



Nippon Chemiphar Co., Ltd.

(TSE 4539)

FY2015 Business Summary

(Year Ended March 31, 2016)

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I. FY2015 Business Results

Sales, Income

	FY2014		FY2015					(¥mn)
	Amount	% of Sales	Amount	% of Sales	YOY (%)	Forecast*	% of Sales	Achieved (%)
Net Sales	35,118	100.0	35,602	100.0	1.4	36,600	100.0	97.3
Pharmaceuticals	34,168	97.3	34,509	96.9	1.0	—	—	—
Others	949	2.7	1,092	3.1	15.0	—	—	—
Cost of sales	18,352	52.3	18,803	52.8	2.5	—	—	—
SG&A expenses	13,480	38.4	13,653	38.3	1.3	—	—	—
R&D expenses	1,755	5.0	1,889	5.3	7.6	2,100	5.7	90.0
Operating income	3,285	9.4	3,145	8.8	(4.3)	2,800	7.7	112.3
Net income	1,899	5.4	1,960	5.5	3.2	—	—	—
Net income attributable to owners of the parent	1,899	5.4	1,961	5.5	3.3	1,700	4.6	115.4

*As of May 11, 2015

In the pharmaceutical products segment, sales rose 1.0% YOY, to ¥34.5 billion. This increase was due to continued expansion in sales to medical institutions, bolstered by the national government's measures to promote the uptake of generics, which compensated for lower sales of proprietary products and sales to other makers. The Others segment also benefited from favorable orders in the contracts testing business. As a result, overall net sales expanded 1.4% YOY, to ¥35.6 billion.

On the income front, performance was affected by three increases. First, in the cost of sales ratio, stemming from lower sales of proprietary

products; second, in generics development costs; and third, in research and development costs related to new drug development.

Consequently, operating income was down 4.3% YOY, to ¥3.1 billion, while ordinary income fell 8.4%, to ¥2.9 billion. Owing to a revision in the corporate tax rate, net income attributable to owners of the parent increased 3.3% YOY, to ¥1.9 billion.

Nearly on track with the Company's forecast, fiscal year net sales achieved 97.3% of the expected figure. Meanwhile, the Company kept expenses lower than expected through stringent efforts to monitor operating expenses, and by holding down

selling, general and administrative expenses. These efforts included the efficient use of R&D expenditures for generics and the shift to the following fiscal year of additional phase 1 trials for the therapeutic agent NC-2500.

Pharmaceutical Sales

Generics, Proprietary Products

(¥mn)

	FY2014		FY2015			Achieved	
	Amount	Distrib. (%)	Amount	Distrib. (%)	YOY (%)	Forecast	(%)
Total	30,800	100.0	31,937	100.0	3.7	32,510	98.2
Generics	27,400	89.0	29,016	90.9	5.9	29,730	97.6
To medical institutions	25,079		27,404		9.3	28,250	97.0
To other makers*	2,321		1,612		(30.6)	1,480	108.9
Amlodipine	3,011		3,159		4.9	3,210	98.4
Lansoprazole	1,935		2,182		12.8	2,230	97.9
Limaprost Alfadex	1,509		1,487		(1.4)	1,500	99.2
Rabeprazole	1,595		1,737		8.9	1,850	93.9
Donepezil	1,704		1,712		0.5	1,720	99.6
Pravastatine	1,273		1,260		(1.0)	1,230	102.5
Voglibose	1,013		1,004		(0.9)	1,030	97.5
Others	15,357		16,471		7.3	16,960	97.1
Proprietary products	3,400	11.0	2,920	9.1	(14.1)	2,780	105.0
Uralyt	1,975		1,723		(12.8)	1,660	103.8
Soleton	1,134		928		(18.2)	870	106.7
Calvan	290		268		(7.5)	250	107.4

Generics sales to medical institutions rose 9.3% YOY due to demand continued to expand centered on pharmacies and DPC hospitals. Generics sales to other makers, including export sales, slid 30.6% YOY, reflecting favorable orders ensuing from NHI price revisions in the preceding fiscal year. Accordingly, sales of generics, including ODM products, totaled ¥30.2 billion (up 4.6% YOY).

Meanwhile, sales of proprietary products decreased 14.1% YOY, following the shift to generics. Consequently, pharmaceutical sales rose to ¥31.9 billion (up 3.7% YOY).

