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Financial Results of Astellas for the First Nine Months of FY2023

Japan, February 5, 2024 – Astellas Pharma Inc. (TSE: 4503, President and CEO: Naoki Okamura, “the Company”) today announced the financial results for the first nine months (April 1, 2023 – December 31, 2023) of the fiscal year 2023 ending March 31, 2024 (FY2023).

Consolidated financial results for the first nine months of FY2023 (core basis)

(Millions of yen)

	First nine months of FY2022	First nine months of FY2023	Change (%)
Revenue	1,164,365	1,189,070	+24,705 (+2.1%)
Core operating profit	233,668	149,620	-84,048 (-36.0%)
Core profit	188,922	120,505	-68,417 (-36.2%)

Cautionary Notes

In this material, statements made with respect to current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of Astellas. These statements are based on management's current assumptions and beliefs in light of the information currently available to it and involve known and unknown risks and uncertainties. A number of factors could cause actual results to differ materially from those discussed in the forward-looking statements. Such factors include, but are not limited to: (i) changes in general economic conditions and in laws and regulations, relating to pharmaceutical markets, (ii) currency exchange rate fluctuations, (iii) delays in new product launches, (iv) the inability of Astellas to market existing and new products effectively, (v) the inability of Astellas to continue to effectively research and develop products accepted by customers in highly competitive markets, and (vi) infringements of Astellas' intellectual property rights by third parties. Information about pharmaceutical products (including products currently in development) which is included in this material is not intended to constitute an advertisement or medical advice.

1. Qualitative information on consolidated financial results for the first nine months of FY2023

(1) Business performance

<Consolidated financial results (core basis ^(Note))>

Consolidated financial results (core basis) in the first nine months of FY2023 are shown in the table below.

While revenue increased, core operating profit and core profit decreased.

Consolidated financial results (core basis)

(Millions of yen)

	First nine months of FY2022	First nine months of FY2023	Change (%)
Revenue	1,164,365	1,189,070	+24,705 (+2.1%)
Cost of sales	226,073	219,256	-6,817 (-3.0%)
Selling, general and administrative expenses	470,977	546,961	+75,984 (+16.1%)
R&D expenses	206,052	216,334	+10,282 (+5.0%)
Amortisation of intangible assets	29,174	66,173	+36,999 (+126.8%)
Gain on divestiture of intangible assets	208	9,735	+9,528 (-)
Share of profit (loss) of investments accounted for using equity method	1,371	-461	-1,832 (-)
Core operating profit	233,668	149,620	-84,048 (-36.0%)
Core profit	188,922	120,505	-68,417 (-36.2%)
Basic core earnings per share (yen)	103.61	67.20	-36.41 (-35.1%)

(Note) The Company discloses financial results on a core basis as an indicator of its recurring profitability. Certain items reported in financial results on a full basis that are deemed to be non-recurring items by the Company are excluded as non-core items from these financial results on a core basis. These adjusted items include impairment losses, gain/loss on sales of property, plant and equipment, restructuring costs, loss on disaster, a large amount of losses on compensation or settlement of litigations and other legal disputes, and other items that are deemed to be excluded based on the Company's judgment. A reconciliation table between results on a full basis and results on a core basis is provided in the "Supplementary Documents for Q3/FY2023 Financial Results."

Revenue

- Sales of main products XTANDI for the treatment of prostate cancer, PADCEV for the treatment of urothelial cancer and XOSPATA for the treatment of acute myeloid leukemia showed steady growth. In particular, sales of PADCEV increased significantly in the United States and Europe.
- Sales of IZERVAY for the treatment for geographic atrophy secondary to age-related macular degeneration launched in the United States in the second quarter, also grew steadily and contributed to increased revenue.
- On the other hand, sales of pharmacologic stress agent LEXISCAN sold in the United States continued to decrease significantly affected by generic brands (a decrease of 89.3% in US dollar compared to those in the same period of the previous fiscal year (“year-on-year”)).

As a result of the above, revenue in the first nine months of FY2023 increased by 2.1% year-on-year to ¥1,189.1 billion.

