



Nippon Chemiphar Co., Ltd.

(TSE 4539)

Highlights of Second Quarter FY2020 Business Results

(Year ending March 31, 2021)

Contents

I. Summary of Results	3
II. FY2020 Forecasts	9
III. Management Strategy.....	12

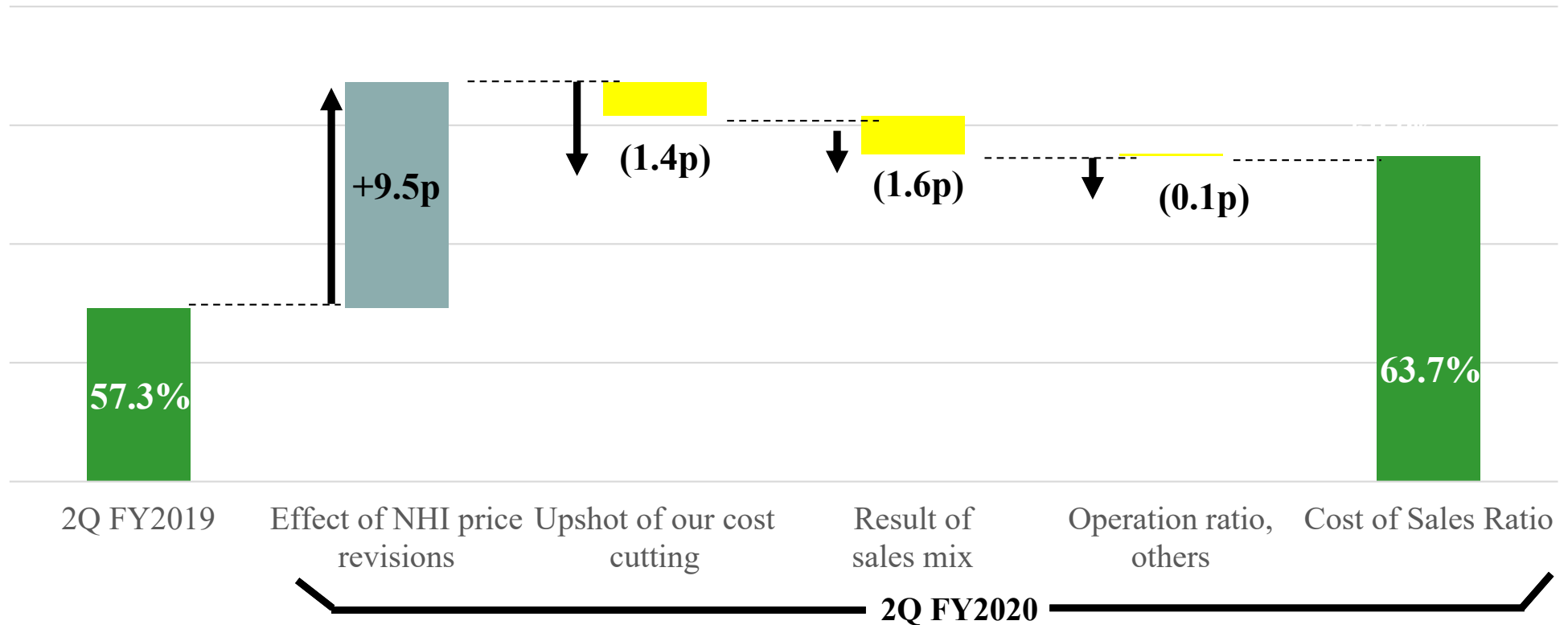
I. Summary of Results

Sales, Income

(¥mn)

