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On **August 9, 2019**, Nichi-Iko Pharmaceutical Co., Ltd. announced earnings results for Q1 FY03/20.

Cumulative (JPYmn)	FY03/18				FY03/19				FY03/20				FY03/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1	Q2	Q3	% of FY Est.	FY Est.
<b>[IFRS]</b>														
<b>Sales revenue</b>	<b>42,927</b>	<b>83,060</b>	<b>126,017</b>	<b>164,717</b>	<b>42,278</b>	<b>82,346</b>	<b>127,224</b>	<b>166,592</b>	<b>46,523</b>				47.5%	<b>98,000</b>
YoY	-	-	-	10.4%	-1.5%	-0.9%	1.0%	1.1%	10%					19.0%
Gross profit	11,753	18,858	30,757	40,803	8,918	18,179	27,475	33,157	9,693					
GPM	27.4%	22.7%	24.4%	24.8%	21.1%	22.1%	21.6%	19.9%	20.8%					
SG&A expenses	6,154	11,813	17,591	23,136	5,869	11,615	17,104	22,504	6,698					
YoY	-	-	-	7.5%	-4.6%	-1.7%	-2.8%	-2.7%	14%					
SG&A ratio	14.3%	14.2%	14.0%	14.0%	13.9%	14.1%	13.4%	13.5%	14.4%					
R&D expenses	1,130	1,977	3,253	4,467	1,220	1,915	2,598	3,503	1,288					
YoY	-	-	-	-38.6%	8.0%	-3.1%	-20.1%	-21.6%	6%					
R&D ratio	2.6%	2.4%	2.6%	2.7%	2.9%	2.3%	2.0%	2.1%	2.8%					
Other operating revenue	571	657	660	948	224	273	463	1,528	223					
Other operating expenses	31	3,029	3,061	3,845	16	202	234	455	195					
<b>Operating profit</b>	<b>5,008</b>	<b>2,695</b>	<b>7,511</b>	<b>10,301</b>	<b>2,036</b>	<b>4,720</b>	<b>8,001</b>	<b>8,223</b>	<b>1,733</b>				55.9%	<b>3,100</b>
YoY	-	-	-	61.3%	-59.3%	75.1%	6.5%	-20.2%	-15%					-34.3%
OPM	11.7%	3.2%	6.0%	6.3%	4.8%	5.7%	6.3%	4.9%	3.7%					3.2%
Financial expenses (net)	216	285	419	1,183	73	-10	578	698	489					
Equity in earnings of affiliates	214	204	111	-51	932	997	1,431	1,377	46					
<b>Pre-tax profit</b>	<b>5,006</b>	<b>2,613</b>	<b>7,203</b>	<b>9,067</b>	<b>2,897</b>	<b>5,727</b>	<b>8,855</b>	<b>8,903</b>	<b>2,868</b>					
YoY	-	-	-	52.1%	-42.1%	119.2%	22.9%	-1.8%	-1%					
Pre-tax margining	11.7%	3.1%	5.7%	5.5%	6.9%	7.0%	7.0%	5.3%	6.2%					
<b>Profit</b>	<b>3,433</b>	<b>2,446</b>	<b>6,677</b>	<b>8,070</b>	<b>2,461</b>	<b>4,620</b>	<b>6,905</b>	<b>6,864</b>	<b>1,813</b>				56.7%	<b>3,200</b>
YoY	-	-	-	68.3%	-28.3%	88.9%	3.4%	-14.9%	-26%					-30.7%
Profit margin	8.0%	2.9%	5.3%	4.9%	5.8%	5.6%	5.4%	4.1%	3.9%					3.3%
<b>[JGAAP]</b>														
<b>Sales</b>	<b>48,513</b>	<b>94,297</b>	<b>143,466</b>	<b>187,863</b>	-	-	-	-	-					
YoY	27.6%	25.5%	22.0%	15.0%	-	-	-	-	-					
Gross profit	16,699	32,075	49,717	-	-	-	-	-	-					
GPM	34.4%	34.0%	34.7%	-	-	-	-	-	-					
SG&A expenses	13,521	26,992	41,221	-	-	-	-	-	-					
YoY	22.4%	16.1%	17.3%	-	-	-	-	-	-					
SG&A ratio	27.9%	28.6%	28.7%	-	-	-	-	-	-					
<b>Operating profit</b>	<b>3,180</b>	<b>4,922</b>	<b>8,208</b>	<b>6,934</b>	-	-	-	-	-					
YoY	4.7%	21.9%	17.0%	-18.9%	-	-	-	-	-					
OPM	6.6%	5.2%	5.7%	3.7%	-	-	-	-	-					
<b>Recurring profit</b>	<b>3,202</b>	<b>5,103</b>	<b>8,178</b>	<b>6,246</b>	-	-	-	-	-					
YoY	26.8%	54.0%	22.0%	-25.7%	-	-	-	-	-					
RPM	6.6%	5.4%	5.7%	3.3%	-	-	-	-	-					