Core operating profit / Core profit

- Gross profit increased by 3.4% year-on-year to ¥969.8 billion. The cost-to-revenue ratio fell by 1.0 percentage points year-on-year to 18.4%.
- Selling, general and administrative expenses increased by 16.1% year-on-year to ¥547.0 billion. Although expenses decreased as a result of the reduction of mature products-related costs (decrease of approximately ¥6.0 billion year-on-year), the total amount increased due to foreign exchange rate impact (increase of ¥26.1 billion year-on-year), an increase in investment for VEOZAH for the treatment of vasomotor symptoms due to menopause (increase of approximately ¥30.0 billion year-on-year), and the impact of the acquisition of IVERIC bio, Inc (approximately ¥20.0 billion). Selling, general and administrative expenses, excluding co-promotion fees of XTANDI in the United States, increased by 20.4% year-on-year to ¥400.7 billion.
- Research and development (R&D) expenses increased by 5.0% year-on-year to ¥216.3 billion. The total amount increased mainly due to foreign exchange rate impact (increase of ¥6.9 billion year-on-year) and the impact of the acquisition of IVERIC bio, Inc (approximately ¥8.0 billion).
- Amortisation of intangible assets increased by 126.8% year-on-year to ¥66.2 billion. This was mainly due to amortisation of intangible assets for IZERVAY, which the Company received in its acquisition of IVERIC bio, Inc.

As a result of the above, core operating profit decreased by 36.0% year-on-year to ¥149.6 billion, and core profit decreased by 36.2% year-on-year to ¥120.5 billion.

Impact of exchange rate on financial results

The exchange rates for the yen in the first nine months of FY2023 are shown in the table below. The resulting impacts were a ¥58.8 billion increase in revenue and an ¥13.8 billion increase in core operating profit compared with if the exchange rates of the first nine months of FY2022 were applied.

Average rate	First nine months of FY2022	First nine months of FY2023	Change
US\$/¥	137	143	¥7 (Weakening of yen)
€/¥	141	155	¥15 (Weakening of yen)

<Consolidated financial results (full basis)>

Consolidated financial results on a full basis in the first nine months of FY2023 are shown in the table below.

Operating profit and profit decreased, while revenue increased.

The full basis financial results include “Other income” and “Other expenses,” which are excluded from the core basis financial results. In the first nine months of FY2023, “Other income” was ¥8.5 billion (¥2.5 billion in the same period of the previous fiscal year), and “Other expenses” was ¥84.0 billion (¥54.9 billion in the same period of the previous fiscal year).

As “Other expenses,” in addition to booking payments for unvested share-based payments such as share options due to the acquisition of IVERIC bio, Inc. in the second quarter (¥33.1 billion)*, the Company booked one-time expenses related to organizational restructuring on a global scale in the third quarter (¥18.4 billion).

Consolidated financial results (full basis)

	First nine months of FY2022	First nine months of FY2023	(Millions of yen) Change (%)
Revenue	1,164,365	1,189,070	+24,705 (+2.1%)
Operating profit	181,279	74,119	-107,160 (-59.1%)
Profit before tax	180,238	73,630	-106,608 (-59.1%)
Profit	144,839	50,323	-94,516 (-65.3%)
Basic earnings per share (yen)	79.43	28.06	-51.37 (-64.7%)
Comprehensive income	218,550	113,936	-104,614 (-47.9%)

*In the third quarter, further facts came to light and additional analysis was performed. As a result, the payments related to share-based compensation were adjusted retroactively.

<Sales of Main Products>

(Billions of yen)

	First nine months of FY2022	First nine months of FY2023	Change
XTANDI	511.9	560.0	+9.4%
PADCEV	33.1	55.6	+68.1%
XOSPATA	36.3	41.3	+13.8%
VEOZAH*1	–	3.6	–
IZERVAY	–	5.3	–
BETANIS / MYRBETRIQ / BETMIGA	141.0	142.9	+1.3%
PROGRAF*2	151.6	155.4	+2.5%

<XTANDI>

- Sales increased in all regions.
- In the United States, an approval of a supplemental New Drug Application was obtained in November 2023 from the U.S. Food and Drug Administration (FDA) for nonmetastatic castration-sensitive prostate cancer (M0 CSPC) with biochemical recurrence at high risk for metastasis.

