



Nippon Chemiphar Co., Ltd.

(TSE 4539)

# **FY2018 Business Summary**

(Year Ended March 31, 2019)



Chemiphar

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# **I. FY2018 Business Results**

# Sales, Income

(¥mm)

	FY2017		FY2018				
	Amount	% of Sales	Amount	% of Sales	YOY (%)	Forecast*	Achieved (%)
<b>Net Sales</b>	<b>35,331</b>	<b>100.0</b>	<b>34,182</b>	<b>100.0</b>	<b>(3.3)</b>	<b>34,200</b>	<b>99.9</b>
Pharmaceuticals	34,279	97.0	32,682	95.6	(4.7)	—	—
Others	1,051	3.0	1,500	4.4	42.7	—	—
Cost of sales	19,535	55.3	19,654	57.5	0.6	—	—
SG&A expenses	13,947	39.5	13,063	38.2	(6.3)	—	—
R&D expenses	2,280	6.5	2,066	6.0	(9.4)	2,100	98.4
<b>Operating Income</b>	<b>1,848</b>	<b>5.2</b>	<b>1,464</b>	<b>4.3</b>	<b>(20.8)</b>	<b>1,460</b>	<b>100.3</b>
<b>Income before income taxes and minority interests</b>	<b>1,777</b>	<b>5.0</b>	<b>1,454</b>	<b>4.3</b>	<b>(18.2)</b>	—	—
<b>Net income attributable to owners of the parent</b>	<b>1,160</b>	<b>3.3</b>	<b>881</b>	<b>2.6</b>	<b>(24.1)</b>	<b>880</b>	<b>100.1</b>

\*Revised forecast issued on May 7, 2019.

## Sales

Despite the Nippon Chemiphar Group's efforts to increase sales by promoting the diversification of sales channels, generics sales were down 6.2% year on year due to the impact of NHI drug price reductions and slowing growth in the quantity of existing products in the wake of a rising substitution rate for generics. Sales of proprietary products, including new drugs that we launched in February 2019, declined 23.5% year on year, mostly in line with our forecasts. This decrease was due to the influence of replacement by generic drugs, in addition to the impact of NHI drug price reductions.

For these reasons, sales of ethical pharmaceuticals were ¥29,798 million (down 7.3% YOY) and total sales of pharmaceutical products were ¥32,682 million (down 4.7% YOY).

As a result, consolidated sales, including other segments, were ¥34,182 million (down 3.3% YOY).

## Operating income

Regarding the sales cost ratio, the impact of NHI drug price reductions led to an increase of 2.2 percentage points year on year. On the other hand, due to our efforts to promote the effective use of expenses associated with the development of new and generic drugs and reduce other recurring costs, the SG&A expense ratio became 38.2%, a decrease of 1.3 percentage points year on year. Consequently, operating income amounted to ¥1,464 million (down 20.8% YOY).

# Pharmaceutical Sales

## Generics, Proprietary Products (¥mm)

	FY2017		FY2018		YOY (%)	Forecast **	Achieved (%)
	Amount	Distrib. (%)	Amount	Distrib. (%)			
<b>Total</b>	<b>32,153</b>	<b>100.0</b>	<b>29,798</b>	<b>100.0</b>	<b>(7.3)</b>	<b>30,470</b>	<b>97.8</b>
<b>Generics</b>	<b>30,115</b>	<b>93.7</b>	<b>28,238</b>	<b>94.8</b>	<b>(6.2)</b>	<b>28,900</b>	<b>97.7</b>
To medical institutions	29,174		27,156		(6.9)	28,000	97.0
To other manufacturer*	941		1,082		15.0	900	120.3
Amlodipine	2,940		2,890		(1.7)	2,850	101.4
Lansoprazole	2,163		1,629		(24.7)	1,850	88.1
Donepezil	1,557		1,187		(23.7)	1,250	95.0
Rabeprazole	1,558		1,370		(12.1)	1,350	101.5
Limaprost Alfadex	1,427		1,197		(16.2)	1,250	95.8
Others	20,467		19,963		(2.5)	20,350	98.1
<b>Proprietary products and new drugs</b>	<b>2,038</b>	<b>6.3</b>	<b>1,560</b>	<b>5.2</b>	<b>(23.5)</b>	<b>1,570</b>	<b>99.4</b>
Uralyt	1,225		983		(19.8)	990	99.3
Others	812		577		(29.0)	580	99.5