Chemiphar, ODM Generics

(¥mn)

	FY2014		FY2015			Achieved	
	Amount	Distrib. (%)	Amount	Distrib. (%)	YOY (%)	Forecast	(%)
Total	28,918	100.0	30,243	100.0	4.6	31,660	95.5
Generics	27,400	94.8	29,016	95.9	5.9	29,730	97.6
Generics (ODM)	1,518	5.2	1,226	4.1	(19.2)	1,930	63.5

* Includes exports.



Sales Distribution

By Launch Year (¥mn)

Fiscal Year	FY2014		FY2015		YOY (%)
	Amount	Distrib. (%)	Amount	Distrib. (%)	
2008 and before	15,246	55.6	15,150	52.2	(0.6)
2009	2,507	9.2	2,697	9.3	7.6
2010	2,462	9.0	2,617	9.0	6.3
2011	2,157	7.9	2,331	8.0	8.1
2012	1,447	5.3	1,513	5.2	4.6
2013	2,256	8.2	2,761	9.5	22.4
2014	1,322	4.8	1,454	5.0	10.0
2015	—	—	490	1.7	—
Total	27,400	100.0	29,016	100.0	5.9

By Main Therapeutic Categories (%)

	FY2014	FY2015
Cardiovascular and respiratory drugs	31.6	31.5
Digestive organ drugs	17.8	19.4
Agents affecting metabolism	17.3	16.1
Drugs for nervous system, sensory organs	11.9	10.8
Antibiotics and chemotherapeutic drugs	7.1	7.0
Antineoplastic agents	1.9	2.4
Others	12.4	12.8

Balance Sheet, per Share Information

Balance Sheet Data	(¥mn)		
	March 31, 2015 Amount	March 31, 2016 Amount Change	
Total assets	41,428	43,644	2,215
Return on assets (%)	7.9	6.9	(1.0)
Net assets	15,626	16,041	415
Owned capital	15,620	16,033	413
Capital-to-asset ratio (%)	37.7	36.7	(1.0)
Return on equity (%)	13.1	12.4	(0.7)
Current assets	24,844	27,378	2,533
Current liabilities	13,939	15,655	1,716
Current ratio (x)	1.78	1.75	(0.03)

Total assets climbed ¥2.2 billion YOY, to ¥43.6 billion, due to an increase in accounts receivable stemming from higher sales; a rise in cash and deposits owing to a transfer from time deposits; and an increase in construction-in-progress account related to the acquisition of machinery for the new Tsukuba factory building of Chemiphar subsidiary Nihon Pharmaceutical Industry Co., Ltd. (NPI), as well as the building of a factory in Vietnam.

In terms of liabilities, accounts payable increased in tandem with the rise in sales. Loans payable and bonds payable also grew, as the Company strove to take advantage of interest-rate trends by discontinuing its use of discounted bills and shifting to long-term loans payable.

The equity ratio declined 1.0 percentage point YOY, to 36.7%, mainly following the Company's expenditure of ¥0.6 billion to buy back shares.

Per Share Information	(¥)			
	FY2014 Amount	FY2015 Amount Change Forecast		
Earnings per share	47.45	49.91	2.46	42.46
Book value per share	390.01	409.97	19.96	—
Dividend per share	10.00	10.00	—	10.00
Dividend payout ratio (%)	21.1	20.0	—	23.6

Cash Flow, Expenditure

Cash Flow Statements

	(¥mn)	
	FY2014	FY2015
	Amount	Amount
Net cash:		
Provided by operating activities	2,438	2,450
Used in investing activities	(2,072)	(151)
Used in financing activities	(137)	(935)
Cash and cash equivalents	5,791	7,135
Free cash flow	365	2,299

Net cash provided by operating activities was ¥2.4 billion, around the same level as in the preceding year, due to there being essentially the same level of income.

Net cash used in investing activities decreased year on year. Although payment and expenditure levels were approximately equivalent year on year—with cash having been used for the acquisition of machinery for NPI, and having been provided by time deposits at maturity—the figure reflected the absence of the previous year's expenditure for the construction of a third building at NPI's Tsukuba Factory.

Net cash used in financing activities was ¥0.9 billion. This reflected expenditures for the acquisition of treasury stock, as well as the purchase of shares in a company established in Vietnam, thereby converting the company to a wholly owned second-generation subsidiary.

Capital Expenditure and Other

Items	FY2014	FY2015			Usage Rate (%)
	Amount	Amount	YOY (%)	Forecast*	
Capital expenditure	1,710	1,172	(31.5)	1,000	117.2
Depreciation and amortization	1,200	1,178	(1.8)	1,200	98.2

* Capital expenditure: as of January 29, 2016.

Depreciation and amortization: as of May 11, 2015.

