operating income are below that of the same period last year due to losing some large-scale projects we had in the same period last year.

- **IPM (Innovative Pharma Model) Business**

（Millions of yen）

	Q2 FY2018	Q2 FY2017	YoY Change Amount	YoY Change %
Sales	**1,420**	1,240	＋180	＋14.5
Operating income	**(111)**	(145)	＋34	-

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 our orphan drug business, OrphanPacific, Inc., is 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 launch of hypertension drug Rasilez (aliskiren) in March 2018 after Japanese marketing authorization (MA) transfer from Novartis Pharma.

In the diagnostics business, we are working to expand the market and strengthen promotions of the kidney disease biomarker "human L-type fatty acid-binding protein (L-FABP) kit", developed for the purpose of diagnosing renal disease.

Sales exceeded that of the same period last year due to sales increase of orphan drugs.　Operating loss was recorded because of sales promotion expenses for "Zanmira Nail" (toe nail repair solution).　We are continuing to expand our business scale through provision of new solutions aiming for positive turnaround.

Ordinary Income

Ordinary income for the 2nd quarter of the current fiscal year was ¥2,225 million (up 17.9% YoY).
In addition, for non-operating income, we recorded ¥39 million of interest income and others. For non-operating expenses we recorded ¥285 million of interest expense, foreign exchange losses, and share of loss of entities accounted for using equity method.

Profit attributable to owners of parent

Current profit attributable to owners of parent for the 2nd quarter of the current fiscal year was ¥489 million (down 8.4% YoY).
As for extraordinary loss, we recorded ¥287 million as loss on revision of pay regulations, and ¥1.45 billion in total income taxes due to increase of "income taxes deferred" impacted by "reversal of deferred tax assets" because CMIC CMO Co., Ltd., a fully owned subsidiary of CMIC HOLDINGS Co., Ltd., becomes a joint venture in June 2018 and shall withdraw from the CMIC Group consolidated tax return filing system.

Overview of the financial condition

Assets, liabilities, and net assets
Total assets at the end of the 2nd quarter of the current fiscal year increased by ¥3.769 billion YoY to ¥69.375 billion. This is mainly due to an increase in property, plant and equipment and investment securities.
Total liabilities increased by ¥2.984 billion YoY to ¥44.982 billion. This is mainly due to an increase in short-term debt.
Total net assets increased by ¥784 million YoY to ¥24.393 billion. This is mainly due to an increase in valuation difference on available-for-sale securities.

Future Outlook

There are no changes from the consolidated performance forecast (CMIC HOLDINGS Co., Ltd. Consolidated Financial Results for the year ended September 30, 2017) announced on November 7, 2017.

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, 2018 (October 1, 2017 through March 31, 2018)

(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)

	Q2 FY2018		Q2 FY2017	
		Change (%)		Change (%)
Net sales	**33,640**	**6.0**	31,743	3.2
Operating income	**2,471**	**29.9**	1,902	(7.3)
Ordinary income	**2,225**	**17.9**	1,888	(0.6)
Profit attributable to owners of parent	**489**	**(8.4)**	533	(35.6)
Earnings per share (Yen)	**26.14**		28.54	
Diluted net income per share (Yen)	—		—	

Reference: Comprehensive income: 2nd quarter FY2018: ¥1,274 million (up 15.1% YoY)
2nd quarter FY2017: ¥1,107 million (up 18.1% YoY)

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

	Q2 FY2018	Year End FY2017
Total assets	**69,375**	65,605
Net assets	**24,393**	23,608
Equity ratio (%)	**34.2**	34.9
Book value per share (Yen)	**1,268.62**	1,222.37

Reference: Shareholders' equity: 2nd quarter FY2018: ¥23,738 million, year-end FY2017: ¥ 22,867million.

Distribution of Profits and Dividends

In the fiscal year ending September 30, 2018, the Company plans to make two payments of dividends – an interim payment at ¥5.00 and a year-end payment at ¥22.50 –, totaling to an annual payment of ¥27.50.

Consolidated Financial Statements for the 2nd Quarter Ended September 30, 2018

(1) Consolidated Balance Sheets

(Millions of yen)

	Q2 FY 2018 (March 31, 2018)	Year End FY 2017 (September 30, 2017)
Assets		
Current assets		
Cash and deposits	5,483	4,947
Notes and accounts receivable - trade	13,006	12,989
Merchandise and finished goods	604	479
Work in process	3,288	3,360
Raw materials and supplies	1,750	1,603
Other	4,667	3,972
Allowance for doubtful accounts	(19)	(12)
Total current assets	**28,780**	**27,341**
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	12,732	10,850
Land	6,156	6,160
Other	11,542	11,578
Total property, plant and equipment	**30,431**	**28,589**
Intangible assets		
Goodwill	560	737
Other	977	1,092
Total intangible assets	**1,538**	**1,830**
Investments and other assets		
Investment securities	4,071	2,878
Lease and guarantee deposits	1,658	1,638
Other	3,459	3,930
Allowance for doubtful accounts	(564)	(603)
Total investments and other assets	**8,625**	**7,844**
Total non-current assets	**40,594**	**38,264**
Total assets	**69,375**	**65,605**

(Millions of yen)

