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April 28, 2017

CMIC HOLDINGS Co., Ltd. Consolidated Financial Results

For the 2nd Quarter Ended March 31, 2017

(The Fiscal Year Ending September 30, 2017, Japan Accounting Standards)

CMIC HOLDINGS Co., Ltd. reported a further strengthening of existing operations and has implemented new measures in each of its segments on a consolidated basis in fiscal year 2017.

Highlights:

- **Sales grew 3.2% year on year to ¥31,743 million on a consolidated basis**
- **Operating income was ¥1.9 billion, due to temporary expenses, although operating income of business units increase 25% year on year**
- **Earnings per share ¥28.54**
- **CRO Business won new orders for large-scale clinical trial projects, order backlog grew 16.5% year on year to ¥70,903 million**
- **SMO Business of Healthcare segment achieved significant performance recovery**

Tokyo, April 28, 2017 – CMIC HOLDINGS Co., Ltd. （TSE Code: 2309） today reported financial results for the 2nd quarter ended March 31, 2017）

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 and value chains.

The business climate of the pharmaceutical is harsh now due to policies intended to restrain the cost of social security by accelerating the use of generic drugs and discounting long-term listed drugs. Even the government's comprehensive strategy calls for new drug development-type pharmaceutical companies to create innovative drugs and for generic drug companies to provide a stable supply of inexpensive high-quality drugs, which is hastening the conversion to an internationally competitive industrial structure in anticipation of the future. Moreover, the trend toward personalized medicine (treatment for individual patients) continues to grow, due to the identification of disease mechanisms at the molecular level and the advancement of diagnosis technology. The fields of cancer, incurable diseases, and rare diseases are expected to grow as personalized medicine progresses. Meanwhile, in debates around the appropriate use of high-cost drugs, pharmaceutical companies are being called on to further cut drug development costs. Companies will likely accelerate efforts to bolster new drug development capacity, and more foreign companies will enter the Japanese market through industry–government–academia collaboration and cooperation designed to create scientific technological innovation. This will lead to continued increases in outsourcing with the aim of speeding up and streamlining development, manufacturing, and sales.

While industry reorganization proceeds on the basis of (1) a rise in these kinds of outsourcing needs, (2) corporate consolidation, and (3) new market entrants from different types of businesses, the market in the industry to which the CMIC Group belongs is expanding over the medium term. Furthermore, the customer segment is expected to grow from its current level because of policies that promote rapid new drug creation through industry–government–academia collaboration.

The CMIC Group has been engaged in “Project Phoenix” (a project that aims to achieve a V-shaped recovery in results and sustained growth by eliminating unprofitable businesses and promoting cost structure reform) since the fiscal year that ended September 2015. As this consolidated fiscal year marks the 25th anniversary of our founding, we are working to further enhance the foundations and individual services of each of the group’s businesses, pursue synergies between the businesses, and strengthen collaboration with clients, while promoting new efforts with the aim of realizing a solutions business that uses the features of PVC.

Sales and Operating Income

CMIC HOLDINGS Co., Ltd. concluded the second quarter of fiscal year 2017 with the following results:
During this Q2 consolidated period, we have promoted solutions business capable of responding quickly to reforms in the medical and pharmaceutical industries and worked to implement organizational restructuring to streamline management and bolster human resources development. Sales during this Q2 consolidated period were ¥31.743 billion (up3.2% YoY) and operating income was ¥1.902 billion (down 7.3% YoY), which exceeded the initial forecast.

Segment Information

The business results by segment are listed as below:

Please note that in October 2016 CMIC Career Co., Ltd., changed its reported segment from CSO business to CRO business, and changed a portion of the IPM services provided by CMIC Holdings Co., Ltd., to CRO business, in line with changes to its organizational system. We compare the percentage change in sales by segment versus the same period during the previous year, using the segments after the changes as the basis.
Furthermore, effective this Q1 consolidated period, we have changed the previous segment name from CMO business to CDMO business, and the segment name IPD business to IPM business. This was done on October 1, 2016, in line with business conditions. These changes are changes in nomenclature only, and have no impact on segment information.

