

# **FY2017 Business Summary**

(Year Ended March 31, 2018)

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# **I. FY2017 Business Results**

# Sales, Income

	FY2016		FY2017				(¥mm)	
	Amount	% of Sales	Amount	% of Sales	YOY (%)	Forecast*	Achieved (%)	
<b>Net Sales</b>	<b>35,689</b>	<b>100.0</b>	<b>35,331</b>	<b>100.0</b>	<b>(1.0)</b>	<b>35,500</b>	<b>99.5</b>	
Pharmaceuticals	34,551	96.8	34,279	97.0	<b>(0.8)</b>	—	—	
Others	1,137	3.2	1,051	3.0	<b>(7.6)</b>	—	—	
Cost of sales	19,449	54.5	19,535	55.3	<b>0.4</b>	—	—	
SG&A expenses	13,403	37.6	13,947	39.5	<b>4.1</b>	—	—	
R&D expenses	1,984	5.6	2,280	6.5	<b>15.0</b>	2,200	103.7	
<b>Operating income</b>	<b>2,836</b>	<b>7.9</b>	<b>1,848</b>	<b>5.2</b>	<b>(34.8)</b>	<b>1,800</b>	<b>102.7</b>	
<b>Income before income taxes and minority interests</b>	<b>2,849</b>	<b>8.0</b>	<b>1,777</b>	<b>5.0</b>	<b>(37.6)</b>	—	—	
<b>Net income attributable to owners of the parent</b>	<b>2,054</b>	<b>5.8</b>	<b>1,160</b>	<b>3.3</b>	<b>(43.5)</b>	<b>1,150</b>	<b>100.9</b>	

\* Revised forecast issued on October 31, 2017.

## Sales

For generic drugs, the overall speed of replacement has slowed as substitution rates centered on products with large markets neared government targets. In addition, due to the rise of authorized generics and increasingly fierce price competition, profits in this market are being squeezed. For Nippon Chemiphar, sales to other makers did not grow as expected because orders from our existing business partners were not as large as anticipated. On the other hand, sales to medical institutions increased 4.9% YOY due to newly launched products and the expansion of sales channels mainly by our subsidiary. As a result, our generic sales increased 3.1% YOY.

Although sales of proprietary products declined 11.7%, the results were in line with our forecasts, which included factors such as the impact of substitutions for generic drugs.

For the above reasons, our sales of ethical pharmaceuticals were ¥32,153 million (up 2.0% YOY), and total sales of pharmaceutical products, including businesses such as diagnostics, were ¥34,279 million (down 0.8% YOY).

As a result, consolidated sales including other segments were ¥ 35,331 million (down 1.0% YOY).

## Operating income

During FY2017, the cost of sales ratio rose 0.8 percentage points YOY due to factors including adjusted production volumes of products manufactured within the Nippon Chemiphar Group. In addition, SG&A expenses ratio rose 1.9 percentage points YOY to 39.5%. This was due mainly to an increase in upfront strategic expenses, such as trial costs ahead of the commencement of commercial production at the Vietnam factory (scheduled for the second half of FY 2018), as well as increased research and development expenses for new and generic drugs. As a result, operating income was ¥ 1,848 million (down 34.8% YOY).



# Pharmaceutical Sales

## Generics, Proprietary Products

(¥mn)

	FY2016		FY2017				
	Amount	Distrib. (%)	Amount	Distrib. (%)	YOY (%)	Forecast**	Achieved (%)
<b>Total</b>	<b>31,513</b>	<b>100.0</b>	<b>32,153</b>	<b>100.0</b>	<b>2.0</b>	<b>32,000</b>	<b>100.5</b>
<b>Generics</b>	<b>29,204</b>	<b>92.7</b>	<b>30,115</b>	<b>93.7</b>	<b>3.1</b>	<b>30,000</b>	<b>100.4</b>
To medical institutions	27,808		29,174		4.9	29,100	100.3
To other makers*	1,395		941		(32.6)	900	104.6
Amlodipine	2,865		2,940		2.6	2,900	101.4
Lansoprazole	2,279		2,163		(5.1)	2,100	103.0
Donepezil	1,642		1,557		(5.2)	1,600	97.3
Rabeprazole	1,586		1,558		(1.8)	1,600	97.4
Limaprost Alfadex	1,469		1,427		(2.8)	1,400	102.0
Pravastatine	1,173		1,147		(2.2)	1,100	104.3
Voglibose	957		870		(9.1)	900	96.7
Others	17,229		18,449		7.1	18,400	100.3
<b>Proprietary products</b>	<b>2,308</b>	<b>7.3</b>	<b>2,038</b>	<b>6.3</b>	<b>(11.7)</b>	<b>2,000</b>	<b>101.9</b>
Uralyt	1,409		1,225		(13.1)	1,200	102.1
Soleton	679		598		(12.0)	600	99.7
Calvan	219		214		(2.1)	200	107.4