## Chemiphar, ODM Generics (¥mm)

	FY2017		FY2018		YOY (%)	Forecast **	Achieved (%)
	Amount	Distrib. (%)	Amount	Distrib. (%)			
<b>Total</b>	<b>31,100</b>	<b>100.0</b>	<b>29,244</b>	<b>100.0</b>	<b>(6.0)</b>	<b>30,100</b>	<b>97.2</b>
Generics	30,115	96.8	28,238	96.6	(6.2)	28,900	97.7
Generics (ODM)	985	3.2	1,005	3.4	2.1	1,200	83.8

\* Includes exports..

\*\*Revised forecast issued on October 31, 2018.

# Sales Distribution

**By Launch Year** (¥mn)

	FY2017		FY2018		YOY (%)
	Amount	Distrib. (%)	Amount	Distrib. (%)	
FY2011 and before	21,405	71.1	18,626	66.0	(13.0)
FY2012	1,404	4.7	1,254	4.4	(10.7)
FY2013	3,127	10.4	3,044	10.8	(2.7)
FY2014	1,937	6.4	1,802	6.4	(7.0)
FY2015	1,222	4.1	1,161	4.1	(5.0)
FY2016	459	1.5	595	2.1	29.7
FY2017	558	1.9	1,362	4.8	144.0
FY2018	—	—	392	1.4	—
<b>Total</b>	<b>30,115</b>	<b>100.0</b>	<b>28,238</b>	<b>100.0</b>	<b>(6.2)</b>

**By Main Therapeutic Categories** (%)

	FY2017	FY2018
Cardiovascular and respiratory drugs	32.0	33.0
Digestive organ drugs	18.3	17.1
Agents affecting metabolism	16.5	16.0
Drugs for nervous system, sensory organs	9.1	8.4
Antibiotics and chemotherapeutic drugs	6.2	5.1
Antineoplastic agents	3.4	3.3
Others	14.5	17.1

# Balance Sheet, Per Share Information

## Balance Sheet Data

(¥mn)

	March 31,2018	March 31,2019	
	Amount*	Amount	Change
<b>Total assets</b>	<b>46,698</b>	<b>46,926</b>	<b>227</b>
Return on assets (%)	3.6	3.2	(0.4)
<b>Net assets</b>	<b>17,487</b>	<b>17,863</b>	<b>375</b>
Owned capital	17,474	17,843	369
Capital-to-asset ratio (%)	37.4	38.0	0.6
Return on equity (%)	6.7	5.0	(1.7)
<b>Current assets</b>	<b>27,771</b>	<b>28,668</b>	<b>897</b>
<b>Current liabilities</b>	<b>14,914</b>	<b>13,825</b>	<b>(1,088)</b>
Current ratio (x)	1.86	2.07	0.21

\*We have applied “ASBJ Statement No. 28 Partial Amendments to Accounting Standard for Tax Effect Accounting” (issued on February 16, 2018), from the beginning of the first quarter of the current consolidated fiscal year (FY2018). Accordingly, figures from the previous consolidated fiscal year (FY2017) shown here reflect the retroactive application of the accounting standard.

## Per Share Information

(¥)

	FY2017	FY2018		
	Amount	Amount	Change	Forecast
Earnings per share	315.28	245.11	(70.17)	139.06
Book value per share	4,859.86	4,963.24	103.38	—
Dividend per share	100.00	100.00	—	75.00
Dividend payout ratio (%)	31.7	40.8	—	53.9

## Revised Dividend Forecast

Concerning dividends in FY2018, we initially expected to pay a dividend per share of 75.0 yen. However, we have decided to pay a higher dividend per share of 100.0 yen (with a payout ratio of 40.8%), equivalent to the dividend per share paid in FY2017. This decision was made out of consideration for shareholder return, based on profits that exceeded forecasts thanks to our promotion of efficient use of R&D and other expenses.

