

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2018

(Nine Months Ended December 31, 2017)

[Japanese GAAP]

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Scheduled date of filing of Quarterly Report:	February 13, 2018
Scheduled date of dividend payment:	-
Supplementary materials for quarterly financial results:	Yes
Quarterly financial results meeting:	None

(All amounts are rounded down to the nearest million yen.)

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2018

(April 1, 2017 – December 31, 2017)

(1) Consolidated results of operations (Percentages represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended Dec. 31, 2017	124,109	11.4	15,607	25.9	15,753	21.5	10,102	20.1
Nine months ended Dec. 31, 2016	111,422	(7.4)	12,392	4.5	12,966	6.1	8,414	7.8

Note: Comprehensive income (Millions of yen):
 Nine months ended Dec. 31, 2017: 15,276 (up 116.9%)
 Nine months ended Dec. 31, 2016: 7,044 (up 3.6%)

	Basic net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Dec. 31, 2017	88.68	88.31
Nine months ended Dec. 31, 2016	73.93	73.62

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Dec. 31, 2017	199,656	131,119	65.2
As of Mar. 31, 2017	181,543	118,436	64.7

Reference: Shareholders' equity (Millions of yen): As of Dec. 31, 2017: 130,125 As of Mar. 31, 2017: 117,441

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2017	-	10.00	-	11.00	21.00
Fiscal year ending Mar. 31, 2018	-	11.00	-	-	-
Fiscal year ending Mar. 31, 2018 (forecast)	-	-	-	11.00	22.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2018 (April 1, 2017 – March 31, 2018)

(Percentages represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	165,000	6.7	16,800	8.7	16,900	5.9	10,500	4.9	92.17

Note: Revisions to the most recently announced consolidated forecast: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specific subsidiaries resulting in change in scope of consolidation): None

(2) Application of special accounting methods for preparation of quarterly consolidated financial statements: Yes

Note: Please refer to page 8 of the attachments “2. Quarterly Consolidated Financial Statements and Major Notes, (3) Notes to Quarterly Consolidated Financial Statements” for further information.

(3) Changes in accounting policies and accounting estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Restatements: None

(4) Number of common shares issued

1) Number of shares outstanding at the end of the period (including treasury shares):

As of Dec. 31, 2017:	117,936,284 shares	As of Mar. 31, 2017:	117,936,284 shares
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2) Number of shares of treasury shares at the end of the period:

As of Dec. 31, 2017:	4,018,809 shares	As of Mar. 31, 2017:	4,021,078 shares
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3) Average number of shares outstanding during the period:

Nine months ended Dec. 31, 2017:	113,917,259 shares	Nine months ended Dec. 31, 2016:	113,815,171 shares
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Note: Numbers of shares of treasury shares as of March 31, 2017 include the Company’s stock held by the ESOP trust (2,300 shares at the end of March 31, 2017).

Note 1: This summary report is not subject to the quarterly review.

Note 2: Cautionary statement with respect to forward-looking statements and other special items

Forecasts regarding future performance in these materials are based on assumptions judged to be valid and information available to the Company at the time the materials were created. These materials are not promises by the Company regarding future performance. Actual results of operations may differ significantly from the forecasts depending on various factors. For discussion of the assumptions and other factors considered by the Company in preparing the above projections, please refer to page 3 of the attachments “1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements.”

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first nine months of the current fiscal year, the Japanese economy experienced a mild recovery trend as corporate profits and the employment and household income environments improved. However, the outlook remains uncertain due to concerns including an increasingly serious labor shortage, unstable U.S. government policies, and geopolitical risks surrounding the Korean Peninsula.

The Rohto Group has moved into new fields with customer-oriented product development and marketing activities. In its existing categories, the Group has developed high value-added products in response to changing consumer needs and endeavored to reinvigorate markets.

In total, net sales increased 11.4% year-on-year to 124,109 million yen. In Japan, high value-added products sold well while moisturizing products performed strongly as temperatures dropped. In addition, demand from foreign tourists in Japan contributed to higher sales. Overseas, sales in Asia continued to recover and America and Europe segments also contributed to the increase in sales.