## Chemiphar, ODM Generics

(¥mn)

	FY2016		FY2017				
	Amount	Distrib. (%)	Amount	Distrib. (%)	YOY (%)	Forecast**	Achieved (%)
<b>Total</b>	<b>30,445</b>	<b>100.0</b>	<b>31,100</b>	<b>100.0</b>	<b>2.2</b>	<b>31,400</b>	<b>99.0</b>
Generics	29,204	95.9	30,115	96.8	3.1	30,000	100.4
Generics (ODM)	1,240	4.1	985	3.2	(20.6)	1,400	70.4

\* Includes exports.

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

# Sales Distribution

## By Launch Year (¥mn)

Fiscal Year	FY2016		FY2017		YOY (%)
	Amount	Distrib. (%)	Amount	Distrib. (%)	
2010 and before	19,487	66.7	19,194	63.7	(1.5)
2011	2,348	8.0	2,210	7.3	(5.9)
2012	1,484	5.1	1,404	4.7	(5.4)
2013	2,917	10.0	3,127	10.4	7.2
2014	1,746	6.0	1,937	6.4	11.0
2015	1,001	3.4	1,222	4.1	22.1
2016	219	0.8	459	1.5	109.1
2017	—	—	558	1.9	—
<b>Total</b>	<b>29,204</b>	<b>100.0</b>	<b>30,115</b>	<b>100.0</b>	<b>3.1</b>

## By Main Therapeutic Categories (%)

	FY2016	FY2017
Cardiovascular and respiratory drugs	30.9	32.0
Digestive organ drugs	19.6	18.3
Agents affecting metabolism	16.4	16.5
Drugs for nervous system, sensory organs	9.9	9.1
Antibiotics and chemotherapeutic drugs	6.5	6.2
Antineoplastic agents	3.2	3.4
Others	13.5	14.5

# Balance Sheet, per Share Information

Balance Sheet Data		(¥mn)	
	March 31, 2017	March 31, 2018	
	Amount	Amount	Change
<b>Total assets</b>	<b>47,002</b>	<b>46,814</b>	<b>(187)</b>
Return on assets (%)	6.3	3.6	(2.7)
<b>Net assets</b>	<b>17,355</b>	<b>17,487</b>	<b>132</b>
Owned capital	17,346	17,474	127
Capital-to-asset ratio (%)	36.9	37.3	0.4
Return on equity (%)	12.3	6.7	(5.6)
<b>Current assets</b>	<b>29,009</b>	<b>28,334</b>	<b>(674)</b>
<b>Current liabilities</b>	<b>14,939</b>	<b>14,914</b>	<b>(25)</b>
Current ratio (x)	1.94	1.9	(0.04)

Per Share Information		(¥)		
	FY2016	FY2017		
	Amount	Amount	Change	Forecast*
Earnings per share	530.02	315.28	(214.74)	306.73
Book value per share	4,548.80	4,859.86	311.06	—
Dividend per share	100.00	100.00	—	100.00
Dividend payout ratio (%)	18.9	31.7	—	32.6

\* Revised forecast issued on October 31, 2017.

# Cash Flow, Expenditure

<b>Cash Flow Statements</b>		(¥mn)	
	<b>FY2016</b>	<b>FY2017</b>	
	<b>Amount</b>	<b>Amount</b>	
Net cash:			
Provided by operating activities	2,737	3,188	
Used in investing activities	(2,504)	(1,606)	
Provided by (Used in) financing activities	787	(1,741)	
Cash and cash equivalents	8,084	7,890	
Free cash flow	232	1,582	

<b>Capital Expenditure and Other</b>		(¥mn)			
<b>Items</b>	<b>FY2016</b>	<b>FY2017</b>			<b>Usage Rate (%)</b>
	<b>Amount</b>	<b>Amount</b>	<b>YOY (%)</b>	<b>Forecast*</b>	
Capital expenditure	2,928	1,645	(43.8)	1,650	99.7
Depreciation and amortization	1,112	1,192	7.2	1,250	95.4

\* Revised forecast issued on October 31, 2017.