	Q2 FY 2018 (March 31, 2018)	Year End FY 2017 (September 30, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	999	1,034
Short-term borrowings	4,550	1,050
Current portion of long-term debt	4,259	2,918
Commercial papers	3,000	3,000
Income taxes payable	712	1,027
Provision for bonuses	1,965	2,317
Provision for director's bonuses	-	53
Provision for loss on orders received	529	568
Other	8,841	8,903
Total current liabilities	**24,857**	**20,873**
Noncurrent liabilities		
Long-term debt	10,539	11,930
Net defined benefit liability	7,496	7,068
Other	2,088	2,125
Total non-current liabilities	**20,124**	**21,124**
Total liabilities	**44,982**	**41,997**
Net assets		
Shareholders' equity		
Capital stock	3,087	3,087
Capital surplus	7,715	7,715
Retained earnings	11,909	11,847
Treasury shares	(258)	(261)
Total shareholders' equity	**22,454**	**22,389**
Accumulated other comprehensive income		
Unrealized gain (loss) on securities	1,429	663
Foreign currency translation adjustments	(8)	15
Remeasurements of defined benefit plans	(137)	(200)
Total accumulated other comprehensive income	**1,283**	**478**
Non-controlling interests	**655**	**740**
Total net assets	**24,393**	**23,608**
Total liabilities and net assets	**69,375**	**65,605**

(2) Consolidated Statement of Income

(Millions of yen)

	Q2 FY 2018 (October 1, 2017– March 31, 2018)	Q2 FY 2017 (October 1, 2016– March 31, 2017)
Net sales	**33,640**	**31,743**
Cost of sales	**26,116**	**24,816**
Gross profit	**7,523**	**6,927**
Selling, general and administrative expenses	**5,051**	**5,025**
Operating income	**2,471**	**1,902**
Non-operating income		
Interest income	3	21
Foreign exchange gains	-	104
Rent income	8	8
Refunded consumption taxes	8	9
Other	19	14
Total non-operating income	**39**	**158**
Non-operating expenses		
Interest expenses	57	70
Share of loss of entities accounted for using equity method	59	66
Foreign exchange losses	131	-
Other	36	34
Total non-operating expenses	**285**	**171**
Ordinary income	**2,225**	**1,888**
Extraordinary losses		
Loss on sales of non-current assets	0	21
Loss on retirement of non-current assets	28	23
Provision of allowance for doubtful accounts	-	321
Loss on revision of pay regulations	252	-
Loss on valuation of investment securities	4	-
Total extraordinary losses	**287**	**366**
Profit before income taxes	**1,938**	**1,522**
Current	1,038	925
Deferred	412	(24)
Total income taxes	**1,450**	**900**
Profit	**488**	**621**
Profit (loss) attributable to non-controlling interests	**(0)**	**88**
Profit attributable to owners of parent	**489**	**533**

(3) **Consolidated Statement of Comprehensive Income**

(Millions of yen)

	Q2 FY 2018 (October 1, 2017– March 31, 2018)	Q2 FY 2017 (October 1, 2016– March 31, 2017)
Profit	**488**	**621**
Other comprehensive income		
Unrealized gain (loss) on securities	766	167
Foreign currency translation adjustments	(32)	157
Remeasurements of defined benefit plans	53	159
Total other comprehensive income	786	485
Comprehensive income	**1,274**	**1,107**
Comprehensive income attributable to		
Owners of parent	1,293	995
Non-controlling interests	(19)	111

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Q2 FY 2018 (October 1, 2017– March 31, 2018)	Q2 FY 2017 (October 1, 2016– March 31, 2017)
Cash flows from operating activities:		
Profit before income taxes	1,938	1,522
Depreciation	1,511	1,403
Amortization of goodwill	177	177
Increase (decrease) in net defined benefit liability	508	558
Increase (decrease) in provision for bonuses	(351)	(246)
Increase (decrease) in provision for directors' bonuses	(53)	(49)
Increase (decrease) in allowance for doubtful accounts	2	321
Interest income	(3)	(21)
Interest expenses	57	70
Foreign exchange losses (gains)	105	(150)
Decrease (increase) in notes and accounts receivable - trade	(47)	(997)
Decrease (increase) in inventories	(217)	86
Increase (decrease) in notes and accounts payable - trade	(32)	376
Increase (decrease) in accrued expenses	(48)	(111)
Increase (decrease) in advances received	404	514
Other, net	(558)	(795)
Subtotal	3,394	2,659
Interest and dividend income received	43	34
Interest expenses paid	(77)	(92)
Proceeds from government grant	2	1
Income taxes paid	(1,376)	(1,345)
Net cash provided by (used in) operating activities	**1,986**	**1,257**
Cash flows from investing activities		
Payments into time deposits	-	(50)
Proceeds from withdrawal of time deposits	17	113
Purchase of property, plant and equipment	(4,039)	(2,977)
Proceeds from sales of property, plant and equipment	0	156
Purchase of intangible assets	(114)	(100)
Payments for lease and guarantee deposits	(44)	(93)

Proceeds from collection of lease and guarantee deposits	24	24
Purchase of investment securities	(109)	(1,068)
Net decrease (increase) in short-term loans receivable	-	70
Other, net	-	(5)
Net cash provided by (used in) investing activities	**(4,266)**	**(3,932)**
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	3,500	(450)
Proceeds from long-term loans payable	1,200	6,000
Repayments of long-term loans payable	(1,250)	(1,834)
Redemption of bonds	-	(50)
Repayments of lease obligations	(103)	(105)
Purchase of treasury shares	(2)	(0)
Cash dividends paid	(424)	(207)
Dividends paid to non-controlling interests	(66)	-
Net cash provided by (used in) financing activities	**2,853**	**3,352**
Effect of exchange rate change on cash and cash equivalents	**(40)**	**103**
Net increase (decrease) in cash and cash equivalents	**533**	**780**
Cash and cash equivalents at beginning of period	**4,928**	**4,946**
Increase in cash and cash equivalents from newly consolidated subsidiary	**19**	**1**
Cash and cash equivalents at end of period	**5,481**	**5,728**