	2Q FY2019		2Q FY2020				2Q FY2020 (Forecast)	
	Amount	% of Sales	Amount	% of Sales	Amount	Change (%)	Amount	Achieved (%)
Net sales	16,097	100	14,832	100.0	(1,265)	(7.9)	33,000	44.9
Pharmaceuticals	15,745	97.8	14,569	98.2	(1,176)	(7.5)	—	—
Others	351	2.2	262	1.8	(89)	(25.3)	—	—
Cost of sales	9,219	57.3	9,446	63.7	226	2.5	—	—
				6.4p				
SG&A expenses	6,257	38.9	5,575	37.6	(682)	(10.9)	—	—
				(1.3p)				
Operating income/loss	619	3.9	(189)	—	(809)	—	600	—
Income/loss before income taxes and minority interests	513	3.2	(346)	—	(860)	—	—	—
Net income/loss attributable to owners of the parent	326	2.0	(257)	—	(583)	—	300	—

Reason for Rising Cost of Sales Ratio



- Up 9.5 percentage points on NHI price revisions in October 2019 and April 2020.
- Reducing manufacturing costs: Changing to high quality and inexpensive APIs, reducing the cost of products purchased.
- Sales mix: Increasing in ratio of high-profit products.

We expect percentage-point rising in cost of sales ratio will be down by the third quarter thanks to sales of new product which we launched this year.

Pharmaceutical Sales

(¥mn)

	2Q FY2019		2Q FY2020		YOY (%)
	Amount	% of Sales	Amount	% of Sales	
Total (① + ②)	14,295	100.0	13,059	100.0	(8.6)
① Generics	13,610	95.2	12,284	94.1	(9.7)
To medical institutions	13,135		11,810		(10.1)
To other makers*	474		474		(0.2)
Amlodipine	1,415		1,198		(15.3)
Lansoprazole	621		496		(20.1)
Donepezil	555		416		(25.0)
Rabeprazole	687		698		1.7
Limaprost Alfadex	510		389		(23.6)
Others	9,820		9,085		(7.5)
② Proprietary products and new drugs	685	4.8	775	5.9	13.1
Uralyt	425		377		(11.1)
Others	260		397		52.6
Total (① + ③)	14,154	—	12,953	—	(8.5)
③ Generics (ODM)	543	—	668	—	23.0

