

February 6, 2020

Consolidated Financial Results
for the First Nine Months of the Fiscal Year Ending March 31, 2020
<under Japanese GAAP>

Company name: **TAIYO HOLDINGS CO., LTD.**
 Listing: First Section of the Tokyo Stock Exchange
 Stock code: 4626
 URL: <http://www.taiyo-hd.co.jp/en>
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Scheduled date to file quarterly report: February 6, 2020
 Scheduled date to commence dividend payments: —
 Preparation of supplementary briefing material on quarterly financial results: Yes
 Holding of quarterly financial results presentation meeting: Yes (for individual investors)

(Millions of yen with fractional amounts discarded, unless otherwise noted)

1. Consolidated financial results for the first nine months of the fiscal year ending March 31, 2020 (from April 1, 2019 to December 31, 2019)

(1) Operating results (cumulative)

(Millions of yen, % year on year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
		%		%		%		%
Nine months ended:								
December 31, 2019	52,312	14.4	6,844	(9.7)	6,704	(10.7)	4,964	(8.4)
December 31, 2018	45,737	17.2	7,578	(12.9)	7,507	(13.3)	5,418	(12.0)

Note: Comprehensive income
 For the nine months ended December 31, 2019: 4,522 millions of yen [(3.6%)]
 For the nine months ended December 31, 2018: 4,691 millions of yen [(38.6%)]
 (Yen)

	Basic earnings per share	Diluted earnings per share
Nine months ended:		
December 31, 2019	174.79	—
December 31, 2018	187.72	—

Note: The provisional accounting for the business combination was confirmed at the end of the previous consolidated fiscal year and the results for the first nine months of fiscal year ended March 31, 2019 reflect the contents of the provisional accounting that was confirmed.

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2019	148,032	71,546	48.1	2,505.19
March 31, 2019	105,666	70,520	66.4	2,475.36

Reference: Equity (Net assets excluding non-controlling interests)

As of December 31, 2019 71,239 millions of yen

As of March 31, 2019 70,182 millions of yen

2. Cash dividends

(Yen)

	Annual cash dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year ended March 31, 2019	—	65.10	—	65.10	130.20
Fiscal year ending March 31, 2020	—	65.10	—		
Fiscal year ending March 31, 2020 (Forecast)				65.10	130.20

Notes: 1. Revisions to the forecasts of cash dividends most recently announced: None

2. The cash dividends presented above are cash dividends related to common shares. Please refer to “Cash dividends for class shares” presented below, for information on cash dividends for class shares (unlisted) that have a different relationship of rights compared with the common shares issued by the Company.

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2020 (from April 1, 2019 to March 31, 2020)

(Millions of yen, % year on year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
		%		%		%		%	Yen
Fiscal year ending March 31, 2020	71,000	19.5	8,300	2.5	8,000	(0.2)	6,400	45.6	225.44

Note: Revisions to the consolidated earnings forecasts most recently announced: None

*** Notes**

- (1) Changes in significant subsidiaries during the current nine months (changes in specified subsidiaries resulting in the change in scope of consolidation): Yes

Newly consolidated companies: 1; Company name: Taiyo Pharma Tech Co., Ltd.

Companies excluded from consolidation: 0 companies; Company name: –

Note: See “1. Consolidated Financial Statements and Explanatory Notes (3) Notes to consolidated financial statements (Changes in scope of consolidation or scope of equity method application)” on page 5.

- (2) Application of specific accounting for preparing quarterly consolidated financial statements: None

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

a. Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

b. Changes in accounting policies due to other reasons: None

c. Changes in accounting estimates: None

d. Restatement of prior period financial statements after error corrections: None

Note: See “1. Consolidated Financial Statements and Explanatory Notes (3) Notes to consolidated financial statements (Changes in accounting policies)” on page 5 in the Supplementary Schedules and Notes for further details.

- (4) Number of issued shares

- a. Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2019	28,969,647 shares
As of March 31, 2019	28,910,436 shares

- b. Number of treasury shares at the end of the period

As of December 31, 2019	532,709 shares
As of March 31, 2019	557,958 shares

- c. Average number of outstanding shares during the period (cumulative from the beginning of the fiscal year)

As of December 31, 2019	28,403,152 shares
As of December 31, 2018	28,866,487 shares

- Notes: 1. Series I Class A Shares and Series II Class A Shares possess the same rights as common shares in regard to the right to receive dividends of surplus and the right to receive distribution of residual assets. They are therefore included in the number of outstanding shares at period-end and the average number of outstanding shares during the period.
2. The number of treasury shares includes the Company’s shares held by The Master Trust Bank of Japan, Ltd. (trust account for shares granted under the Employee Stock Ownership Plan (ESOP)).

*** Quarterly financial statements are not subject to quarterly review by a certified public accountant or audit firm.**

*** Proper use of earnings forecasts, and other special matters**

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. The Company makes no promise regarding achievement of any content in the forward-looking statements. Actual business and other results may differ substantially due to various factors.

Cash dividends for class shares

The following is a breakdown of cash dividends per share for class shares granted different rights than common shares.