<b>Net income attributable to owners of the parent</b>	<b>1,964</b>	<b>2,449</b>	<b>5,658</b>	<b>3,860</b>	-	-	-	-	-					
YoY	-1.8%	12.4%	78.6%	-19.4%	-	-	-	-	-					
Net margin	4.0%	2.6%	3.9%	2.1%	-	-	-	-	-					
<b>Quarterly performance</b>														
<b>(JPYmn)</b>														
<b>[IFRS]</b>														
<b>Sales revenue</b>	<b>42,927</b>	<b>40,133</b>	<b>42,957</b>	<b>38,700</b>	<b>42,278</b>	<b>40,068</b>	<b>44,878</b>	<b>39,368</b>	<b>46,523</b>				23.1%	<b>201,000</b>
YoY	-	-	-	-	-1.5%	-0.2%	4.5%	1.7%	10.0%					20.7%
Gross profit	11,753	7,105	11,899	10,046	8,918	9,261	9,296	5,682	9,693					
GPM	27.4%	17.7%	27.7%	26.0%	21.1%	23.1%	20.7%	14.4%	20.8%					
SG&A expenses	6,154	5,659	5,778	5,545	5,869	5,746	5,489	5,400	6,698					
YoY	-	-	-	-	-4.6%	1.5%	-5.0%	-	14.1%					
SG&A ratio	14.3%	14.1%	13.5%	14.3%	13.9%	14.3%	12.2%	13.7%	14.4%					
R&D expenses	1,130	847	1,276	1,214	1,220	695	683	905	1,288					
YoY	-	-	-	-	8.0%	-17.9%	-46.5%	-25.5%	5.6%					
R&D ratio	2.6%	2.1%	3.0%	3.1%	2.9%	1.7%	1.5%	2.3%	2.8%					
Other operating revenue	571	86	3	288	224	49	190	1,065	223					
Other operating expenses	31	2,998	32	784	16	186	32	221	195					
<b>Operating profit</b>	<b>5,008</b>	<b>-2313</b>	<b>4,816</b>	<b>2,790</b>	<b>2,036</b>	<b>2,684</b>	<b>3,281</b>	<b>222</b>	<b>1,733</b>				20.4%	<b>8,500</b>
YoY	-	-	-	-	-59.3%	-	-31.9%	-92.0%	-14.9%					3.4%
OPM	11.7%	-	11.2%	7.2%	4.8%	6.7%	7.3%	0.6%	3.7%					4.2%
Financial expenses (net)	216	69	134	764	73	-83	588	120	73					
Equity in earnings of affiliates	214	-10	-93	-162	932	65	434	-54	46					
<b>Pre-tax profit</b>	<b>5,006</b>	<b>-2393</b>	<b>4,590</b>	<b>1,864</b>	<b>2,897</b>	<b>2,830</b>	<b>3,128</b>	<b>48</b>	<b>2,868</b>					
YoY	-	-	-	-	-42.1%	-	-31.9%	-97.4%	-1.0%					
Pre-tax margining	11.7%	-	10.7%	4.8%	6.9%	7.1%	7.0%	0.1%	6.2%					
<b>Profit</b>	<b>3,433</b>	<b>-987</b>	<b>4,231</b>	<b>1,393</b>	<b>2,461</b>	<b>2,159</b>	<b>2,285</b>	<b>-41</b>	<b>1,813</b>				25.9%	<b>7,000</b>
YoY	-	-	-	-	-28.3%	-	-46.0%	-102.9%	-26.3%					2.0%
Profit margin	8.0%	-	9.8%	3.6%	5.8%	5.4%	5.1%	-0.1%	3.9%					
<b>[JGAAP]</b>														
<b>Sales</b>	<b>48,513</b>	<b>45,784</b>	<b>49,169</b>	<b>44,397</b>	-	-	-	-	-					
YoY	27.6%	23.3%	15.9%	-3.0%	-	-	-	-	-					
Gross profit	16,699	15,376	17,642	-	-	-	-	-	-					
GPM	34.4%	33.6%	35.9%	-	-	-	-	-	-					
SG&A expenses	13,521	13,471	14,229	-	-	-	-	-	-					
YoY	22.4%	10.4%	19.5%	-	-	-	-	-	-					
SG&A ratio	27.9%	29.4%	28.9%	-	-	-	-	-	-					
<b>Operating profit</b>	<b>3,180</b>	<b>1,742</b>	<b>3,286</b>	<b>-1,274</b>	-	-	-	-	-					
YoY	4.7%	73.7%	10.5%	-	-	-	-	-	-					
OPM	6.6%	3.8%	6.7%	-2.9%	-	-	-	-	-					
<b>Recurring profit</b>	<b>3,202</b>	<b>1,901</b>	<b>3,075</b>	<b>-1,932</b>	-	-	-	-	-					
YoY	26.8%	141.2%	-9.2%	-	-	-	-	-	-					
RPM	6.6%	4.2%	6.3%	-4.4%	-	-	-	-	-					
<b>Net income attributable to owners of the parent</b>	<b>1,964</b>	<b>485</b>	<b>3,209</b>	<b>-1,798</b>	-	-	-	-	-					
YoY	-1.8%	172.5%	224.1%	-	-	-	-	-	-					
Net margin	4.0%	1.1%	6.5%	-4.0%	-	-	-	-	-					