<PADCEV>

- Sales increased in all regions.
- In the United States, an approval of New Drug Application was obtained in December 2023 from the FDA for “PADCEV combined with pembrolizumab as first-line therapy for patients with locally advanced or metastatic urothelial cancer”.

<XOSPATA>

- Foreign exchange rates had a positive impact and sales increased in all regions.

<VEOZAH>

- Although sales increased since its launch, they fell short of initial expectations.
- In Europe, an approval was obtained in December 2023.

<IZERVAY>

- Sales grew steadily after its launch in September 2023.

<BETANIS / MYRBETRIQ / BETMIGA>

- Foreign exchange rates had a positive impact and global sales increased.

<PROGRAF>

- Foreign exchange rates had a positive impact and global sales increased.

*1 VEOZAH: Approved as "VEOZA" in Europe.

*2 PROGRAF: Includes ADVAGRAF, GRACEPTOR, and ASTAGRAF XL.

<Revenue by region>

Revenue by region is shown in the table below. Although revenue in the United States decreased, revenue in Japan, Established Markets, Greater China and International Markets increased.

(Billions of yen)

	First nine months of FY2022	First nine months of FY2023	Change
Japan	204.5	211.0	+3.2%
United States	501.1	481.4	-3.9%
Established Markets* ¹	272.2	306.3	+12.5%
Greater China* ²	65.2	67.3	+3.3%
International Markets* ³	104.2	118.8	+14.0%

(Note) From the first three months of FY2023, the commercial segment of some countries included in International Markets has been changed to Established Markets. Figures of the first nine months of FY2022 reflect this change.

*1 Established Markets: Europe, Canada, etc.

*2 Greater China: China, Hong Kong, Taiwan.

*3 International Markets: Latin America, Middle East, Africa, South East Asia, South Asia, Russia, Korea, Australia, Export sales, etc.

(2) Financial position

1) Assets, equity and liabilities

An overview of the consolidated statement of financial position as of December 31, 2023 and the main changes from the end of the previous fiscal year are shown below.

In July 2023, the Company acquired IVERIC bio, Inc. and made it a consolidated subsidiary. The Company's assets and liabilities have been subject to substantial change due to the acquisition of IVERIC bio, Inc. and having arranged financing in the form of bank loans and issuances of bonds and commercial papers to procure requisite funds for the acquisition.

Assets

Total assets as of December 31, 2023 saw an increase of ¥912.2 billion compared to the end of the previous fiscal year to ¥3,368.7 billion.

<Non-current assets> As of December 31, 2023: ¥2,318.6 billion (an increase of ¥912.0 billion)

- Property, plant and equipment increased by ¥2.6 billion compared to the end of the previous fiscal year to ¥289.0 billion.
- Mainly due to the acquisition of IVERIC bio, Inc. in July 2023, goodwill increased by ¥59.6 billion compared to the end of the previous fiscal year to ¥388.0 billion, and intangible assets increased by ¥889.8 billion compared to the end of the previous fiscal year to ¥1,452.3 billion.

<Current assets> As of December 31, 2023: ¥1,050.1 billion (an increase of ¥0.1 billion)

- Cash and cash equivalents decreased by ¥122.9 billion compared to the end of the previous fiscal year to ¥254.0 billion.

Equity

Total equity as of December 31, 2023 saw a decrease of ¥4.7 billion compared to the end of the previous fiscal year to ¥1,503.3 billion, making the ratio of equity attributable to owners of the parent to total assets 44.6%.

- While profit stood at ¥50.3 billion, the Company paid ¥116.7 billion of dividends of surplus.

Liabilities

Total liabilities increased by ¥916.9 billion compared to the end of the previous fiscal year to ¥1,865.4 billion.