* Includes exports

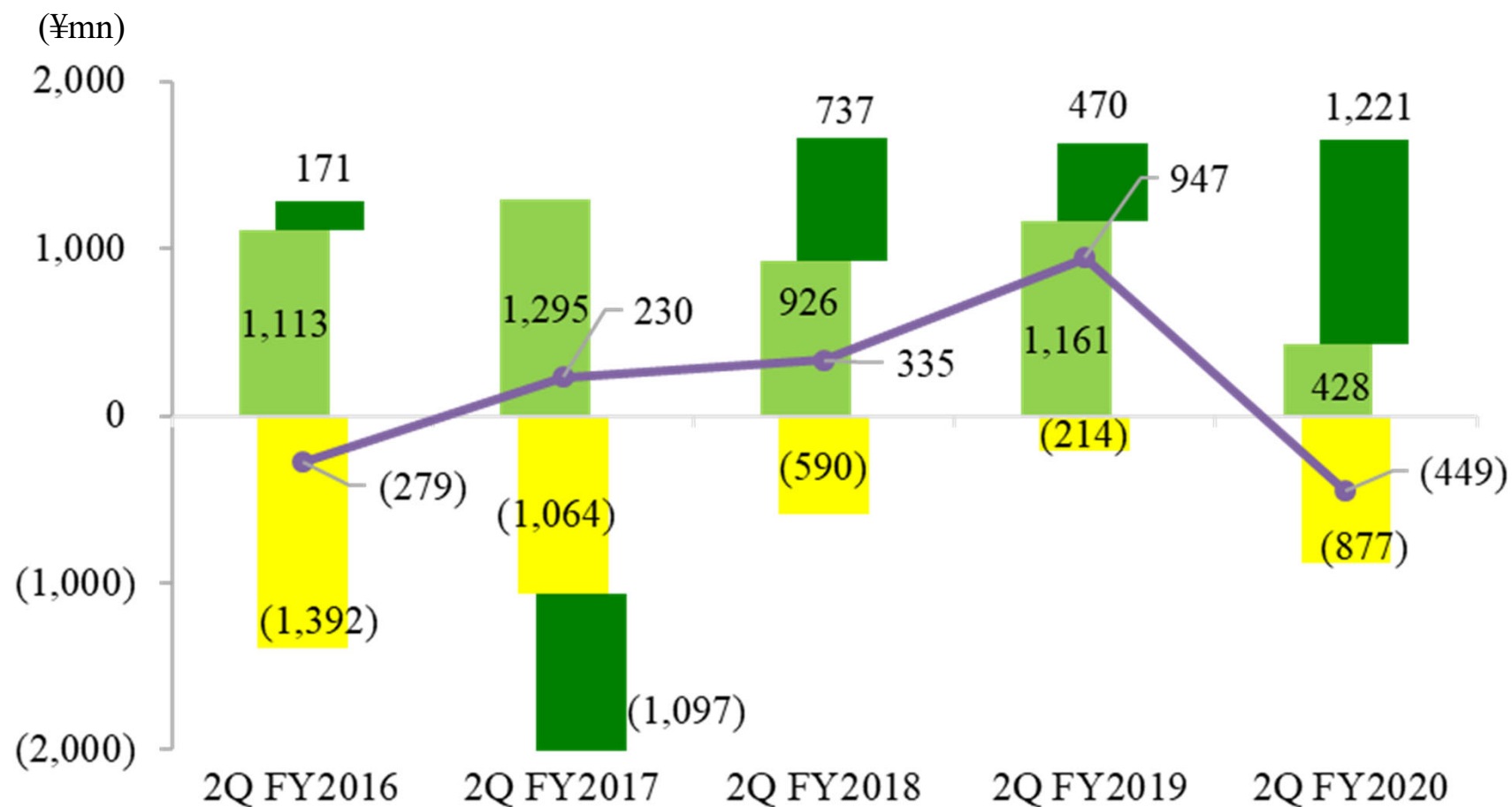
Balance Sheet

(¥mn)

	March 31, 2020	September 30, 2020	Change	Components	
Current assets	29,314	29,859	545	Cash, deposits	770
				Notes, accounts receivable-trade	(394)
				Inventories	325
Non-current assets	16,547	17,072	525	Buildings and structures	(208)
				Intangible assets	1,039
				Investments in securities	233
Total assets	45,862	46,933	1,070		
Liabilities	28,470	29,846	1,376	Notes, accounts payable-trade	(320)
				Loans payable	1,458
				Accrued expenses	(41)
Net assets	17,392	17,087	(305)		
Liabilities, net assets	45,862	46,933	1,070		

	March 31, 2020	September 30, 2020	Change
Current ratio (x)	2.13	2.14	0.01
Capital-to-asset ratio (%)	37.9	36.4	(1.5)

Cash Flow



Operational cash flow
Financing cash flow

Investment cash flow
Free cash flow

II. FY2020 Forecasts

Sales, Income

(¥mn)

	FY2019 Amount	2Q Amount	FY2020		Initial Forecast**
			Revised Forecast*	Progress Rate (%)	
Net sales	31,756	14,832	31,000	47.8	33,000
Pharmaceuticals	27,792	13,059	27,040	48.3	28,700
Generics	26,429	12,284	25,190	48.8	26,590
Proprietary products and new drugs	1,362	775	1,850	41.9	2,110
Operating income/loss	364	(189)	200	—	600
Income/loss before income taxes and minority interests	307	(245)	100	—	500
Net income attributable to owners of the parent	436	(257)	50	—	300

* Issued on October 30, 2020

** Issued on May 18, 2020

Pharmaceutical Sales

(¥mn)

	2Q Amount	FY2020 Revised Forecast**	Progress Rate (%)	Initial Forecast***
Total (① + ②)	13,059	27,040	48.3%	28,700
① Generics	12,284	25,190	48.8%	26,590
To medical institutions	11,810	24,200	48.8%	25,630
To other makers*	474	990	47.9%	960
Amlodipine	1,198	2,370	50.6%	2,440
Lansoprazole	496	990	50.1%	990
Donepezil	416	850	49.0%	980
Rabeprazole	698	1,360	51.4%	1,420
Limaprost Alfadex	389	740	52.7%	770
Others	9,085	18,880	48.1%	19,990
② Proprietary products and new drugs	775	1,850	41.9%	2,110
Uralyt	377	740	51.1%	730
Others	397	1,110	35.8%	1,380
Total (① + ③)	12,953	26,290	49.3%	27,690
③ Generics (ODM)	668	1,100	60.8%	1,100

