



Nippon Chemiphar Co., Ltd.

(TSE 4539)

# **FY2016 Third Quarter Business Summary**

(Year Ending March 31, 2017)

# Income Statement Overview

(¥mn)

|  | FY2015        |              |                  | FY2016        |              |              |                       |                   | Original Forecast** |                |
|--|---------------|--------------|------------------|---------------|--------------|--------------|-----------------------|-------------------|---------------------|----------------|
|  | 3Q Amount     | Distrib. (%) | Full Year Amount | 3Q Amount     | Distrib. (%) | YOY (%)      | Full Year (Forecast)* | Progress Rate (%) | Full Year           | Change         |
| <b>Net Sales</b>   | <b>26,914</b> | <b>100.0</b> | <b>35,602</b>    | <b>26,886</b> | <b>100.0</b> | <b>(0.1)</b> | <b>35,500</b>         | <b>75.7</b>       | <b>38,000</b>       | <b>(2,500)</b> |
| Pharmaceuticals  | 26,241        | 97.5         | 34,509           | 26,270        | 97.7         | 0.1          | —                     | —                 | —                   | —              |
| Others   | 673           | 2.5          | 1,092            | 616           | 2.3          | (8.4)        | —                     | —                 | —                   | —              |
| Cost of sales  | 14,189        | 52.7         | 18,803           | 14,595        | 54.3         | 2.9          | —                     | —                 | —                   | —              |
| SG&A expenses  | 10,273        | 38.2         | 13,653           | 9,996         | 37.2         | (2.7)        | —                     | —                 | —                   | —              |
| R&D expenses   | 1,357         | 5.0          | 1,889            | 1,417         | 5.3          | 4.4          | 2,200                 | 64.4              | 2,200               | —              |
| <b>Operating Income</b>                                  | <b>2,451</b>  | <b>9.1</b>   | <b>3,145</b>     | <b>2,294</b>  | <b>8.5</b>   | <b>(6.4)</b> | <b>2,800</b>          | <b>81.9</b>       | <b>2,800</b>        | <b>—</b>       |
| <b>Income before income taxes and minority interests</b> | <b>2,416</b>  | <b>9.0</b>   | <b>2,945</b>     | <b>2,378</b>  | <b>8.8</b>   | <b>(1.6)</b> | <b>—</b>              | <b>—</b>          | <b>—</b>            | <b>—</b>       |
| <b>Net income owners of the parent</b>                   | <b>1,612</b>  | <b>6.0</b>   | <b>1,961</b>     | <b>1,688</b>  | <b>6.3</b>   | <b>4.7</b>   | <b>1,850</b>          | <b>91.3</b>       | <b>1,850</b>        | <b>—</b>       |

\* Revised forecast issued on January 31, 2017.

\*\* Issued on May 12, 2016.

## Sales

Generics sales to medical institutions are up 1.7% YOY, although market expansion is weaker than it was for the same period last year. Growth mainly has been the result of new government promotions introduced in April 2016, when medical service fees were revised. The market has shown increasingly severe competition, as NHI drug prices have been reduced and the number of authorized generics has grown.

Meanwhile, generics sales to other makers as a whole declined 5.8% YOY although those of new generics have strengthened since the end of the second quarter. As a result, our generics sales totaled ¥21,995 million (up 1.4% YOY).

Sales of proprietary products declined 23.2% YOY, due to both the NHI drug price reductions and the market's ongoing switch to generics. Consequently overall, pharmaceutical sales totaled ¥26,270 million (up 0.1% YOY). As a result, we recorded consolidated net sales of ¥26,886 million (down 0.1% YOY).

## Operating Income

During this quarter, we have kept the cost of sales ratio within 1.6 percentage points, lower than we had originally forecast despite the price reduction. This was made possible by our efforts to reduce the cost of API and prices of purchased products.

In addition, our SG&A expenses ratio showed

a 1.0 percentage point YOY decrease, due to the efficient apportioning of SG&A expenses and our putting R&D expenses to the best possible use. As a result, our operating income was ¥2,294 million (down 6.4% YOY).

## Annual forecast

In the area of consolidated net sales, we have adjusted our annual forecast to ¥35,500 million (down ¥2,500 million—or 6.6%—YOY). We have not seen any need to adjust our annual income, given that our cost of sales ratio has improved.