Regarding profits, due to an efficient use of selling, general and administrative expenses, sales grew strongly despite ongoing up-front investments to enter new business fields. As a result, operating income rose by 25.9% year-on-year to 15,607 million yen and ordinary income rose by 21.5% to 15,753 million yen. Profit attributable to owners of parent rose by 20.1% to 10,102 million yen.

Results by reportable segment are as follows.

Japan

Sales to customers increased 10.2% year-on-year to 79,305 million yen.

Among the core eye care products, the high-performance ophthalmic remedy “V Rohto Premium” and new “V Rohto Active Premium” performed well. Regarding skincare products, the high value-added products such as “Hada-Labo Gokujyun Premium” series and “Obagi C Enzyme Face Wash Powder” performed strongly. In addition, new products such as “Mentholatum Melty Cream Lip,” a high-moisturizing lip balm and “Mentholatum AD Botanical,” a fragrant, soothing anti-itching medication, contributed to an increase in sales. Strong demand from foreign tourists in Japan also drove sales of “Melano CC medicated intensive spot correcting serum.”

Segment profit (operating income) increased 27.5% year-on-year to 10,313 million yen due to an efficient use of selling, general and administrative expenses as well as strong sales.

America

Sales to customers increased 14.9% year-on-year to 5,513 million yen.

The U.S. economy continued to expand due to a steady rise in personal consumption, and our core lip balm products showed a recovery trend. Regarding eye drops, sales also remained steady due in part to the launch of “Rohto Dry Aid” as well as “Rohto Ice.”

Segment profit (operating income) was 53 million yen (compared with 177 million yen loss in the same period of the previous fiscal year) due to an effective use of advertising and sales promotion expenses as well as strong sales.

Europe

Sales to customers increased 16.7% year-on-year to 6,221 million yen.

Sales remained steady as Dax Cosmetics achieved double-digit growth in sales. In addition, the main anti-inflammatory analgesic “Deep Heat” series sold well due in part to the launch of new products.

Segment profit (operating income) increased 10.2% year-on-year to 359 million yen due to an effective use of advertising and sales promotion expenses.

Asia

Sales to customers increased 12.9% year-on-year to 31,429 million yen.

Sales rose due to a recovery in Chinese market conditions in addition to strong performances in Vietnam and other ASEAN countries. Especially our core eye drops and “Hada-Labo” series contributed to higher sales.

Segment profit (operating income) increased 11.8% year-on-year to 4,570 million yen due to an effective use of advertising and sales promotion expenses as well as a recovery in sales.

Others

In “Others,” excluded from reportable segments, sales to customers increased 11.4% year-on-year to 1,639 million yen.

Segment profit (operating income) increased 85.0% year-on-year to 151 million yen.

Note: The above amounts do not include consumption taxes.

(2) Explanation of Financial Position

Total assets at the end of the third quarter increased 18,113 million yen from the end of the previous fiscal year to 199,656 million yen. This was mainly due to increases of 8,084 million yen in investment securities, 3,787 million yen in cash and deposits, 2,370 million yen in electronically recorded monetary claims-operating, 2,183 million yen in raw materials and supplies, and 1,302 million yen in merchandise and finished goods.

Total liabilities increased 5,429 million yen from the end of the previous fiscal year to 68,536 million yen. This was mainly due to increases of 3,219 million yen in notes and accounts payable-trade, 966 million yen in short-term loans payable, 295 million yen in provision for loss on guarantees, and 206 million yen in electronically recorded obligations-operating, while there were decreases of 1,053 million yen in provision for bonuses and 738 million yen in accrued expenses.

Net assets increased 12,683 million yen from the end of the previous fiscal year to 131,119 million yen. This was mainly due to increases of 7,248 million yen in retained earnings and 3,856 million yen in valuation difference on available-for-sale securities.

(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements

There is no change in the full-year consolidated earnings forecast that was released on November 2, 2017.