Source: Shared Research based on company data  
 Note: Figures may differ from company data due to differences in rounding methods.

By channel and product (cumulative)	FY03/18				FY03/19				FY03/20			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1	Q2	Q3
<b>[IFRS]</b>												
Wholesalers	27,489	na	na	109,059	27,669	na	na	110,591	34,974			
YoY	-	-	-	3.9%	0.7%	na	na	1.4%	26%			
Agencies	2,051	na	na	8,018	2,034	na	na	8,316	2,235			
YoY	-	-	-	-12.5%	-0.8%	na	na	3.7%	10%			
Other	2,729	na	na	11,581	2,816	na	na	12,168	2,552			
YoY	-	-	-	-24.2%	3.2%	na	na	5.1%	-9%			
Sales revenue (excl. Sagent)	32,272	64,184	98,780	128,659	32,518	63,853	99,229	131,076	39,761			
YoY	na	na	na	-0.6%	0.8%	-0.5%	0.5%	1.9%	22.3%			
Generics	29,440	58,247	90,136	119,460	30,101	58,973	91,602	121,192	37,397			
YoY	-	-	-	2.6%	2.2%	1.2%	1.6%	1.4%	24.2%			
Long-listed products (LLPs)	2,081	4,058	6,070	7,769	1,842	3,541	5,327	6,805	1,885			
YoY	-	-	-	-12.7%	-11.5%	-12.7%	-12.2%	-12.4%	2.3%			
Other	750	1,878	2,574	3,282	574	1,337	2,299	3,079	479			
YoY	-	-	-	-20.6%	-23.5%	-28.8%	-10.7%	-6.2%	-16.6%			
Generics, % of sales revenue	91.2%	90.8%	91.2%	92.9%	92.6%	92.4%	92.3%	92.5%	94.1%			
<b>[JGAAP]</b>												
Wholesalers	32,565	64,075	99,387	-	-	-	-	-	-			
YoY	3.5%	3.9%	5.0%	-	-	-	-	-	-			
Agencies	2,316	4,589	7,022	-	-	-	-	-	-			
YoY	-17.1%	-13.6%	-12.4%	-	-	-	-	-	-			
Other	2,977	6,760	9,818	-	-	-	-	-	-			
YoY	-21.0%	-17.0%	-19.8%	-	-	-	-	-	-			
Sales (excl. Sagent)	37,859	75,424	116,229	-	-	-	-	-	-			
YoY	-0.4%	0.4%	1.2%	-	-	-	-	-	-			
Generics	34,732	68,904	106,689	-	-	-	-	-	-			
YoY	1.7%	2.4%	3.8%	-	-	-	-	-	-			
Long-listed products (LLPs)	2,456	4,771	7,184	-	-	-	-	-	-			
YoY	-13.3%	-13.1%	-12.0%	-	-	-	-	-	-			
Other	671	1,749	2,354	-	-	-	-	-	-			
YoY	-35.5%	-26.8%	-40.3%	-	-	-	-	-	-			
Generics, % of total sales	91.7%	91.4%	91.8%	-	-	-	-	-	-			