# Cash Flow, Expenditure

## Cash Flow Statement

	(¥mn)	
	FY2017 Amount	FY2018 Amount
Net cash:		
Provided by operating activities	3,188	2,196
Used in investing activities	(1,606)	(960)
Provided by (Used in) financing activities	(1,741)	110
Cash and cash equivalents	7,890	9,254
Free cash flow	1,582	1,235

## Capital Expenditure and Other

	(¥mn)				
	FY2017	FY2018			Usage
	Amount	Amount	YOY (%)	Forecast	Rate (%)
Capital expenditure	1,645	784	(52.3)	950	82.6
Depreciation and amortization	1,192	1,345	12.8	1,350	99.7



## **II. FY2019 Forecasts**

# Sales, Income

(¥mm)

	FY2018		FY2019 (Forecast)		
	Amount	% of Sales	Amount	% of Sales	YOY (%)
<b>Net Sales</b>	<b>34,182</b>	<b>100.0</b>	<b>34,200</b>	<b>100.0</b>	<b>0.1</b>
Pharmaceuticals	32,682	95.6	—	—	—
Others	1,500	4.4	—	—	—
Cost of sales	19,654	57.5	—	—	—
SG&A expenses	13,063	38.2	—	—	—
R&D expenses	2,066	6.0	2,400	7.0	16.1
<b>Operating income</b>	<b>1,464</b>	<b>4.3</b>	<b>800</b>	<b>2.3</b>	<b>(45.4)</b>
<b>Income before income taxes and minority interests</b>	<b>1,454</b>	<b>4.3</b>	—	—	—
<b>Net income attributable to owners of the parent</b>	<b>881</b>	<b>2.6</b>	<b>500</b>	<b>1.5</b>	<b>(43.3)</b>

## Annual Forecast

Despite the eventual impact of NHI drug price revisions in October 2019, we expect ¥34,200 million (up 0.1% YOY) in consolidated net sales in FY2019, thanks to expanded sales of newly launched generic drugs and new drugs we introduced during the previous fiscal year.

Regarding profits, operating income is forecast at ¥800 million (down 45.4% YOY) and net income attributable to owners of parent is expected to be ¥500 million (down 43.3% YOY). These projections are the anticipated result of a decline in gross profit caused by NHI drug price revisions and strategic expenditures such as R&D expenses and promotion costs for new drugs.

# Pharmaceutical Sales

Generics, Proprietary Products		(¥mn)	
	FY2018 Amount	FY2019 (Forecast) Amount	YOY (%)
<b>Total</b>	<b>29,798</b>	<b>29,550</b>	<b>(0.8)</b>
<b>Generics</b>	<b>28,238</b>	<b>28,050</b>	<b>(0.7)</b>
To medical institutions	27,156	27,130	(0.1)
To other makers	1,082	920	(15.0)
Amlodipine	2,890	2,770	(4.2)
Lansoprazole	1,629	1,220	(25.1)
Donepezil	1,187	1,140	(4.0)
Rabeprazole	1,370	1,400	2.1
Limaprost Alfadex	1,197	1,170	(2.3)
Others	19,963	20,350	1.9
<b>Proprietary products and new drugs</b>	<b>1,560</b>	<b>1,500</b>	<b>(3.9)</b>
Uralyt	983	850	(13.5)
Others	577	650	12.6

Chemiphar, ODM Generics		(¥mn)	
	FY2018 Amount	FY2019 (Forecast) Amount	YOY (%)
<b>Total</b>	<b>29,244</b>	<b>28,900</b>	<b>(1.2)</b>
Generics	28,238	28,050	(0.7)
Generics (ODM)	1,005	850	(15.5)

# Per Share Information, Expenditure

Per Share Information		(¥)	
	FY2018 Amount	FY2019(Forecast) Amount	YOY (%)
Earnings per share	245.11	139.07	(43.3)
Book value per share	4,963.24	—	—
Dividends per share	100.00	75.00	—
Dividend payout ratio(%)	40.8	53.9	—

Capital Expenditure and Other		(¥mn)	
	FY2018 Amount	FY2019(Forecast) Amount	Change
Capital expenditure	784	950	165
Depreciation and amortization	1,345	1,400	54

## Dividend Forecast

As mentioned above, we are forecasting a decline in profit in FY2019 due to an increase in strategic investments. Under such situation, based on our policy of securing strategic investment funds and maintaining shareholder return, we expect to pay a dividend per share of 75.0 yen (with a payout ratio of 53.9%).

## 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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