<Non-current liabilities> As of December 31, 2023: ¥711.7 billion (an increase of ¥489.2 billion)

- The Company procured requisite funds for the acquisition of IVERIC bio, Inc., in

the second quarter resulting in the balances of bonds payable amounting to ¥250.0 billion (an increase of ¥200.0 billion) and long-term borrowings amounting to ¥213.8 billion as of December 31, 2023.

- Deferred tax liabilities increased by ¥64.0 billion mainly due to the acquisition of IVERIC bio, Inc.

<Current liabilities> As of December 31, 2023: ¥1,153.7 billion (an increase of ¥427.7 billion)

- The Company procured requisite funds for the acquisition of IVERIC bio, Inc., in the second quarter resulting in the balances of commercial papers amounting to ¥357.0 billion (an increase of ¥282.0 billion) and current portion of long-term borrowings amounting to ¥50.2 billion as of December 31, 2023.
- Other current liabilities increased by ¥64.1 billion compared to the end of the previous fiscal year to ¥446.8 billion.

2) Cash flow

Cash flows from operating activities

Net cash flows from operating activities in the first nine months of FY2023 decreased by ¥111.7 billion year-on-year to ¥100.5 billion.

- There were payments of ¥33.1 billion for unvested share-based payments such as share options due to the acquisition of IVERIC bio, Inc*.
- Income tax paid decreased by ¥35.6 billion year-on-year to ¥22.6 billion.

Cash flows from investing activities

Net cash flows used in investing activities in the first nine months of FY2023 was ¥823.6 billion, an increase in outflow of ¥761.9 billion year-on-year.

- Payments for acquisition of subsidiaries increased by ¥784.8 billion year-on-year to ¥784.8 billion due to the acquisition of IVERIC bio, Inc. etc.

Cash flows from financing activities

Net cash flows from financing activities in the first nine months of FY2023 was ¥583.1 billion (outflow of ¥91.1 billion in the same period of the previous fiscal year).

- As a result of procuring requisite funds for the acquisition of IVERIC bio, Inc. in the second quarter, there was an increase of ¥263.2 billion in short-term borrowings and commercial papers (decrease of ¥15.0 billion in the same period of the previous fiscal year) and proceeds from issuance of bonds and long-term borrowings increased by ¥421.6 billion year-on-year to ¥471.6 billion.
- There was an acquisition of treasury shares of ¥10.7 billion (an increase in outflow of ¥0.2 billion year-on-year). Furthermore, dividends paid increased by ¥16.3 billion year-on-year to ¥116.7 billion.

As a result, cash and cash equivalents totaled ¥254.0 billion as of December 31, 2023, a decrease of ¥122.9 billion compared to the end of the previous fiscal year.

*In the third quarter, further facts came to light and additional analysis was performed. As a result, the payments related to share-based compensation were adjusted retroactively.

(3) Consolidated business forecasts for FY2023 and other forward-looking statements

The Company's business forecasts are presented on a core basis and full basis. The consolidated full-year business forecasts for FY2023 are shown below.

The Company downwardly revised its business forecast for revenue from the amount announced in November 2023 to incorporate the progress of VEOZAH. In line with this, the Company has downwardly revised its forecasts for profit items on both a core basis and a full basis. The Company will review selling, general and administrative expenses and R&D expenses, and it expects to partially mitigate the above impact.

Consolidated full-year business forecasts (core basis)

(Millions of yen)

	FY2023 Previous forecasts*	FY2023 Latest forecasts	Change (%)	FY2022 Results
Revenue	1,608,000	1,562,000	-46,000 (-2.9%)	1,518,619
Selling, general and administrative expenses	737,000	731,000	-6,000 (-0.8%)	630,272
R&D expenses	290,000	286,000	-4,000 (-1.4%)	276,128
Core operating profit	199,000	164,000	-35,000 (-17.6%)	286,902
Core profit for the year	154,000	127,000	-27,000 (-17.5%)	224,619
Basic core earnings per share (yen)	85.87	70.82	-15.05	123.42