* Includes exports

** Issued on October 30, 2020

*** Issued on May 18, 2020

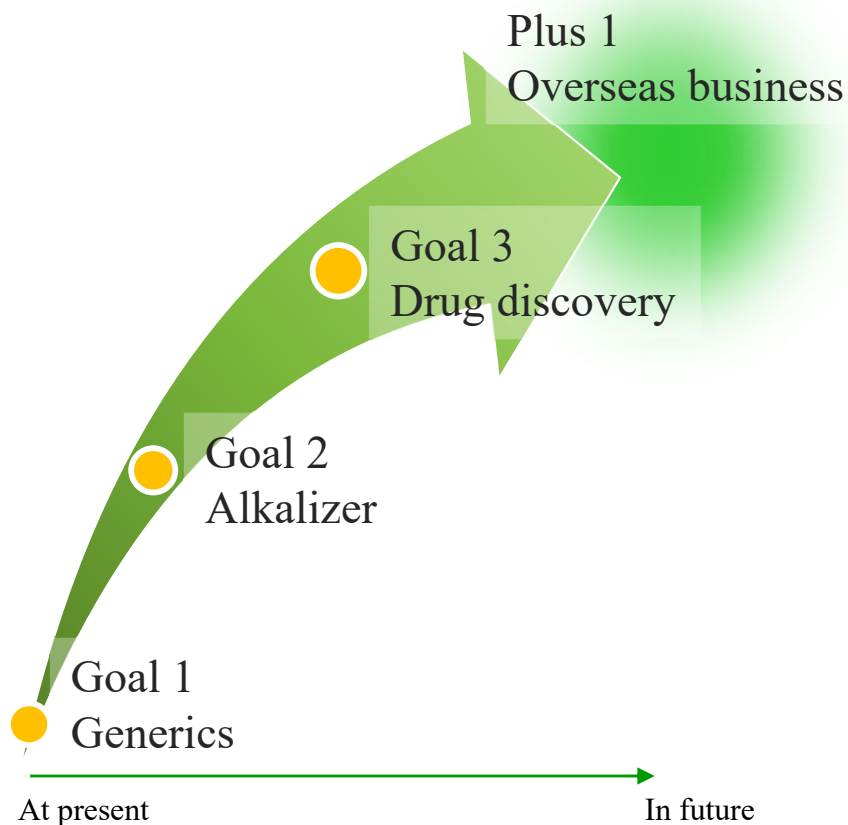
III. Management Strategy

Three Plus 1 Principal Goals

Overview

Business strategy by Three Principal Goals

- By fulfilling our three principal goals, we will establish a proprietary business model.
- To make that growth sustainable, we are expanding our business internationally.



Goal 1: Generics

Develop unique business by differentiating our products and enhance cost competitiveness.

Goal 2: Alkalizer

Apply the results of clinical research on alkalization therapy to the fullest extent possible.

