

FY2017 Second Quarter Business Summary

(Year Ending March 31, 2018)

Income Statement Overview

Income Statement Overview

(¥mn)

	FY2016			FY2017			FY2017				Original Forecast**	
	2Q Amount	Distrib. (%)	Full Year Amount	2Q Amount	Distrib. (%)	YOY (%)	2Q (Forecast)	Progress Rate (%)	Full Year (Forecast*)	Progress Rate (%)	Full Year (Forecast)	Progress Rate (%)
Net Sales	17,515	100.0	35,689	17,512	100.0	(0.0)	18,700	93.6	35,500	49.3	38,000	46.1
Pharmaceuticals	17,022	97.2	34,551	17,097	97.6	0.4	—	—	—	—	—	—
Others	493	2.8	1,137	415	2.4	(15.8)	—	—	—	—	—	—
Cost of sales	9,586	54.7	19,449	9,562	54.6	(0.3)	—	—	—	—	—	—
SG&A expenses	6,606	37.7	13,403	6,970	39.8	5.5	—	—	—	—	—	—
R&D expenses	942	5.4	1,984	1,148	6.6	21.8	—	—	2,200	52.2	2,350	48.9
Operating Income	1,323	7.6	2,836	979	5.6	(26.0)	1,300	75.4	1,800	54.4	2,500	39.2
Income before income taxes and minority interests	1,147	6.6	2,849	1,064	6.1	(7.2)	—	—	—	—	—	—
Net income attributable to owners of the parent	822	4.7	2,054	730	4.2	(11.2)	800	91.3	1,150	63.5	1,550	47.1

* Revised forecast issued on October 31, 2017.

** Original forecast issued on May 12, 2017.

Sales

Substitution rates for generic drugs, mainly for products with large markets, grew closer to the government goal, and so the overall replacement speed has slowed. In addition, due to the rise of authorized generics and increasingly fierce price competition, achieving profitability in this market is becoming more difficult.

Under such circumstances, our generic sales increased 2.6% YOY, which was lower than we had anticipated.

Sales of proprietary products declined 11.7%, trending as we had originally expected, due to the

impact of such factors as the substitution of generic drugs.

Sales of ethical pharmaceuticals were ¥15,667 million (up 1.5% YOY), and sales of pharmaceutical products as a whole were ¥17,097 million (up 0.4% YOY).

As a result of the above factors, consolidated sales including other segments were ¥17,512 million, essentially unchanged YOY.

Operating income

Due to our continuous efforts to switch to high-quality and more competitively priced APIs, our cost of sales

ratio improved 0.1 percentage point YOY, to 54.6%.

On the other hand, the SG&A expense ratio was 39.8%, 2.1 percentage points higher YOY. This rise was mainly due to planned operating expenses, including examination cost leading up to the start of commercial production at the local factory of Nippon Chemiphar Vietnam Co., Ltd., which is scheduled for FY2018, and increased research and development expenses for new and generic drugs.

For the reasons outlined above, operating income was ¥979 million (down 26.0% YOY).

Pharmaceutical Sales Overview

Generics, Proprietary Products

(¥mn)

	FY2016			FY2017			FY2017		Original Forecast***	
	2Q Amount	Distrib. (%)	Full Year Amount	2Q Amount	Distrib. (%)	YOY (%)	Full Year (Forecast**)	Progress Rate (%)	Full Year (Forecast)	Progress Rate (%)
Total	15,437	100.0	31,513	15,667	100.0	1.5	32,000	49.0	34,700	45.2
Generics	14,255	92.3	29,204	14,623	93.3	2.6	30,000	48.7	32,600	44.9
To medical institutions	13,740		27,808	14,149		3.0	29,100	48.6	31,300	45.2
To other makers*	515		1,395	474		(8.0)	900	52.7	1,300	36.5
Amlodipine	1,429		2,865	1,437		0.5	2,900	49.6	3,100	46.4
Lansoprazole	1,158		2,279	1,093		(5.6)	2,100	52.1	2,300	47.6
Donepezil	840		1,642	785		(6.6)	1,600	49.1	1,700	46.2
Rabeprazole	796		1,586	783		(1.7)	1,600	49.0	1,700	46.1
Limaprost Alfadex	756		1,469	727		(3.8)	1,400	52.0	1,500	48.5
Pravastatine	594		1,173	572		(3.7)	1,100	52.1	1,200	47.7
Voglibose	493		957	450		(8.7)	900	50.0	950	47.4
Others	8,184		17,229	8,772		7.2	18,400	47.7	20,150	43.5
Proprietary products	1,181	7.7	2,308	1,043	6.7	(11.7)	2,000	52.2	2,100	49.7
Uralyt	734		1,409	638		(13.1)	1,200	53.2	1,220	52.3
Soleton	343		679	293		(14.4)	600	48.9	670	43.8
Calvan	104		219	111		7.1	200	55.9	210	53.2