II. FY2016 Forecasts

Sales, Income

Sales and Income	(¥mn)				
	FY2015		FY2016 (Forecast)		
	Amount	% of Sales	Amount	% of Sales	YOY (%)
Net Sales	35,602	100.0	38,000	100.0	6.7
Pharmaceuticals	34,509	96.9	—	—	—
Others	1,092	3.1	—	—	—
Cost of sales	18,803	52.8	—	—	—
SG&A expenses	13,653	38.3	—	—	—
R&D expenses	1,889	5.3	2,200	5.8	16.4
Operating income	3,145	8.8	2,800	7.4	(11.0)
Net income	2,945	8.3	—	—	—
Net income attributable to owners of the parent	1,961	5.5	1,850	4.9	(5.7)

During FY2016, we expect to be affected by NHI price revisions, but should benefit from existing measures to promote the use of generics, as well as the introduction of new incentives for in-house prescription to promote use of generic drugs and revisions to incentives for generic dispensing.

Consequently, measures to promote generics will apply to a wider range of medical institutions, which should cause the market to continue expanding. Owing to these factors, we expect consolidated net sales to grow 6.7% YOY, to ¥38.0 billion.

On the income front, however, we anticipate that the NHI price revisions will boost the cost of sales ratio. We also expect higher R&D expenses for the development of generics, additional phase 1 trials for NC-2500, and drug discovery. Consequently, we forecast an 11.0% YOY drop in operating income, to ¥2.8 billion.

Pharmaceutical Sales

Generics, Proprietary Products		(¥mn)	
	FY2015 Amount	FY2016 (Forecast) Amount	YOY
Total	31,937	34,180	7.0
Generics	29,016	31,680	9.2
To medical institutions	27,404	30,080	9.8
To other makers	1,612	1,600	(0.8)
Amlodipine	3,159	3,060	(3.2)
Lansoprazole	2,182	2,460	12.7
Limaprost Alfadex	1,487	1,570	5.5
Rabeprazole	1,737	1,740	0.1
Donepezil	1,712	1,940	13.3
Pravastatine	1,260	1,270	0.8
Voglibose	1,004	1,040	3.6
Others	16,471	18,600	12.9
Proprietary products	2,920	2,500	(14.4)
Uralyt	1,723	1,500	(13.0)
Soleton	928	740	(20.3)
Calvan	268	260	(3.2)

Stemming from the government's promotion efforts, we expect generics sales to be ¥31.6 billion (up 9.2% YOY).

At the same time, we see sales of proprietary products at ¥ 2.5 billion (down 14.4% YOY), as the switch to generics and fierce competition continue to grow.

Consolidated pharmaceutical sales should total ¥34.1 billion (up 7.0% YOY).

Chemiphar, ODM Generics

	FY2015 Amount	FY2016 (Forecast) Amount	YOY
Total	30,243	33,040	9.2
Generics	29,016	31,680	9.2
Generics (ODM)	1,226	1,360	10.9

Per Share Information, Expenditure

Per Share Information (¥)

	FY2015	FY2016 (Forecast)	
	Amount	Amount	YOY (%)
Earnings per share	49.91	47.08	(5.7)
Book value per share	409.97	—	—
Dividends per share	10.00	10.00	—
Dividend payout ratio(%)	20.0	21.2	—

Expenditure (¥mn)

	FY2015	FY2016 (Forecast)	
	Amount	Amount	Change
Capital expenditure	1,172	2,900	1,727
Depreciation expenses	1,178	1,250	71

During the upcoming year, we believe sales will rise, but also expect an increased cost of sales ratio to follow on from NHI price revisions, and we plan to increase our investment in R&D expenditures. Accordingly, we believe net income per share will decline year on year.

Nevertheless, in line with our prioritization of shareholder returns, we plan to maintain our dividend per share at ¥10, as in the preceding three fiscal years, amounting to an increase in the payout ratio.

In response to growing demand in domestic market for pharmaceuticals, in the upcoming year we plan to augment facilities at the third wing of NPI's Tsukuba Factory. Overseas, we will continue factory construction in Vietnam. We thus anticipate capital expenditure of ¥2.9 billion, 2.5 times the previous year's figure.

Note about Forward-looking Statements and Forecasts

Statements made in this Highlights of Business Results with respect to current plans, estimates, strategies and beliefs, and other statements of Nippon Chemiphar that are not historical facts are forward-looking statements about the future performance of Nippon Chemiphar.

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. Consequently, undue reliance should not be placed on these statements.

Nippon Chemiphar cautions the reader that a number of important factors could cause actual results to differ materially from those discussed in the forward-looking statements.

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