Goal 3: Drug discovery

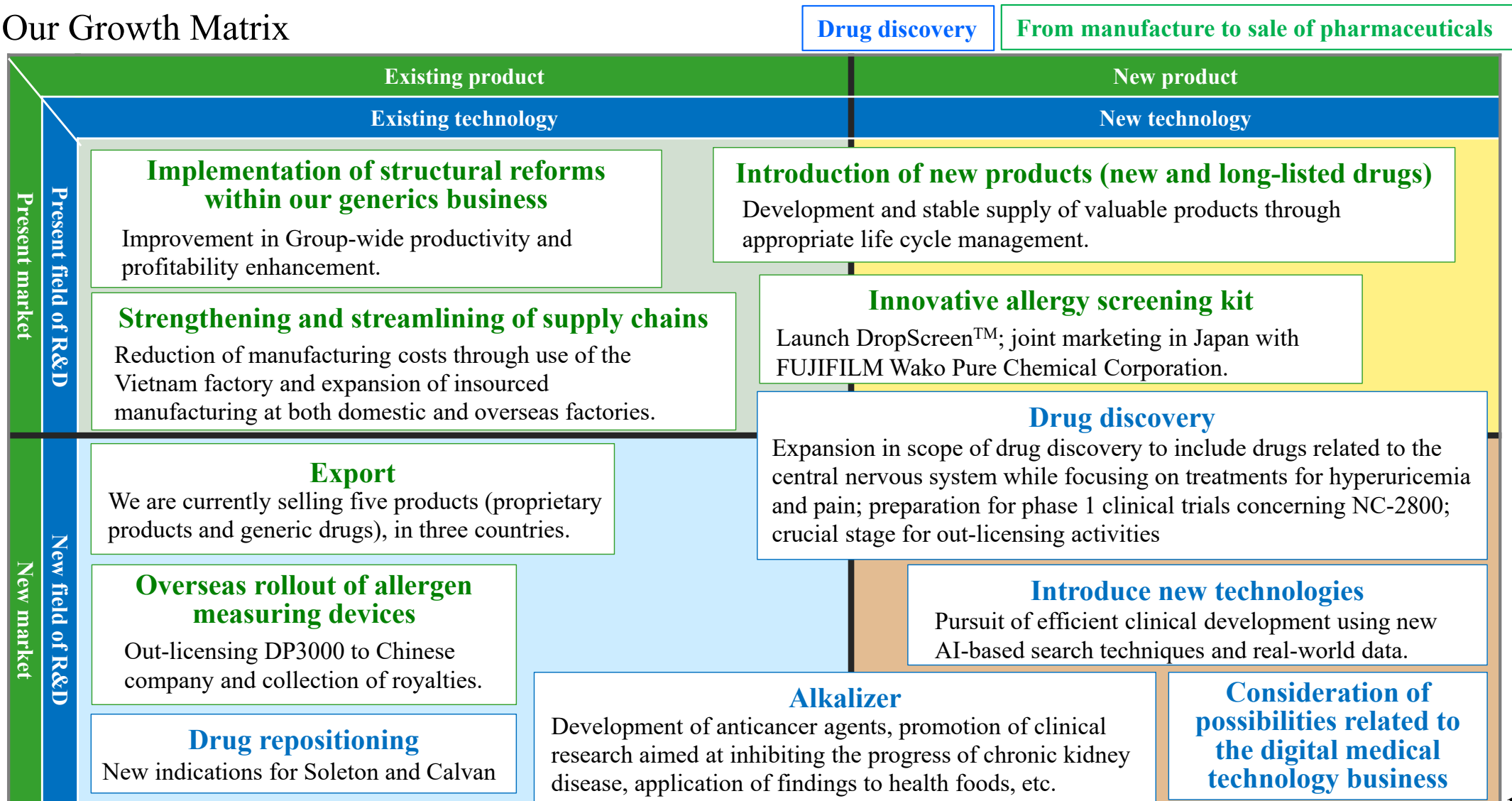
Simultaneously reduce risk, improve drug discovery efficiency, and launch new drugs on a global scale by focusing on exploratory research and out-licensing our findings at an early stage.

Plus 1: Apply our three goals to overseas markets centered on Asia

Management Strategy

We are developing a multi-faceted strategy for expanding our Pharmaceutical Products business that is grounded in our three plus 1 principal goals.

Our Growth Matrix



Structural Reforms in Generic Business

We implement Group structural reforms aimed at responding to rapid changes in business environment and converting to a business structure that will achieve sustainable growth in all environments.

Summary of structural reforms

Development

Shift focus of development from large-scale products to value-added drug formulations.
(Products used in clinical environments, niche products, and products related to patent strategies.)

Manufacture

Reduce cost of sales by expanding production at the Vietnam factory and cutting manufacturing costs through the addition of high-quality and affordable APIs from overseas while securing stable means of supply.