* Previous forecasts were announced in November 2023

Consolidated full-year business forecasts (full basis)

(Millions of yen)

	FY2023 Previous forecasts*	FY2023 Latest forecasts	Change (%)	FY2022 Results
Revenue	1,608,000	1,562,000	-46,000 (-2.9%)	1,518,619
Operating profit	123,000	83,000	-40,000 (-32.5%)	133,029
Profit before tax	121,000	82,000	-39,000 (-32.2%)	132,361
Profit for the year	85,000	58,000	-27,000 (-31.8%)	98,714
Basic earnings per share (yen)	47.39	32.34	-15.05	54.24

* Previous forecasts were announced in November 2023

Expected exchange rate for

FY2023 (Forecast)	¥140/US\$	¥152/€
FY2022 (Result)	¥135/US\$	¥141/€

2. Condensed Interim Consolidated Financial Statements and Notes
 (1) Condensed Interim Consolidated Statement of Income

(Millions of yen)

	Nine months ended 31 December 2022	Nine months ended 31 December 2023
Revenue	1,164,365	1,189,070
Cost of sales	(226,073)	(219,256)
Gross profit	938,293	969,814
Selling, general and administrative expenses	(470,977)	(546,961)
Research and development expenses	(206,052)	(216,334)
Amortisation of intangible assets	(29,174)	(66,173)
Gain on divestiture of intangible assets	208	9,735
Share of profit (loss) of investments accounted for using equity method	1,371	(461)
Other income	2,517	8,471
Other expenses	(54,906)	(83,972)
Operating profit	181,279	74,119
Finance income	5,666	7,331
Finance expenses	(6,707)	(7,819)
Profit before tax	180,238	73,630
Income tax expense	(35,399)	(23,308)
Profit	144,839	50,323
Profit attributable to:		
Owners of the parent	144,839	50,323
Earnings per share:		
Basic (Yen)	79.43	28.06
Diluted (Yen)	79.40	27.96

(2) Condensed Interim Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended 31 December 2022	Nine months ended 31 December 2023
Profit	144,839	50,323
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	4,411	(5,003)
Remeasurements of defined benefit plans	917	471
Subtotal	<u>5,328</u>	<u>(4,532)</u>
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	68,384	73,729
Cash flow hedges	—	(7,682)
Hedging cost	—	2,098
Subtotal	<u>68,384</u>	<u>68,146</u>
Other comprehensive income	<u>73,711</u>	<u>63,614</u>
Total comprehensive income	<u>218,550</u>	<u>113,936</u>
Total comprehensive income attributable to:		
Owners of the parent	218,550	113,936

(3) Condensed Interim Consolidated Statement of Financial Position

(Millions of yen)

	As of 31 March 2023	As of 31 December 2023
Assets		
Non-current assets		
Property, plant and equipment	286,459	289,029
Goodwill	328,411	387,969
Intangible assets	562,496	1,452,341
Trade and other receivables	24,173	20,819
Investments accounted for using equity method	12,689	15,636
Deferred tax assets	84,169	42,621
Other financial assets	97,886	101,572
Other non-current assets	10,280	8,593
Total non-current assets	1,406,564	2,318,580
Current assets		
Inventories	174,386	225,980
Trade and other receivables	427,965	495,961
Income tax receivable	17,813	9,944
Other financial assets	19,784	31,458
Other current assets	32,428	31,594
Cash and cash equivalents	376,840	253,978
Subtotal	1,049,216	1,048,915
Assets held for sale	738	1,186
Total current assets	1,049,954	1,050,102
Total assets	2,456,518	3,368,682

(Millions of yen)