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

(Millions of yen)

	Q2 FY2017	Q2 FY2016	YoY Change Amount (%)
Sales	**16,508**	15,782	＋725 (＋4.6)
Operating income	**2,913**	2,693	＋219 (＋8.2)

In this business, we provide services primarily to pharmaceutical companies to support drug development.
In this Q2 consolidated period, we strove to secure human resources to meet robust demand in clinical services, and further bolstered human resource development with the aim of improving our expertise and quality in order to meet diverse client needs. In October 2016, CMIC Co., Ltd., established the Regenerative Medicine of Clinical Research Department, which specializes in clinical testing and clinical research in the field of regenerative medicine, working to strengthen its support system for expanding quick and safe regenerative medicine.
In non-clinical services, CMIC Pharma Science Co., Ltd., and CMIC, Inc., are promoting the improvement of sales and marketing activities to acquire new contracts in analytical chemistry services and working to strengthen U.S.–Japan ties, acquire new contracts, and build a support system for companies in the U.S. market. We are also moving forward with enhancing regenerative medicine-related business by conducting testing related to regenerative medicine in newly established testing facilities.
Sales and operating income exceeded the sales and operation income from the same period during the previous year thanks to robust growth in new and existing contracts.

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

(Millions of yen)

	Q2 FY2017	Q2 FY2016	YoY Change Amount (%)
Sales	**6,728**	6,787	△59 (△0.9)
Operating income	**△239**	144	△383 (-)

In this business, we provide services primarily to pharmaceutical companies to support drug formula development and manufacturing.
In this Q2 consolidated period, we are moving forward with establishing a structure for total service provision for drug manufacturing, from formulation design to investigational new drug manufacturing to commercial production. We have built a system for low-cost production, increasing new contracts for generic drugs by working to transition to a price-competitive, low-cost structure.　In addition, the Ashikaga Plant is making progress in constructing a new injection building, which is planned for operation at the end of 2018.
As for sales and operating income, while we have recorded a decrease in sales compared to the same period in the previous year and incurred an operating loss because of a temporary fall in production resulting from clients' inventory adjustments, the forecast for the full year is unchanged since the beginning of the period due to recovery of new orders and .contract manufacturing of existing projects starting from the second half of the fiscal year.

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

(Millions of yen)

	Q2 FY2017	Q2 FY2016	YoY Change Amount (%)
Sales	**3,452**	3,739	△287 (△7.7)
Operating income	**247**	330	△82 (△25.1)

In this business, we provide sales- and marketing-support services, primarily to pharmaceutical companies.
In this Q2 consolidated period, 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 working to expand market share by improving support for client needs, such as by providing multichannel services.
Although sales and operating income came in lower than those during the same period of the previous year due to the impact from the temporary adjustment of outsourcing needs, the forecast for the full year operating income is unchanged since the beginning of the period due to cost reduction.

- **Healthcare Business**

(Millions of yen)

	Q2 FY2017	Q2 FY2016	YoY Change Amount (%)
Sales	**4,023**	3,450	＋572 (＋16.6)
Operating income	**616**	28	＋587 (＋2,071.8)

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 this Q2 consolidated period, Site Support Institute Co., Ltd., has promoted the acquisition of new orders through efforts to further strengthen sales and marketing activities in SMO services and expand its medical institute network.
Sales significantly exceeded those during the same period of the previous year on robust growth in new orders and existing contracts in SMO services. Operating income also significantly exceeded that from the same period of the previous year due to continued managerial streamlining measures, such as thorough project management and cost-cutting measures.