## **II. FY2018 Forecasts**

# Sales, Income

(¥mn)

	FY2017		FY2018 (Forecast)		
	Amount	% of Sales	Amount	% of Sales	YOY (%)
<b>Net Sales</b>	<b>35,331</b>	<b>100.0</b>	<b>35,500</b>	<b>100.0</b>	<b>0.5</b>
Pharmaceuticals	34,279	97.0	—	—	—
Others	1,051	3.0	—	—	—
Cost of sales	19,535	55.3	—	—	—
SG&A expenses	13,947	39.5	—	—	—
R&D expenses	2,280	6.5	2,700	7.6	18.4
<b>Operating income</b>	<b>1,848</b>	<b>5.2</b>	<b>1,100</b>	<b>3.1</b>	<b>(40.5)</b>
<b>Income before income taxes and minority interests</b>	<b>1,777</b>	<b>5.0</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net income attributable to owners of the parent</b>	<b>1,160</b>	<b>3.3</b>	<b>500</b>	<b>1.4</b>	<b>(56.9)</b>

## Annual Forecast

Sales and profit in FY2018 will be impacted by NHI drug price revisions. On the other hand, however, due to our focus on newly launched products and expansion of new sales channels, sales of generic drugs are expected to be nearly flat compared to the previous fiscal year. As a result, consolidated net sales, including other businesses such as contracted testing business, are projected to be ¥35,500 million (up 0.5% YOY).

Regarding profits, due to increased development costs as the progress in new drug development and continued strategic expenses such as trial costs leading up to the commencement of commercial production at the Vietnam factory, operating income is forecast at ¥1,100 million (down 40.5% YOY), and net income attributable to owners of the parent is expected to be ¥500 million (down 56.9% YOY).

# Pharmaceutical Sales

Generics, Proprietary Products		(¥mn)	
	FY2017 Amount	FY2018 (Forecast) Amount	YOY (%)
<b>Total</b>	<b>32,153</b>	<b>31,800</b>	<b>(1.1)</b>
<b>Generics</b>	<b>30,115</b>	<b>30,150</b>	<b>0.1</b>
To medical institutions	29,174	29,250	0.3
To other makers	941	900	(4.4)
Amlodipine	2,940	2,900	(1.4)
Lansoprazole	2,163	1,900	(12.2)
Donepezil	1,557	1,350	(13.3)
Rabeprazole	1,558	1,350	(13.4)
Limaprost Alfadex	1,427	1,350	(5.5)
Pravastatine	1,147	1,100	(4.1)
Voglibose	870	750	(13.9)
Others	18,449	19,450	5.4
<b>Proprietary products</b>	<b>2,038</b>	<b>1,650</b>	<b>(19.0)</b>
Uralyt	1,225	1,070	(12.7)
Soleton	598	400	(33.1)
Calvan	214	180	(16.2)

Chemiphar, ODM Generics		(¥mn)	
	FY2017 Amount	FY2018 (Forecast) Amount	YOY (%)
<b>Total</b>	<b>31,100</b>	<b>31,350</b>	<b>0.8</b>
Generics	30,115	30,150	0.1
Generics (ODM)	985	1,200	21.8

# Per Share Information, Expenditure

## Per Share Information

(¥)

	FY2017	FY2018 (Forecast)	
	Amount	Amount	YOY (%)
Earnings per share	315.28	135.84	(56.9)
Book value per share	4,859.86	—	—
Dividends per share	100.00	75.00	—
Dividend payout ratio (%)	31.7	55.2	—

## Capital Expenditure and Other

(¥mn)

	FY2017	FY2018 (Forecast)	
	Amount	Amount	Change
Capital expenditure	1,645	950	(695)
Depreciation and amortization	1,192	1,350	157

## Dividend Forecast

As mentioned above, we are forecasting a decline in profit in FY2018 due to the influence of NHI drug price revisions, ongoing strategic spending including new drug development expenses and start-up expenses at the Vietnam factory. Thus, we expect to pay a dividend per share of 75 yen (down 25 yen per share YOY) with a payout ratio of 55.2%.

### 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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