	As of 31 March 2023	As of 31 December 2023
Equity and liabilities		
Equity		
Share capital	103,001	103,001
Capital surplus	181,280	182,983
Treasury shares	(25,123)	(34,147)
Retained earnings	908,158	838,621
Other components of equity	340,640	412,797
Total equity attributable to owners of the parent	1,507,954	1,503,255
Total equity	1,507,954	1,503,255
Liabilities		
Non-current liabilities		
Bonds and borrowings	50,000	463,804
Trade and other payables	4,217	2,150
Deferred tax liabilities	6,048	70,013
Retirement benefit liabilities	24,818	26,530
Provisions	6,537	5,401
Other financial liabilities	89,924	99,669
Other non-current liabilities	40,987	44,146
Total non-current liabilities	222,530	711,712
Current liabilities		
Bonds and borrowings	75,000	407,177
Trade and other payables	140,236	150,426
Income tax payable	5,137	34,822
Provisions	17,855	13,830
Other financial liabilities	105,131	100,648
Other current liabilities	382,675	446,813
Total current liabilities	726,034	1,153,715
Total liabilities	948,564	1,865,427
Total equity and liabilities	2,456,518	3,368,682

(4) Condensed Interim Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Subscription rights to shares	Exchange differences on translation of foreign operations
As of 1 April 2022	103,001	179,467	(13,934)	944,261	630	233,621
Comprehensive income						
Profit	—	—	—	144,839	—	—
Other comprehensive income	—	—	—	—	—	68,384
Total comprehensive income	—	—	—	144,839	—	68,384
Transactions with owners						
Acquisition of treasury shares	—	—	(10,555)	—	—	—
Disposals of treasury shares	—	(1,351)	1,468	(86)	(29)	—
Dividends	—	—	—	(100,355)	—	—
Share-based payments	—	2,475	—	—	—	—
Transfer to retained earnings	—	—	—	7,587	—	—
Total transactions with owners	—	1,123	(9,087)	(92,854)	(29)	—
As of 31 December 2022	103,001	180,591	(23,020)	996,246	601	302,005
As of 1 April 2023	103,001	181,280	(25,123)	908,158	536	324,276
Comprehensive income						
Profit	—	—	—	50,323	—	—
Other comprehensive income	—	—	—	—	—	73,729
Total comprehensive income	—	—	—	50,323	—	73,729
Transactions with owners						
Acquisition of treasury shares	—	—	(10,734)	—	—	—
Disposals of treasury shares	—	(1,452)	1,710	(174)	(73)	—
Dividends	—	—	—	(116,653)	—	—
Share-based payments	—	3,156	—	—	—	—
Transfer to retained earnings	—	—	—	(3,033)	—	—
Transfer to non-financial assets	—	—	—	—	—	—
Total transactions with owners	—	1,704	(9,023)	(119,860)	(73)	—
As of 31 December 2023	103,001	182,983	(34,147)	838,621	464	398,006

(Millions of yen)

	Equity attributable to owners of the parent						Total equity
	Other components of equity					Total	
	Cash flow hedges	Hedging cost	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total		
As of 1 April 2022	—	—	13,261	—	247,512	1,460,308	1,460,308
Comprehensive income							
Profit	—	—	—	—	—	144,839	144,839
Other comprehensive income	—	—	4,411	917	73,711	73,711	73,711
Total comprehensive income	—	—	4,411	917	73,711	218,550	218,550
Transactions with owners							
Acquisition of treasury shares	—	—	—	—	—	(10,555)	(10,555)
Disposals of treasury shares	—	—	—	—	(29)	2	2
Dividends	—	—	—	—	—	(100,355)	(100,355)
Share-based payments	—	—	—	—	—	2,475	2,475
Transfer to retained earnings	—	—	(6,670)	(917)	(7,587)	—	—
Total transactions with owners	—	—	(6,670)	(917)	(7,616)	(108,434)	(108,434)
As of 31 December 2022	—	—	11,002	—	313,607	1,570,424	1,570,424
As of 1 April 2023	—	—	15,827	—	340,640	1,507,954	1,507,954
Comprehensive income							
Profit	—	—	—	—	—	50,323	50,323
Other comprehensive income	(7,682)	2,098	(5,003)	471	63,614	63,614	63,614
Total comprehensive income	(7,682)	2,098	(5,003)	471	63,614	113,936	113,936
Transactions with owners							
Acquisition of treasury shares	—	—	—	—	—	(10,734)	(10,734)
Disposals of treasury shares	—	—	—	—	(73)	12	12
Dividends	—	—	—	—	—	(116,653)	(116,653)
Share-based payments	—	—	—	—	—	3,156	3,156
Transfer to retained earnings	—	—	3,504	(471)	3,033	—	—
Transfer to non-financial assets	7,682	(2,098)	—	—	5,584	5,584	5,584
Total transactions with owners	7,682	(2,098)	3,504	(471)	8,544	(118,635)	(118,635)
As of 31 December 2023	—	—	14,328	—	412,797	1,503,255	1,503,255