# Pharmaceutical Sales Overview

## Generics, Proprietary Products

(¥mn)

|                         | FY2015        |              |                  | FY2016        |              |               |                        |                   |                      |
|-------------------------|---------------|--------------|------------------|---------------|--------------|---------------|------------------------|-------------------|----------------------|
|                         | 3Q Amount     | Distrib. (%) | Full Year Amount | 3Q Amount     | Distrib. (%) | YOY (%)       | Full Year (Forecast)** | Progress Rate (%) | Original Forecast*** |
| <b>Total</b>            | <b>23,998</b> | <b>100.0</b> | <b>31,937</b>    | <b>23,763</b> | <b>100.0</b> | <b>(1.0)</b>  | <b>31,520</b>          | <b>75.4</b>       | <b>34,180</b>        |
| Generics                | 21,697        | 90.4         | 29,016           | 21,995        | 92.6         | 1.4           | 29,230                 | 75.3              | 31,680               |
| To medical institutions | 20,668        |              | 27,404           | 21,026        |              | 1.7           | 27,840                 | 75.5              | 30,080               |
| To other makers*        | 1,028         |              | 1,612            | 968           |              | (5.8)         | 1,390                  | 69.7              | 1,600                |
| Amlodipine              | 2,400         |              | 3,159            | 2,171         |              | (9.5)         | 2,890                  | 75.1              | 3,060                |
| Lansoprazole            | 1,642         |              | 2,182            | 1,748         |              | 6.4           | 2,310                  | 75.7              | 2,460                |
| Donepezil               | 1,305         |              | 1,712            | 1,280         |              | (1.9)         | 1,670                  | 76.7              | 1,940                |
| Rabeprazole             | 1,318         |              | 1,737            | 1,214         |              | (7.9)         | 1,610                  | 75.4              | 1,740                |
| Limaprost Alfadex       | 1,133         |              | 1,487            | 1,131         |              | (0.2)         | 1,480                  | 76.5              | 1,570                |
| Pravastatine            | 968           |              | 1,260            | 897           |              | (7.3)         | 1,180                  | 76.1              | 1,270                |
| Voglibose               | 770           |              | 1,004            | 738           |              | (4.1)         | 960                    | 76.9              | 1,040                |
| Others                  | 12,159        |              | 16,471           | 12,812        |              | 5.4           | 17,130                 | 74.8              | 18,600               |
| Proprietary products    | <b>2,301</b>  | <b>9.6</b>   | <b>2,920</b>     | <b>1,767</b>  | <b>7.4</b>   | <b>(23.2)</b> | <b>2,290</b>           | <b>77.2</b>       | <b>2,500</b>         |
| Uralyt                  | 1,357         |              | 1,723            | 1,095         |              | (19.3)        | 1,390                  | 78.8              | 1,500                |
| Soleton                 | 745           |              | 928              | 498           |              | (33.1)        | 670                    | 74.5              | 740                  |
| Calvan                  | 198           |              | 268              | 173           |              | (12.4)        | 230                    | 75.5              | 260                  |

## Chemiphar, ODM Generics

(¥mn)

|                | FY2015        |              |                  | FY2016        |              |            |                        |                   |                      |
|----------------|---------------|--------------|------------------|---------------|--------------|------------|------------------------|-------------------|----------------------|
|                | 3Q Amount     | Distrib. (%) | Full Year Amount | 3Q Amount     | Distrib. (%) | YOY (%)    | Full Year (Forecast)** | Progress Rate (%) | Original Forecast*** |
| <b>Total</b>   | <b>22,553</b> | <b>100.0</b> | <b>30,243</b>    | <b>22,928</b> | <b>100.0</b> | <b>1.7</b> | <b>30,510</b>          | <b>75.2</b>       | <b>33,040</b>        |
| Generics       | 21,697        | 96.2         | 29,016           | 21,995        | 95.9         | 1.4        | 29,230                 | 75.3              | 31,680               |
| Generics (ODM) | 856           | 3.8          | 1,226            | 932           | 4.1          | 8.9        | 1,280                  | 72.9              | 1,360                |

\* Includes exports.

\*\* Revised forecast issued on January 31, 2017.

\*\*\* Issued on May 12, 2016.