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

(Millions of yen)

	Q2 FY2017	Q2 FY2016	YoY Change Amount (%)
Sales	**1,154**	1,263	△109 (△8.7)
Operating income	**△75**	△16	△59 (-)

IPM business provides new business solutions to pharmaceutical companies that combine marketing authorization licenses possessed by our group and value chains. At the present stage, we are delivering development and marketing services for orphan drugs and diagnostics.
In our orphan drug business, OrphanPacific, Inc., is selling 5 orphan drugs, including products developed in-house. In addition, they are working to strengthen foundations with activities including the conclusion of sales transfer agreement with MSD K.K. for the drug that has been approved for the indication of "hyperinsulinemic hypoglycemia”. In the diagnostics business, in October 2016, our group began selling simple test kits (Dip-test) for the in vitro diagnostic drug “human L-type fatty acid-binding protein kit,” developed for the purpose of diagnosing renal disease, and we are working to expand the market and strengthen promotions.
Though sales and operating profits came in lower versus the same period of the previous year mainly due to decrease of diagnostics contract research projects from AMED (Japan Agency for Medical Research and Development), they are now focusing on business development activities to expand their business by providing new solutions.

Ordinary Income

Ordinary income for this Q2 consolidated period was ¥1,888 million (down 0.6% YoY).
In addition, for non-operating income, we recorded ¥158 million in foreign exchange gain and interest income, and for non-operating expenses we recorded ¥171 million of interest expense and share of loss of entities accounted for using equity method.

Net Income for the Quarter

Current profit attributable to owners of parent for this Q2 consolidated period was ¥533 million (down 35.6% YoY). As for extraordinary loss, we recorded ¥366 million as a provision of allowance for doubtful accounts, ¥900 million in total income taxes, and ¥88 million in profit attributable to non-controlling interests.

Consolidated Financial Position

Assets, liabilities, and net assets

Total assets at the end of this Q2 consolidated financial period increased by ¥4.618 billion YoY to ¥63.723 billion. This is mainly due to an increase in notes and accounts receivable-trade, property, plant and equipment and investment securities.
Total liabilities increased by ¥3.717 billion YoY to ¥41.424 billion. This is mainly due to an increase in long-term debts.
Total net assets increased by ¥901 million YoY to ¥22.298 billion. This is mainly due to an increase in retained earnings.

Summary of Results for the 2nd Quarter Ended March 31, 2017 (October 1, 2016 through March 31,2017)

(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 FY2017		Q2 FY2016	
		Change (%)		Change (%)
Net sales	**31,743**	**3.2**	30,767	16.1
Operating income	**1,902**	**(7.3)**	2,052	278.2
Ordinary income	**1,888**	**(0.6)**	1,900	397.1
Profit attributable to owners of parent	**533**	**(35.6)**	829	628.7
Earnings per share (Yen)	**28.54**		44.36	
Diluted net income per share (Yen)	—		—	

Reference: Comprehensive income: second quarter FY2016: ¥1,107 million (18.1%increase)
second quarter FY2015: ¥937 million (285.2%increase)

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

	Q2 FY2017	Year End FY2016
Total assets	**63,723**	59,104
Net assets	**22,298**	21,397
Equity ratio (%)	**34.2**	35.5
Book value per share (Yen)	**1,164.80**	1,122.55

Reference: Shareholders' equity: second quarter FY2017: ¥21,785 million, year-end FY2016: ¥ 20,995million.

Distribution of Profits and Dividends

In the fiscal year ending September 30 2017, the Company plans to make two payments of dividends – an interim payment at ¥5.0 and a year-end payment at ¥14.0 ー, totaling to an annual payment of ¥19.0.

Future Outlook

No changes to the earnings estimates announced during 2016 fourth quarter earnings briefing, which was held on November 11 2016.

Corporate Information

The CMIC Group was the first CRO (Contract Research Organization) in Japan and provides services that contribute to increasing efficiency and quality of clinical research. Currently, based on PVC (Pharmaceutical Value Creator) business model, the Group provides services in the following business areas: CRO (Contract Research Organization) business, CDMO (Contract Development Manufacturing Organization) business, CSO (Contract Sales Organization) business, Healthcare business. In addition, our IPM (Innovative Pharma Model) business is providing new business solutions to pharmaceutical companies that combine marketing authorization licensing and value chains. For more information about the CMIC Group, please visit http://www.cmic-holdings.co.jp/e/.