Sale

Excerpt from July 22, 2020 news release titled [Notice of structural reforms to the Nippon Chemiphar Group](#)

Established a Group Pharmaceutical Sales Headquarters that centrally supervise pharmaceutical sales divisions within both the Company and its subsidiary NPI*.

*Nihon Pharmaceutical Industry Co., Ltd..

We eliminated and consolidated domestic bases to maximize the effectiveness of our efforts to restructure pharmaceutical sales organization on a Groupwide basis.
(8 branches, 22 sales offices → 7 branches, 18 sales offices)

With the goals of adapting to new, post-COVID-19 workstyles and improving the productivity of our corporate activities, we will invest to drive digital transformation.

Offered early retirement packages to eligible employees as part of our efforts to optimize the organization of our staff. 42 employees retired at the end of September.

Development of New Applications for Alkalizer

We are conducting multi-faceted development using technologies and expertise related to alkalization that we cultivated over many years through our involvement with urine Alkalizer.

For pharmaceuticals

Licensing agreement of anti cancer agent

We concluded a licensing agreement for DFP-17729 chemical agent with drug discovery venture Delta-Fly Pharma, Inc. Formulated to improve cancer microenvironments, DFP has started clinical tests on pancreatic cancer patients.



Promote clinical research for preventing progress of chronic kidney disease












We are currently utilizing AI and clinical data to conduct additional analysis of results generated by the CKOALA study conducted at Tohoku University, which focused on the renoprotective effects of oral alkalizers in patients of chronic kidney disease. We expect to be presented the results of these analyses at conferences within FY2020 at the earliest.

Investigation regarding possible applications in functional foods and health foods

Based on research data and our expertise regarding alkalization therapy, we are also developing functional foods with domestic food manufacturers.

Pipeline

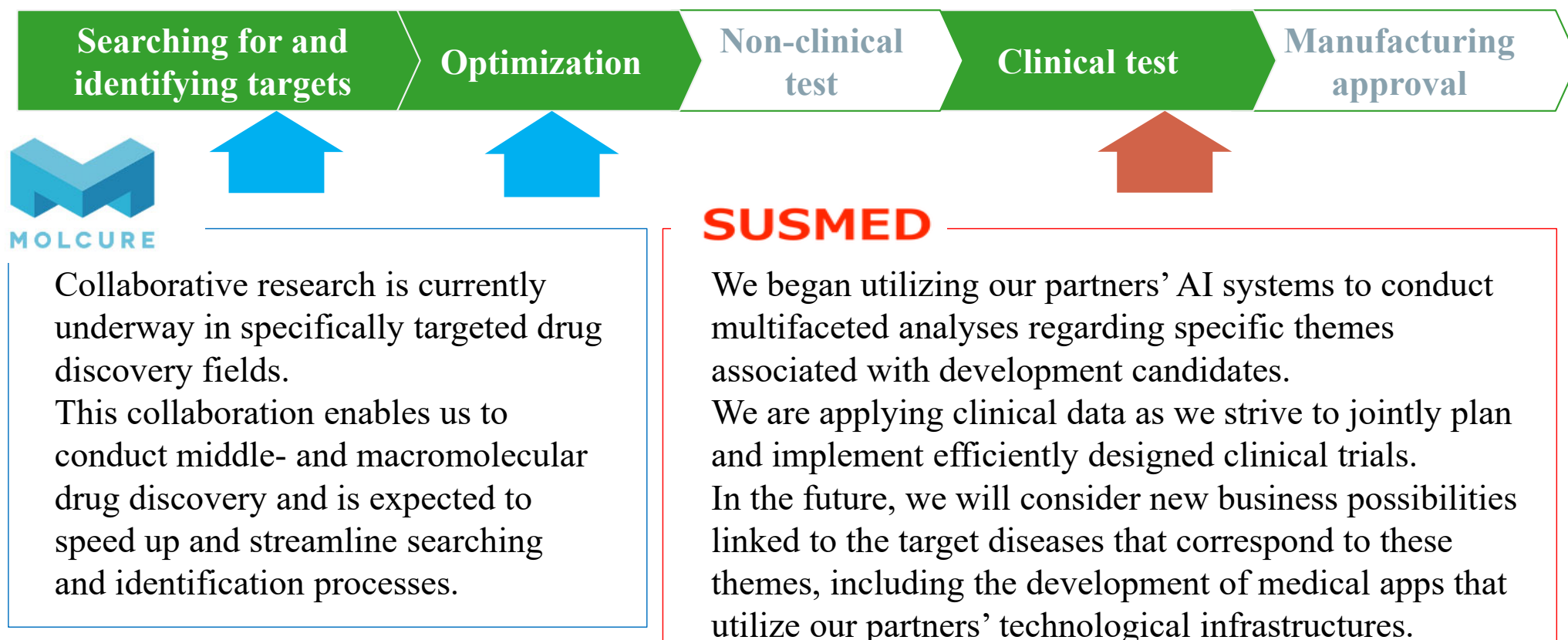
 In-house drug development  Other companies or physician-initiated development