(Yen)

Series I Class A shares	Annual cash dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year ended March 31, 2019	–	–	–	–	–
Fiscal year ending March 31, 2020	–	–	–		
Fiscal year ending March 31, 2020 (Forecast)				–	–

Note: Series I Class A shares were exchanged for common shares in June 2018, per the Articles of Incorporation, and simultaneously retired. Therefore, no dividend is planned for the fiscal year ending March 31, 2020.

(Yen)

Series II Class A shares	Annual cash dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year ended March 31, 2019	–	65.10	–	65.10	130.20
Fiscal year ending March 31, 2020	–	–	–		
Fiscal year ending March 31, 2020 (Forecast)				–	–

Note: Series II Class A shares were exchanged for common shares in June 2019, per the Articles of Incorporation, and simultaneously retired. Therefore, no dividend is planned for the fiscal year ending March 31, 2020.

Index of Supplementary Schedules and Notes

1. Consolidated Financial Statements and Explanatory Notes	2
(1) Consolidated balance sheet.....	2
(2) Consolidated statement of income and consolidated statement of comprehensive income	3
Consolidated statement of income (cumulative)	3
Consolidated statement of comprehensive income (cumulative)	4
(3) Notes to consolidated financial statements.....	5
(Notes on premise of going concern)	5
(Notes on substantial changes in the amount of shareholders' equity)	5
(Changes in scope of consolidation or scope of equity method application).....	5
(Changes in accounting policies).....	5
(Business combination).....	6

1. Consolidated Financial Statements and Explanatory Notes

(1) Consolidated balance sheet

(Millions of yen)

	As of March 31, 2019	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	31,340	29,096
Notes and accounts receivable - trade	16,610	20,803
Merchandise and finished goods	4,676	5,085
Work in process	495	2,742
Raw materials and supplies	3,275	4,399
Other	1,825	1,759
Allowance for doubtful accounts	(87)	(83)
Total current assets	58,136	63,804
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	10,891	16,815
Other, net	11,422	28,829
Total property, plant and equipment	22,313	45,645
Intangible assets		
Goodwill	691	7,499
Sales rights	19,732	18,623
Other	1,013	7,830
Total intangible assets	21,436	33,954
Investments and other assets		
Other	3,973	4,773
Allowance for doubtful accounts	(193)	(145)
Total investments and other assets	3,779	4,628
Total non-current assets	47,529	84,228
Total assets	105,666	148,032
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,285	7,912
Short-term borrowings	4,011	4,990
Current portion of long-term borrowings	3,852	7,840
Income taxes payable	610	1,031
Provision for bonuses	499	456
Other	5,454	4,672
Total current liabilities	20,714	26,902
Non-current liabilities		
Long-term borrowings	12,443	46,065
Retirement benefit liability	117	149
Other	1,870	3,368
Total non-current liabilities	14,431	49,583
Total liabilities	35,146	76,486
Net assets		
Shareholders' equity		
Share capital	9,331	9,428
Capital surplus	14,817	14,913
Retained earnings	47,229	48,474
Treasury shares	(2,042)	(1,950)
Total shareholders' equity	69,336	70,865
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	94	228
Foreign currency translation adjustment	730	130
Remeasurements of defined benefit plans	22	14
Total accumulated other comprehensive income	846	373
Non-controlling interests	337	306
Total net assets	70,520	71,546
Total liabilities and net assets	105,666	148,032

(2) Consolidated statement of income and consolidated statement of comprehensive income**Consolidated statement of income (cumulative)**

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net sales	45,737	52,312
Cost of sales	24,690	30,545
Gross profit	21,046	21,767
Selling, general and administrative expenses	13,468	14,923
Operating income	7,578	6,844
Non-operating income		
Interest income	62	43
Dividend income	22	24
Subsidy income	30	29
Gain on investments in investment partnerships	–	1
Other	39	50
Total non-operating income	155	149
Non-operating expenses		
Interest expenses	150	167
Foreign exchange losses	37	51
Loss on investments in investment partnerships	15	–
Other	23	69
Total non-operating expenses	226	289
Ordinary income	7,507	6,704
Profit before income taxes	7,507	6,704
Income taxes - current	2,313	1,895
Income taxes - deferred	(262)	(198)
Total income taxes	2,050	1,696
Profit	5,456	5,007
Profit attributable to non-controlling interests	37	43
Profit attributable to owners of parent	5,418	4,964

Consolidated statement of comprehensive income (cumulative)

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Profit	5,456	5,007
Other comprehensive income		
Valuation difference on available-for-sale securities	(306)	134
Foreign currency translation adjustment	(460)	(612)
Remeasurements of defined benefit plans, net of tax	2	(7)
Total other comprehensive income	(764)	(485)
Comprehensive income	4,691	4,522
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,653	4,491
Comprehensive income attributable to non-controlling interests	38	30

(3) Notes to consolidated financial statements

(Notes on premise of going concern)

No items to report.

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

No items to report.