Note on the appropriate use of business forecasts contained in this report

Earnings forecasts and other forward-looking statements contained in this report are based on information currently available to the Company and certain assumptions that the Company has judged to be reasonable. Actual results may vary significantly from forecasts due to a variety of factors. Important factors that might cause such a difference include, but are not limited to, risks associated with: (i) business trends among customers, (ii) laws and regulations and government policies, (iii) competitors, (iv) compliance, (v) information management, (vi) securing human resources, (vii) conducting clinical trials under contract, (viii) product liability, (ix) research and development, (x) international business, (xi) financial market conditions, (xii) natural disasters, and (xiii) environmental regulations. The Company undertakes no obligation to update these forward-looking statements in the future.

Consolidated Financial Statements for the 2nd Quarter Ended September 30, 2017

(1) **Consolidated Balance Sheets**

(Millions of yen)

	Q2 FY 2017 (March 31, 2017)	Year End FY 2016 (September 30, 2016)
Assets		
Current assets		
Cash and deposits	5,747	5,069
Notes and accounts receivable - trade	11,802	10,731
Merchandise and finished goods	662	486
Work in process	3,025	3,368
Raw materials and supplies	1,536	1,430
Other	3,737	3,723
Allowance for doubtful accounts	(11)	(10)
Total current assets	**26,500**	**24,799**
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	10,119	9,911
Land	6,177	6,298
Other, net	11,018	8,845
Total property, plant and equipment	**27,315**	**25,055**
Intangible assets		
Goodwill	915	1,093
Other	1,175	1,274
Total intangible assets	**2,091**	**2,367**
Investments and other assets		
Investment securities	2,683	1,376
Lease and guarantee deposits	1,703	1,630
Other	4,021	4,145
Allowance for doubtful accounts	(592)	(268)
Total investments and other assets	**7,816**	**6,883**
Total noncurrent assets	**37,222**	**34,305**
Total assets	**63,723**	**59,104**

(Millions of yen)

	Q2 FY 2017 (March 31, 2017)	Year End FY 2016 (September 30, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,350	953
Current portion of bonds	-	50
Short-term loans borrowings	1,800	2,250
Current portion of long-term debt	2,212	2,783
Commercial papers	2,000	2,000
Income taxes payable	588	1,007
Provision for bonuses	1,808	2,054
Provision for directors' bonuses	-	49
Provision for loss on order received	421	402
Other	8,736	8,310
Total current liabilities	**18,917**	**19,861**
Noncurrent liabilities		
Long-term debt	13,739	9,002
Net defined benefit liability	6,655	6,325
Other	2,112	2,517
Total noncurrent liabilities	**22,507**	**17,846**
Total liabilities	**41,424**	**37,707**
Net assets		
Shareholders' equity		
Capital stock	3,087	3,087
Capital surplus	7,715	7,715
Retained earnings	10,925	10,596
Treasury shares	(265)	(265)
Total shareholders' equity	**21,462**	**21,134**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	582	414
Foreign currency translation adjustments	(0)	(143)
Remeasurements of defined benefit plans	(258)	(409)
Total accumulated other comprehensive income	**323**	**(138)**
Non-controlling interests	**512**	**401**
Total net assets	**22,298**	**21,397**
Total liabilities and net assets	**63,723**	**59,104**

(2) Consolidated Statement of Income

(Millions of yen)