Chemiphar, ODM Generics

(¥mn)

	FY2016			FY2017			FY2017		Original Forecast***	
	2Q Amount	Distrib. (%)	Full Year Amount	2Q Amount	Distrib. (%)	YOY (%)	Full Year (Forecast**)	Progress Rate (%)	Full Year (Forecast)	Progress Rate (%)
Total	14,922	100.0	30,445	15,163	100.0	1.6	31,400	48.3	34,000	44.6
Generics	14,255	95.5	29,204	14,623	96.4	2.6	30,000	48.7	32,600	44.9
Generics (ODM)	667	4.5	1,240	539	3.6	(19.2)	1,400	38.5	1,400	38.5

* Includes exports.

** Revised forecast issued on October 31, 2017.

*** Original forecast issued on May 12, 2017.

Pharmaceutical Sales Overview

By Launch Year

(¥mn)

Year	FY2016		FY2017		YOY (%)
	2Q Amount	Distrib. (%)	2Q Amount	Distrib. (%)	
FY2010 and before	9,667	67.8	9,501	65.0	(1.7)
FY2011	1,181	8.3	1,087	7.4	(7.9)
FY2012	725	5.1	672	4.6	(7.3)
FY2013	1,354	9.5	1,482	10.1	9.4
FY2014	830	5.8	949	6.5	14.4
FY2015	458	3.2	598	4.1	30.5
FY2016	37	0.3	192	1.3	×5
FY2017	—	—	140	1.0	—
Total	14,255	100.0	14,623	100.0	2.6

By Main Therapeutic Categories

(%)

	FY2016 2Q	FY2017 2Q
Cardiovascular and respiratory drugs	31.4	32.0
Digestive organ drugs	20.3	18.7
Agents affecting metabolism	16.4	17.0
Drugs for nervous system, sensory organs	10.2	9.2
Antibiotics and chemotherapeutic drugs	6.6	6.1
Antineoplastic agents	3.1	3.6
Others	12.0	13.4

Balance Sheet, Per Share Information

Balance Sheet Data

(¥mn)

	March 31, 2017		September 30, 2017	
	Amount	Amount	Amount	Change
Total assets	47,002	46,160	(841)	
Net assets	17,355	16,968	(387)	
Owned capital	17,346	16,957	(389)	
Capital-to-asset ratio (%)	36.9	36.7	(0.2)	
Current assets	29,009	27,602	(1,406)	
Current liabilities	14,939	14,548	(390)	
Current ratio (x)	1.94	1.90	(0.04)	

Per Share Information

(¥)

	FY2016		FY2017		
	2Q Amount	Full Year Amount	2Q Amount	YOY (Amount)	Full Year (Forecast*)
Earnings per share	210.37	530.02	194.80	(15.57)	306.73
	Sept. 30, 2016	March 31, 2017	Sept. 30, 2017		Full Year (Forecast)
Book value per share	4,193.10	4,548.80	4,683.32	—	—
Dividends per share	0.00	100.00	0.00	—	100.00
Dividend Payout Ratio (%)	—	18.9	—	—	32.6

*Revised forecast issued on October 31, 2017.

Cash Flow, Capital Expenditure and Other

Cash Flow Statements

(¥mn)

	FY2016 2Q Amount	FY2017 2Q Amount
Cash flow from:		
Operating activities	1,113	1,295
Investing activities	(1,392)	(1,064)
Financing activities	171	(1,097)
Cash and cash equivalents	6,956	7,213
Free cash flow	(279)	230

Revised Forecast

Due to changes in the operating environment and intensified competition in the market for generic drugs, consolidated sales progressed more slowly against our full-year forecasts than we had anticipated. We expect this harsh business environment to continue.

Meanwhile, following the completion of construction at our Vietnam factory in this September, preparations for the commencement of commercial production in this factory, and research and development in both new and generic drugs are progressing steadily. Therefore, we expect to incur upfront investment costs as originally planned.

For these reasons, we have revised our full-year forecasts for sales and individual profit categories.

Capital Expenditure and Other

(¥mn)

	FY2016		FY2017			
	2Q Amount	Full Year Amount	2Q Amount	YOY (%)	Full Year (Forecast*)	Usage Rate(%)
Capital expenditure	1,184	2,928	1,196	1.1	1,650	72.5
Depreciation and amortization	521	1,112	554	6.3	1,250	44.4

* Revised forecast issued on October 31, 2017.

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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.