# Pharmaceutical Sales Overview

## By Launch Year

(¥mn)

| Year              | FY2015        |              | FY2016        |              | YOY (%)    |
|-------------------|---------------|--------------|---------------|--------------|------------|
|                   | 3Q Amount     | Distrib. (%) | 3Q Amount     | Distrib. (%) |            |
| FY2009 and before | 13,440        | 61.9         | 12,956        | 58.9         | (3.6)      |
| FY2010            | 1,960         | 9.0          | 1,848         | 8.4          | (5.7)      |
| FY2011            | 1,744         | 8.0          | 1,782         | 8.1          | 2.2        |
| FY2012            | 1,121         | 5.2          | 1,100         | 5.0          | (1.9)      |
| FY2013            | 2,015         | 9.3          | 2,125         | 9.7          | 5.5        |
| FY2014            | 1,080         | 5.0          | 1,321         | 6.0          | 22.3       |
| FY2015            | 333           | 1.5          | 745           | 3.4          | 123.7      |
| FY2016            | —             | —            | 115           | 0.5          | —          |
| <b>Total</b>      | <b>21,697</b> | <b>100.0</b> | <b>21,995</b> | <b>100.0</b> | <b>1.4</b> |

## By Main Therapeutic Categories

(%)

|  | FY2015<br>3Q | FY2016<br>3Q |
|--|--------------|--------------|
| Cardiovascular and respiratory drugs     | 31.9         | 31.2         |
| Digestive organ drugs                    | 19.4         | 19.6         |
| Agents affecting metabolism              | 16.6         | 16.4         |
| Drugs for nervous system, sensory organs | 11.1         | 9.9          |
| Antibiotics and chemotherapeutic drugs   | 7.1          | 6.7          |
| Antineoplastic agents                    | 2.4          | 3.1          |
| Others                                   | 11.5         | 13.1         |

# Financial Overview

## Balance Sheet Data

(¥mn)

|                            | March 31, 2016 |               | December 31, 2016 |              |
|----------------------------|----------------|---------------|-------------------|--------------|
|                            | Amount         | Amount        | Amount            | Change       |
| <b>Total assets</b>        | <b>43,644</b>  | <b>45,545</b> | <b>45,545</b>     | <b>1,901</b> |
| <b>Net assets</b>          | <b>16,041</b>  | <b>17,045</b> | <b>17,045</b>     | <b>1,003</b> |
| Owned capital              | 16,033         | 17,034        | 17,034            | 1,000        |
| Capital-to-asset ratio (%) | 36.7           | 37.4          | 37.4              | +0.7         |
| <b>Current assets</b>      | <b>27,378</b>  | <b>27,755</b> | <b>27,755</b>     | <b>377</b>   |
| <b>Current liabilities</b> | <b>15,655</b>  | <b>15,146</b> | <b>15,146</b>     | <b>(509)</b> |
| Current ratio (x)          | 1.75           | 1.83          | 1.83              | +0.08        |

## Per Share Information\*

(¥)

|                           | FY2015            |                  | FY2016            |                        |
|---------------------------|-------------------|------------------|-------------------|------------------------|
|                           | 3Q Amount         | Full Year Amount | 3Q Amount         | Full Year (Forecast) * |
| Earnings per share        | 409.66            | 499.12           | 433.41            | 474.79                 |
|                           | December 31, 2015 | March 31, 2016   | December 31, 2016 | Full Year (Forecast) * |
| Book value per share      | 4,194.25          | 4,099.74         | 4,461.44          | —                      |
| Dividends per share       | —                 | 100.00           | —                 | 100.00                 |
| Dividend Payout Ratio (%) | —                 | 20.0             | —                 | 21.1                   |

\* Chemiphar conducted a 10:1 reverse stock split on October 1, 2016. Our earnings per share and dividends per share have been adjusted to reflect this reverse stock split.

# Capital Expenditure

## Capital Expenditure and Other Items

(¥mn)

|                               | FY2015       |                     | FY2016       |            |                         |                  |
|-------------------------------|--------------|---------------------|--------------|------------|-------------------------|------------------|
|                               | 3Q<br>Amount | Full Year<br>Amount | 3Q<br>Amount | YOY<br>(%) | Full Year<br>(Forecast) | Usage<br>Rate(%) |
| Capital expenditure           | 536          | 1,172               | 2,269        | 323.3      | 2,900                   | 78.3             |
| Depreciation and amortization | 873          | 1,178               | 809          | (7.3)      | 1,250                   | 64.7             |

### Capital expenditure

During the second quarter, we added equipment to the third building at the Nihon Pharmaceutical Industry Tsukuba Factory as originally planned. This is in response to the generics demand that has been building over recent years.

Construction of our new local manufacturing plant—Nippon Chemiphar Vietnam Co., Ltd.—is on schedule for completion in March 2017.

#### For further information contact:

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#### 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.