	Q2 FY 2017 (October 1, 2016– March 31, 2017)	Q2 FY 2016 (October 1, 2015– March 31, 2016)
Net sales	**31,743**	**30,767**
Cost of sales	**24,816**	**23,895**
Gross profit	**6,927**	**6,872**
Selling, general and administrative expenses	**5,025**	**4,820**
Operating income	**1,902**	**2,052**
Non-operating income		
Interest income	21	13
Foreign exchange gains	104	-
Compensation income	-	21
Other	32	43
Total non-operating income	**158**	**79**
Non-operating expenses		
Interest expenses	70	74
Share of loss of entities accounted for using equity method	66	48
Foreign exchange loss	-	76
Other	34	32
Total non-operating expenses	**171**	**230**
Ordinary income	**1,888**	**1,900**
Extraordinary losses		
Loss on sales of non-current assets	21	1
Loss on retirement of non-current assets	23	20
Impairment loss	-	11
Provision of allowance for doubtful accounts	321	-
Total extraordinary losses	**366**	**33**
Profit before income taxes	**1,522**	**1,867**
Income taxes - current	925	972
Income taxes - deferred	(24)	(59)
Total income taxes	**900**	**912**
Profit	**621**	**954**
Profit attributable to non-controlling interests	**88**	**124**
Profit attributable to owners of parent	**533**	**829**

(3) Consolidated Statement of Comprehensive Income

(Millions of yen)

	Q2 FY 2017 (October 1, 2016– March 31, 2017)	Q2 FY 2016 (October 1, 2015– March 31, 2016)
Profit	**621**	**954**
Other comprehensive income		
Valuation difference on available-for-sale securities	167	25
Foreign currency translation adjustments	157	(105)
Remeasurements of defined benefit plans, net of tax	159	62
Total other comprehensive income	485	(17)
Comprehensive income	**1,107**	**937**
Comprehensive income attributable to		
Owners of parent	995	823
Non-controlling interests	111	113

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Q2 FY 2017 (October 1, 2016– March 31, 2017)	Q2 FY 2016 (October 1, 2015– March 31, 2016)
Cash flows from operating activities:		
Profit before income taxes	1,522	1,867
Depreciation	1,403	1,266
Amortization of goodwill	177	328
Increase (decrease) in net defined benefit liability	558	424
Increase (decrease) in provision for bonuses	(246)	(65)
Increase (decrease) in provision for directors' bonuses	(49)	(3)
Increase (decrease) in allowance for doubtful accounts	321	3
Interest and dividend income	(21)	(13)
Interest expenses	70	74
Foreign exchange losses (gains)	(150)	18
Decrease (increase) in notes and accounts receivable - trade	(997)	(1,192)
Decrease (increase) in inventories	86	(359)
Increase (decrease) in notes and accounts payable - trade	376	(232)
Increase (decrease) in accrued expenses	(111)	(66)
Increase (decrease) in advances received	514	278
Other, net	(795)	16
Subtotal	2,659	2,344
Interest and dividend income received	34	16
Interest expenses paid	(92)	(78)
Proceeds from subsidy income	1	-
Income taxes paid	(1,345)	(293)
Net cash provided by (used in) operating activities	**1,257**	**1,988**
Cash flows from investing activities		
Payments into time deposits	(50)	(109)
Proceeds from withdrawal of time deposits	113	121
Purchase of property, plant and equipment	(2,977)	(1,875)
Proceeds from sales of property, plant and equipment	156	4
Purchase of intangible assets	(100)	(92)
Payments for lease and guarantee deposits	(93)	(17)

Proceeds from collection of lease and guarantee deposits	24	71
Purchase of investment securities	(1,068)	(0)
Net decrease (increase) in short-term loans receivable	70	188
Payments of long-term loans receivable	-	(359)
Other, net	(5)	(4)
Net cash provided by (used in) investing activities	**(3,932)**	**(2,072)**
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(450)	100
Proceeds from long-term loans payable	6,000	3,000
Repayments of long-term loans payable	(1,834)	(1,435)
Redemption of bonds	(50)	(50)
Repayments of lease obligations	(105)	(117)
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(207)	(95)
Proceeds from share issuance to non-controlling shareholders	-	4
Other, net	-	(7)
Net cash provided by (used in) financing activities	**3,352**	**1,397**
Effect of exchange rate change on cash and cash equivalents	**103**	**(41)**
Net increase (decrease) in cash and cash equivalents	**780**	**1,273**
Cash and cash equivalents at beginning of period	**4,946**	**5,638**
Increase in cash and cash equivalents from newly consolidated subsidiary	**1**	**-**
Cash and cash equivalents at end of period	**5,728**	**6,911**