<b>Sales by channel and product (JPYmn)</b>	<b>FY03/18</b>	<b>FY03/18</b>	<b>FY03/18</b>	<b>FY03/18</b>	<b>FY03/19</b>	<b>FY03/19</b>	<b>FY03/19</b>	<b>FY03/19</b>	<b>FY03/20</b>	<b>FY03/20</b>	<b>FY03/20</b>	<b>FY03/20</b>
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1	Q2	Q3
<b>[IFRS]</b>												
Wholesalers	27,489	-	-	-	27,669	na	na	-	34,974			
YoY	-	-	-	-	0.7%	na	na	-	26%			
Agencies	2,051	-	-	-	2,034	na	na	-	2,235			
YoY	-	-	-	-	-0.8%	na	na	-	10%			
Other	2,729	-	-	-	2,816	na	na	-	2,552			
YoY	-	-	-	-	3.2%	na	na	-	-9%			
Sales revenue (excl. Sagent)	32,272	31,912	34,596	29,879	32,518	31,335	35,376	31,847	39,761			
YoY	-	-	-	-	0.8%	-1.8%	2.3%	6.6%	22.3%			
Generics	29,440	28,807	31,889	29,324	30,101	28,872	32,629	29,590	37,397			
YoY	-	-	-	-	2.2%	0.2%	2.3%	0.9%	24.2%			
Long-listed products (LLPs)	2,081	1,977	2,012	1,699	1,842	1,699	1,786	1,478	1,885			
YoY	-	-	-	-	-11.5%	-14.1%	-11.2%	-13.0%	2.3%			
Other	750	1,128	696	708	574	763	962	780	479			
YoY	-	-	-	-	-23.5%	-32.4%	38.2%	10.2%	-16.6%			
Generics, % of total revenue	91.2%	90.3%	92.2%	98.1%	92.6%	92.1%	92.2%	92.9%	94.1%			
<b>[JGAAP]</b>												
Wholesalers	32,565	31,510	35,312	-	-	-	-	-	-			
YoY	3.5%	4.3%	7.2%	-	-	-	-	-	-			
Agencies	2,316	2,273	2,433	-	-	-	-	-	-			
YoY	-17.1%	-9.7%	-10.2%	-	-	-	-	-	-			
Other	2,977	3,783	3,058	-	-	-	-	-	-			
YoY	-21.0%	-13.7%	-25.2%	-	-	-	-	-	-			
Sales (excl. Sagent)	37,859	37,565	40,805	-	-	-	-	-	-			
YoY	-0.4%	1.2%	2.7%	-	-	-	-	-	-			
Generics	34,732	34,172	37,785	-	-	-	-	-	-			
YoY	1.7%	3.2%	6.4%	-	-	-	-	-	-			
Long-listed products (LLPs)	2,456	2,315	2,413	-	-	-	-	-	-			
YoY	-13.3%	-12.9%	-9.6%	-	-	-	-	-	-			
Other	671	1,078	605	-	-	-	-	-	-			
YoY	-35.5%	-20.0%	-61.1%	-	-	-	-	-	-			
Generics, % of total sales	91.7%	91.0%	92.6%	-	-	-	-	-	-			

Source: Shared Research based on company data  
 Note: Figures may differ from company data due to differences in rounding methods.  
 Note: A breakdown by sales channel was not disclosed for Q2 FY03/19.