(5) Condensed Interim Consolidated Statement of Cash Flows

(Millions of yen)

	Nine months ended 31 December 2022	Nine months ended 31 December 2023
Cash flows from operating activities		
Profit before tax	180,238	73,630
Depreciation and amortisation	82,721	109,197
Impairment losses (reversal of impairment losses)	24,237	13,776
Finance income and expenses	1,040	488
(Increase) decrease in inventories	2,648	(44,612)
(Increase) decrease in trade and other receivables	(38,716)	(31,910)
Increase (decrease) in trade and other payables	(15,565)	(14,025)
Other	33,731	16,536
Subtotal	270,335	123,081
Income tax paid	(58,160)	(22,585)
Net cash flows from operating activities	212,174	100,496
Cash flows from investing activities		
Purchases of property, plant and equipment	(25,193)	(27,527)
Purchases of intangible assets	(35,229)	(35,046)
Proceeds from sales of intangible assets	208	11,003
Proceeds from sales of equity instruments	12,168	—
Payments for acquisition of subsidiaries	—	(784,784)
Interest and dividends received	2,084	6,275
Other	(15,819)	6,435
Net cash flows provided by (used in) investing activities	(61,781)	(823,644)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings and commercial papers	(15,000)	263,169
Proceeds from issuance of bonds and long-term borrowings	50,000	471,615
Redemption of bonds and repayments of long-term borrowings	—	(6,667)
Acquisition of treasury shares	(10,555)	(10,734)
Dividends paid to owners of the parent	(100,355)	(116,653)
Repayments of lease liabilities	(12,933)	(9,956)
Other	(2,276)	(7,644)
Net cash flows provided by (used in) financing activities	(91,120)	583,131
Effect of exchange rate changes on cash and cash equivalents	6,557	17,156
Net increase (decrease) in cash and cash equivalents	65,830	(122,862)
Cash and cash equivalents at the beginning of the year	315,986	376,840
Cash and cash equivalents at the end of the period	381,816	253,978

(6) Notes to condensed interim consolidated financial statements

Notes on going concern assumption

Not applicable.

Business Combinations

For the nine months ended 31 December 2023

Acquisition of IVERIC bio, Inc.

(1) Outline of the business combination

(i) Name and business description of the acquiree

Name of the acquiree	IVERIC bio, Inc. ("Iveric Bio")
Business Description	Research & development of pharmaceutical products

(ii) Acquisition date

11 July 2023, U.S. Eastern Time

(iii) Percentage of voting equity interests acquired

100%

(iv) Acquisition method

Acquisition of all shares of stock in cash

(v) Primary reasons for the business combination

The Company aims to become a cutting-edge, VALUE-driven life science innovator to realise its VISION to be "on the forefront of healthcare change to turn innovative science into VALUE for patients." Through the Company's Research and Development strategy, Focus Area Approach, it is working to create innovative drugs for diseases with high unmet medical need by identifying unique combinations of biology and therapeutic modality / technology from multiple perspectives. Currently, the Company has identified five Primary Focuses, including "Blindness & Regeneration," and is prioritising investment resources in these areas. As such, the acquisition of Iveric Bio is a key step in building the Company's product portfolio in this important area.

Iveric Bio focuses on the discovery and development of novel treatments in the field of ophthalmology. The U.S. Food and Drug Administration (FDA) approved IZERVAY™ (avacincaptad pegol intravitreal solution) for the treatment of geographic atrophy (GA) secondary to age-related macular degeneration (AMD) on 4 August 2023.