Item	Function (Target)	Pre-clinical	Phase 1	Phase 2	Notes
NC-2400	PPAR- δ agonist (Lipid metabolism abnormalities)				<ul style="list-style-type: none"> Finished Phase 1. Licensed to Abionyx Pharma SA (France).
NC-2500	XOR inhibitor (Hyperuricemia, gout)				<ul style="list-style-type: none"> Phase 1 was finished and we are conducting licensing out activities. Explored possibilities for applications as a treatment for neurodegenerative diseases.
NC-2600	P2X4 receptor antagonist (Neuropathic pain)				<ul style="list-style-type: none"> Phase 1 was finished and we are conducting licensing out activities. Also began out-licensing for application as a treatment for chronic coughing.
NC-2700	URAT1 inhibitor (Hyperuricemia, gout)				<ul style="list-style-type: none"> Finished preclinical trial and we are conducting licensing out activities.
NC-2800	δ opioid receptor agonist (Depression/Anxiety)				<ul style="list-style-type: none"> Selected by AMED for its funding program on January 2018. Conducting licensing out activities in parallel with phase 1 preparation which we plan to start in FY2021.
DFP-17729	Cancer microenvironment improving agent (Pancreatic cancer)				<ul style="list-style-type: none"> Developed by Delta-Fly Pharma, Inc. The PMDA concluded its pre-clinical trial reviews and evaluations; phase 1 trial was started.
Soleton	COX inhibitor (Diffuse-type tenosynovial giant cell tumor and others)				<ul style="list-style-type: none"> Physician-initiated clinical trial was started. Achieved the objective number of trial participants and plan to conduct data analysis.
Calvan	A1 β 1 blocker (Huntington's disease)				<ul style="list-style-type: none"> Licensed to SOM Biotech SL (Spain). Finished phase 2a trial.

Introduce new technologies for drug discovery

We formed capital and business tie-ups with MOLCURE Inc. in November 2018, and SUSMED, Inc. in August 2020, with the intention of utilizing AI and other new technologies to raise the reproducibility of drug discovery theme creation, accelerating associated processes, and improving efficiency. Meanwhile, we are expanding collaboration associated with several specific themes.

Collaboration with partners expected to speed up and streamline drug discovery processes



Diagnosics in allergy screening field

We have begun to consider an overseas rollout of DropScreen™ as we strive to expand its application within the domestic market. Additionally, we have begun collaborating with local partners as we promote allergy testing reagent Oriton IgE Chemiphar™ in China.

Launched allergy screening kit Drop Screen™ in Japan

- Breakthrough measuring equipment that is capable of screening blood samples taken from fingertips for 41 allergens within 30 minutes.
- We received a favorable volume of inquiries from medical institutions considering implementation of the system despite restrictions placed on informative activities by the COVID-19 pandemic.



DropScreen™
measuring device
A1

Rollout of IgE NC in China



IgE NC

- Additional reagents received approval and corresponding promotional activities have been launched.
- We provide core components and technologies to indigenous companies attempting to localize their production and earn royalty income commensurate with sales revenue.

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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.