(Changes in scope of consolidation or scope of equity method application)

(Significant changes in scope of consolidation)

The Company acquired 100% of the shares in Taiyo Pharma Tech Co., Ltd. during the third quarter of fiscal year ending March 31, 2020, bringing it within the scope of consolidation. This change in the scope of consolidation in the third quarter is projected to have a significant impact on the consolidated financial statements for fiscal year ending March 31, 2020. The general impact will be an increase in total assets on the consolidated balance sheet and increase in net sales and other categories on the consolidated statement of income.

Thou-Management Corporation was also absorbed into the surviving company, Micro Network Technologies Corp. in an absorption-type merger during the third quarter of fiscal year ending March 31, 2020 and thereby dissolved, excluding it from the scope of consolidation.

(Changes in accounting policies)

All overseas consolidated subsidiaries have adopted IFRS 16 Leases and the U.S. accounting standard ASU 2016-02, Leases (Topic 842) from the first quarter of fiscal year ending March 31, 2020. This switches to the method of recognizing all leases as a lessee as assets and liabilities on the consolidated balance sheet, in principle. The impact of this change on the quarterly consolidated financial statements for the third quarter and the financial statements for the first nine months of fiscal year ending March 31, 2020 is minor.

(Business combination)

(Material change in the initial amount allocated for the acquisition cost in the comparative data)

Provisional accounting was used in the financial statements for the third quarter of the previous consolidated fiscal year for the business combination with Micro Network Technologies Corp. effected during the first quarter of the previous consolidated fiscal year. This accounting was confirmed at the end of fiscal year ended March 31, 2019. The business combination with Thou-Management Corporation during the second quarter of the previous consolidated fiscal year was accounted for provisionally during the third quarter of the previous consolidated fiscal year. The figures used in the provisional accounting were confirmed at the end of the previous consolidated fiscal year.

The confirmation of the provisional accounting for these two business combinations is reflected in a material change in the initial amount allocated for the acquisition cost in the comparative data contained in the quarterly consolidated financial statements for the first nine months of fiscal year ending March 31, 2020.

The impact on the consolidated statement of income for the first nine months of the previous fiscal year is minor.

(Business combination through share acquisition)

1. Overview of business combination

(1) Name and business description of the company to be acquired

Name: Taiyo Pharma Tech Co., Ltd.

Business description: Manufacture and sale of pharmaceuticals

(2) Main reason for the business combination

Daiichi Sankyo Propharma Co., Ltd., a subsidiary of Daiichi Sankyo Company, Limited spun off its Takatsuki Plant and Taiyo Pharma Tech Co., Ltd. acquired it as a subsidiary. This will enable the Taiyo Group to begin the manufacture of pharmaceuticals on consignment and further solidify the foundation of our medical and pharmaceutical business.

(3) Date of business combination

October 1, 2019

(4) Legal form of business combination

Share acquisition paid in cash

(5) Company name after combination

Taiyo Pharma Tech Co., Ltd.

(6) Percentage of voting rights acquired

Percentage of voting rights held prior to share acquisition: 0%

Percentage of voting rights acquired from business combination: 100%

Percentage of voting rights after acquisition: 100%

(7) Main basis for corporate acquisition decision

Taiyo Holdings will pay cash to acquire the shares.

2. Time range of acquired company's operating results included in the consolidated financial statements for the first nine months of fiscal year ending March 31, 2019

October 1 to December 31, 2019

3. Breakdown of acquisition cost and form of payment for the acquired company

Acquisition payment	Cash	37,955 million yen
Acquisition cost		37,955 million yen

4. Amount of goodwill generated, reason for goodwill, and method and period of amortization
 - (1) Amount of goodwill generated
6,906 million yen
The amount of goodwill is the amount of the provisional calculation because the acquisition cost allocation was not completed during the third quarter of fiscal year ending March 31, 2020.
 - (2) Reason for goodwill
The main reason is the additional earning power anticipated from effective use of technological and production capabilities in the manufacture of pharmaceuticals by Taiyo Pharma Tech Co., Ltd.
 - (3) Method and period of amortization
Straight-line depreciation over 15 years

(Transactions, etc. under common control)

1. Overview of transactions

- (1) Names of companies in business combination and description of businesses

Name of surviving company: Micro Network Technologies Corp.
(wholly owned subsidiary of Taiyo Holdings Co., Ltd.)

Business description: Software development, network design and configuration, and systems engineering services

Name of non-surviving company: Thou-Management Corporation
(wholly owned subsidiary of Taiyo Holdings Co., Ltd.)

Business description: Systems engineering and integration, network configuration and operation, various system-related services

- (2) Date of business combination

November 1, 2019

- (3) Legal form of business combination

An absorption-type merger in which Micro Network Technologies Corp. is the surviving company and Thou-Management Corporation is the non-surviving company

- (4) Company name after combination

Micro Network Technologies Corp.

- (5) Matters concerning other transactions

Micro Network Technologies Corp., which operates a systems business, acquired Thou-Management Corporation, which operates the same type of systems business, in an absorption-type merger. The purpose of the resulting integration of the areas of IT that the two companies specialize in is to effectively utilize the business resources of the Taiyo Group.

2. Summary of accounting standards implemented

The Company accounts for transactions under common control according to the Accounting Standard for Business Combinations (ASBJ Statement No. 21) and Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10).