## Q1 FY03/20 earnings results (out August 9, 2019)

- ▷ For Q1 FY03/20, the company reported sales revenue of JPY46.5bn (+10.0% YoY), core operating profit\* of JPY1.9bn (-12.7% YoY), operating profit of JPY1.7bn (-14.9% YoY), and profit attributable to owners of the parent of JPY1.8bn (-26.3% YoY).
- ▷ Versus forecasts: Attainment rates versus 1H FY03/20 company forecasts were 47.5% for sales revenue (versus 51.3% of 1H FY03/19 results in Q1 FY03/19), 55.9% for operating profit (43.1%), and 56.7% for profit attributable to owners of the parent (53.3%). Versus the full-year forecasts, sales revenue reached 23.1% (25.4% of FY03/19 results Q1 FY03/19), operating profit 20.4%, and profit attributable to owners of the parent 25.9% (35.9%).
- ▷ Sales revenue up 10.0% YoY: Sales revenue from the US market (Sagent Group) fell 30.7% YoY due to heated price competition and delivery delay for some products supplied by contract manufacturers. Meanwhile, domestic sales revenue increased 22.3% YoY thanks to the consolidation of Elmed Co., Ltd. and higher sales volume driven by the expansion of the generics market.
- ▷ Core operating profit down 12.7% YoY: While higher sales revenue pushed up core operating profit in the domestic business by 22.9% YoY, Sagent reported a core operating loss of JPY625mn (versus a core operating profit of JPY113mn in Q1 FY03/19). According to the company, Q1 growth in core operating profit is outpacing the initial plan.
- ▷ Operating profit down 14.9% YoY: GPM fell 0.3pp YoY to 20.8%, while the SG&A expense ratio rose 0.5pp to 14.4%. The R&D expense ratio fell 0.1pp to 2.8%. Other operating revenue was largely flat YoY while other operating expenses increased YoY by JPY179mn. The OPM was down 1.1pp to 3.7%.

The company adopted core operating revenue (IFRS) as an indicator of recurring profitability. Core operating profit is calculated by deducting profit/loss due to non-recurring factors (non-recurring items) from operating profit.

In the generic drug industry, the share of generic drug usage is steadily increasing toward the target of 80% by September 2020 set by the Japanese government at a cabinet meeting held in June 2017, reaching 77.5% in February 2019 (according to Health Insurance Bureau of the Ministry of Health, Labour and Welfare's issue of "Recent trends of medical prescription fees (computerized data)"). Meanwhile, the NHI drug price revisions, which were previously conducted around once every two years, are scheduled to take place annually from April 2021 onward. An additional drug price revision in conjunction with the consumption tax hike starting October 2019 is also due to happen, together creating an even more difficult earnings environment for the generics industry.

Against this backdrop, Nichi-Iko acquired shares in Elmed Eisai Co., Ltd. and made it a consolidated subsidiary in April 2019 (company name changed to Elmed Co., Ltd.). Initiatives are under way to generate and maximize synergies with Elmed at an early timing. Further, in May 2019, the company unveiled its 8th medium-term plan "Nexus∞" (covering FY03/20—FY03/22), and began putting into action the plan's basic strategies with the aim to evolve into a global, comprehensive generic drug manufacturer (see the "Medium-term plan" section for details).

## Results by segment

### Nichi-Iko Group

- ▷ Sales revenue up 22.3% YoY to JPY39.8bn; segment profit (core operating profit) up 22.9% YoY to JPY2.5bn.
- ▷ Consolidation of Elmed and an increase in sales volume thanks to generics market growth contributed to results.

### Sagent Group

- ▷ Sales revenue fell 30.7% YoY to JPY6.8bn; segment loss (core operating loss) of JPY625mn versus core operating profit of JPY113mn in Q1 FY03/19.
- ▷ Heated price competition and delivery delay for some products supplied by contract manufacturers led to 30.7% YoY decline in sales revenue.

- ▷ In addition to the lower top line, initiatives to strengthen in-house drug manufacturing such as internalizing production at the Raleigh plant (acquired in February 2019) and working toward production of Infliximab BS resulted in a core operating loss of JPY625mn.

This note is the most recent addition to the [full report](#).

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