Note: The forecasts are based on information available at the time this report was prepared. Actual results of operations may differ from the forecasts depending on various factors.

2. Quarterly Consolidated Financial Statements and Major Notes**(1) Quarterly Consolidated Balance Sheet**

(Millions of yen)

	Prior Fiscal Year End (As of Mar. 31, 2017)	Current Third Quarter End (As of Dec. 31, 2017)
Assets		
Current assets		
Cash and deposits	23,924	27,712
Notes and accounts receivable-trade	36,061	36,165
Electronically recorded monetary claims-operating	10,524	12,894
Merchandise and finished goods	13,946	15,249
Work in process	2,391	2,556
Raw materials and supplies	7,272	9,455
Other	7,316	8,249
Allowance for doubtful accounts	(489)	(570)
Total current assets	100,948	111,712
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	20,206	20,584
Other, net	25,628	25,932
Total property, plant and equipment	45,834	46,517
Intangible assets		
Goodwill	735	664
Other	1,927	1,733
Total intangible assets	2,663	2,397
Investments and other assets		
Investment securities	27,502	35,587
Other	6,879	5,948
Allowance for doubtful accounts	(2,284)	(2,506)
Total investments and other assets	32,096	39,029
Total non-current assets	80,594	87,944
Total assets	181,543	199,656

(Millions of yen)

	Prior Fiscal Year End (As of Mar. 31, 2017)	Current Third Quarter End (As of Dec. 31, 2017)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	9,593	12,813
Electronically recorded obligations-operating	2,558	2,764
Short-term loans payable	3,353	4,320
Accrued expenses	23,734	22,995
Income taxes payable	2,551	2,732
Provision for bonuses	2,092	1,038
Provision for directors' bonuses	30	22
Provision for sales returns	750	850
Provision for sales rebates	2,380	2,350
Other	6,378	7,326
Total current liabilities	53,422	57,213
Non-current liabilities		
Long-term loans payable	1,765	1,746
Net defined benefit liability	4,410	3,959
Provision for loss on guarantees	789	1,084
Other	2,720	4,532
Total non-current liabilities	9,684	11,323
Total liabilities	63,107	68,536
Net assets		
Shareholders' equity		
Capital stock	6,415	6,415
Capital surplus	5,737	5,737
Retained earnings	106,302	113,551
Treasury shares	(4,938)	(4,935)
Total shareholders' equity	113,517	120,769
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,862	9,718
Foreign currency translation adjustment	(439)	1,068
Remeasurements of defined benefit plans	(1,498)	(1,431)
Total accumulated other comprehensive income	3,924	9,355
Subscription rights to shares	560	560
Non-controlling interests	434	433
Total net assets	118,436	131,119
Total liabilities and net assets	181,543	199,656

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income
(For the Nine-month Period)**

(Millions of yen)

	Prior Third Quarter (Apr. 1, 2016 – Dec. 31, 2016)	Current Third Quarter (Apr. 1, 2017 – Dec. 31, 2017)
Net sales	111,422	124,109
Cost of sales	46,080	51,487
Gross profit	65,342	72,622
Provision for sales returns	60	100
Gross profit-net	65,282	72,522
Selling, general and administrative expenses	52,889	56,915
Operating income	12,392	15,607
Non-operating income		
Interest income	136	178
Dividend income	499	313
Other	335	257
Total non-operating income	972	748
Non-operating expenses		
Interest expenses	99	101
Share of loss of entities accounted for using equity method	82	370
Other	215	130
Total non-operating expenses	397	602
Ordinary income	12,966	15,753
Extraordinary income		
Gain on sales of investment securities	220	-
Total extraordinary income	220	-
Extraordinary losses		
Loss on disposal of fixed assets	136	-
Loss on valuation of investment securities	385	2
Loss on valuation of shares of subsidiaries and associates	6	0
Provision for doubtful accounts	440	240
Provision for doubtful accounts for subsidiaries and associates	3	3
Provision for loss on guarantees	-	295
Total extraordinary losses	970	540
Profit before income taxes	12,216	15,212
Income taxes	3,798	5,109
Profit	8,417	10,102
Profit attributable to non-controlling interests	3	0
Profit attributable to owners of parent	8,414	10,102