Avacincaptad pegol (ACP), a complement C5 inhibitor, is an investigational drug for GA secondary to AMD and has significant potential to deliver value to a large and underserved patient base. ACP met its primary efficacy endpoint (reduction of the rate of GA progression) with statistical significance across two pivotal clinical trials, (GATHER 1 and 2 Clinical Trials) and has received breakthrough therapy designation from the FDA for this indication.

The Company expects not only that the acquisition of ACP, the lead program of Iveric Bio, will contribute to the Company's fiscal year 2025 revenue targets set in its Corporate Strategic Plan 2021, but also that ACP, in conjunction with fezolinetant and PADCEV, will be a revenue-generating pillar to help compensate for the decline in sales of XTANDI due to anticipated loss of exclusivity later this decade.

In addition, the acquisition of Iveric Bio will provide a foundation of ophthalmology focused capabilities, including a multi-faceted commercial team, expansive network of experts in the ophthalmology field, and established relationships with medical institutions. Furthermore, through acquired capabilities, the Company will accelerate clinical development and commercialisation activities to positively contribute to the goals of Primary Focus, "Blindness & Regeneration."

- (2) The fair values of assets acquired, liabilities assumed and purchase consideration transferred as at the acquisition date are as follows:

(Millions of yen)

	Provisional fair value as of 30 September 2023	Fair value adjustments	Fair value (as adjusted)
Intangible assets	884,331	—	884,331
Financial assets at FVTOCI (debt instruments)	9,986	—	9,986
Cash and cash equivalents	44,649	—	44,649
Other assets	2,607	—	2,607
Deferred tax liabilities	(149,046)	—	(149,046)
Short-term borrowings	(15,079)	—	(15,079)
Other liabilities	(7,984)	—	(7,984)
Fair value of assets acquired and liabilities assumed (net)	769,464	—	769,464
Basis adjustments	(5,584)	—	(5,584)
Goodwill	35,236	4,122	39,358
Total	799,116	4,122	803,238
Total fair value of purchase consideration transferred	799,116	4,122	803,238

During the three months ended 31 December 2023, further facts came to light and additional analysis was performed on the fair value measurement of the purchase consideration transferred at the acquisition date. As a result, the provisional fair values were adjusted as above. The initial accounting for the business combination is incomplete as of 31 December 2023 as the Company is still in the process of finalizing the fair value measurement of assets acquired, liabilities assumed and purchase consideration transferred at the acquisition date.

Goodwill mainly comprises the value of expected synergies arising from the acquisition and future economic benefits, which is not separately recognised.

- (3) Cash flow information

(Millions of yen)

Total fair value of purchase consideration transferred	803,238
Cash and cash equivalents held by the acquiree	(44,649)
Basis adjustments	5,584
Acquisition of subsidiaries, net of cash acquired	764,173

In addition, the Group separated payment for Iveric Bio's unvested share-based payments, such as share options, from the business combination and recognised ¥33,128 million as "Other expenses" in the condensed interim consolidated statement of income.

- (4) Acquisition-related costs

¥3,581 million

Acquisition-related costs were recognised in "Selling, general and administrative expenses" in the condensed interim consolidated statement of income.

- (5) Effect on the condensed interim consolidated statement of income

- (i) Profit (loss) before tax of the acquiree since the acquisition date included in the condensed interim consolidated statement of income for the nine months ended 31 December 2023:

¥(85,660) million

(Note) This amount includes payment of ¥33,128 million for Iveric Bio's unvested share-based payments, such as share options, which is recognised separately from the business combination.

- (ii) Effect on profit (loss) before tax in the condensed interim consolidated statement of income for the nine months ended 31 December 2023 assuming the acquisition date had been at the beginning of the fiscal year:

¥(52,284) million

(Note) This effect is calculated based on Iveric Bio's financial results for the period from 1 April 2023 to the acquisition date.