Quarterly Consolidated Statement of Comprehensive Income
(For the Nine-month Period)

(Millions of yen)

	Prior Third Quarter (Apr. 1, 2016 – Dec. 31, 2016)	Current Third Quarter (Apr. 1, 2017 – Dec. 31, 2017)
Profit	8,417	10,102
Other comprehensive income		
Valuation difference on available-for-sale securities	990	3,813
Foreign currency translation adjustment	(2,231)	1,238
Remeasurements of defined benefit plans, net of tax	128	67
Share of other comprehensive income of entities accounted for using equity method	(261)	54
Total other comprehensive income	(1,373)	5,173
Comprehensive income	7,044	15,276
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	7,114	15,277
Comprehensive income attributable to non-controlling interests	(70)	(0)

(3) Notes to Quarterly Consolidated Financial Statements**Going Concern Assumption**

No reportable information.

Significant Changes in Shareholders' Equity

No reportable information.

Application of Special Accounting Methods for Preparation of Quarterly Consolidated Financial Statements

Calculation of tax expense

Tax expense was calculated by first reasonably estimating the effective tax rate after the application of tax effect accounting with respect to income before income taxes for the fiscal year, and multiplying that rate by the quarterly income before income taxes.

Segment Information

I. Prior Third Quarter (Apr. 1, 2016 – Dec. 31, 2016)

1. Information related to net sales and profit or loss for each reportable segment (Millions of yen)

	Reportable segment (Note 1)					Others (Note 2)	Total	Adjustment (Note 3)	Reported in quarterly consolidated statement of income (Note 4)
	Japan	America	Europe	Asia	Subtotal				
Net sales									
(1) Sales to customers	71,975	4,800	5,329	27,846	109,951	1,470	111,422	-	111,422
(2) Inter-segment sales and transfers	1,662	998	1	2,264	4,927	29	4,956	(4,956)	-
Total	73,637	5,799	5,330	30,110	114,878	1,500	116,378	(4,956)	111,422
Segment profit (loss)	8,087	(177)	326	4,088	12,325	81	12,407	(15)	12,392

Notes: 1. "America" includes the business activities of overseas entities in the U.S. and Canada, and others; "Europe" those in the U.K., Poland and South Africa; and "Asia" those in China, Taiwan, Vietnam, and others.

2. "Others" is the business that is excluded from reportable segments, and includes the business activities of entities in Australia.

3. "Adjustment" to segment profit (loss) of (15) million yen indicates elimination for intersegment transactions.

4. Segment profit (loss) is adjusted with operating income reported in the quarterly consolidated statement of income.

II. Current Third Quarter (Apr. 1, 2017 – Dec. 31, 2017)

1. Information related to net sales and profit or loss for each reportable segment

(Millions of yen)

	Reportable segment (Note 1)					Others (Note 2)	Total	Adjustment (Note 3)	Reported in quarterly consolidated statement of income (Note 4)
	Japan	America	Europe	Asia	Subtotal				
Net sales									
(1) Sales to customers	79,305	5,513	6,221	31,429	122,470	1,639	124,109	-	124,109
(2) Inter-segment sales and transfers	1,904	1,046	15	2,213	5,179	60	5,240	(5,240)	-
Total	81,209	6,559	6,236	33,643	127,650	1,700	129,350	(5,240)	124,109
Segment profit	10,313	53	359	4,570	15,296	151	15,447	159	15,607

Notes: 1. "America" includes the business activities of overseas entities in the U.S. and Canada, and others; "Europe" those in the U.K., Poland and South Africa; and "Asia" those in China, Taiwan, Vietnam, and others.

2. "Others" is the business that is excluded from reportable segments, and includes the business activities of entities in Australia.

3. "Adjustment" to segment profit of 159 million yen indicates elimination for intersegment transactions.

4. Segment profit is adjusted with operating income reported in the quarterly consolidated statement of income.

* This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.