Nippon Chemiphar Co., Ltd.

（TSE 4539）

Highlights of FY2017 Business Results

(Year ended March 31, 2018)

Chemiphar

Contents

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I. Summary of FY 2017 Results

Sales, Income (Consolidated)

(¥mn)

	FY2016		FY2017				FY2017 (Forecast*)	
					YOY			
	Amount	% of Sales	Amount	% of Sales	Amount	Change (%)	Amount	Achieved (%)
Net Sales	**35,689**	**100.0**	**35,331**	**100.0**	**(358)**	**(1.0)**	**35,500**	**99.5**
Cost of sales	19,449	54.5	19,535	55.3	85	0.4	—	—
				0.8p				
SG&A expenses	13,403	37.6	13,947	39.5	543	4.1	—	—
				1.9p				
Operating income	**2,836**	**7.9**	**1,848**	**5.2**	**(988)**	**(34.8)**	**1,800**	**102.7**
Income before income taxes and minority interests	**2,849**	**8.0**	**1,777**	**5.0**	**(1,072)**	**(37.6)**	**—**	**—**
Net income attributable to owners of the parent	**2,054**	**5.8**	**1,160**	**3.3**	**(893)**	**(43.5)**	**1,150**	**100.9**

* Revised forecast issued on October 31, 2017.

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Pharmaceutical Sales (Consolidated)

(¥mn)

	FY2016		FY2017		
	Amount	% of Sales	Amount	% of Sales	YOY (%)
Total (① + ②)	**31,513**	**100.0**	**32,153**	**100.0**	**2.0**
① Generics	**29,204**	**92.7**	**30,115**	**93.7**	**3.1**
To medical institutions	27,808		29,174		4.9
To other makers*	1,395		941		(32.6)
Amlodipine	2,865		2,940		2.6
Lansoprazole	2,279		2,163		(5.1)
Donepezil	1,642		1,557		(5.2)
Rabeprazole	1,586		1,558		(1.8)
Limaprost Alfadex	1,469		1,427		(2.8)
Pravastatine	1,173		1,147		(2.2)
Voglibose	957		870		(9.1)
Others	17,229		18,449		7.1
② Proprietary products	**2,308**	**7.3**	**2,038**	**6.3**	**(11.7)**
Uralyt	1,409		1,225		(13.1)
Soleton	679		598		(12.0)
Calvan	219		214		(2.1)
Total (① + ③)	**30,445**	**—**	**30,110**	**—**	**2.2**
③ Generics (ODM)	**1,240**	**—**	**985**	**—**	**(20.6)**

* Includes exports

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Composition of Generics Sales by Destination

(Non-consolidated)

	FY2015	FY2016		FY2017	
	Distrib.	Distrib.	(%)	Distrib.	YOY (%)
Hospitals (100 beds or more)	14	15	3.2	**15**	**0.9**
Clinics (less than 100 beds)	12	12	(5.2)	**11**	**(2.0)**
Pharmacies	74	73	(0.6)	**74**	**0.1**
Total	100	100	(0.6)	**100**	**(0.1)**

70% of 58,000 dispensing pharmacies sell Chemiphar generics

Of which, DPC hospitals	—	—	5.3	**—**	**0.4**

80% of 1,700 DPC hospitals sell Chemiphar generics

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Balance Sheet (Consolidated)

(¥mn)

	FY2016	FY2017	Change	Components	
Current assets	29,009	28,334	(674)	Cash, deposits	(200)
				Notes, accounts receivable-trade	(699)
				Inventories	444
Non-current assets	17,991	18,479	487	Buildings and structures	1,257
				Machinery, equipment and vehicles	477
				Construction in progress	(1,699)
Total assets	**47,002**	**46,814**	**(187)**		
Liabilities	29,646	29,326	(319)	Notes, accounts payable-trade	165
				Loans payable	(126)
Net assets	17,355	17,487	132	Retained earnings	894
Equity ratio (%)	36.9	37.3		Treasury stock	(1,118)
Liabilities, net assets	**47,002**	**46,814**	**(187)**		

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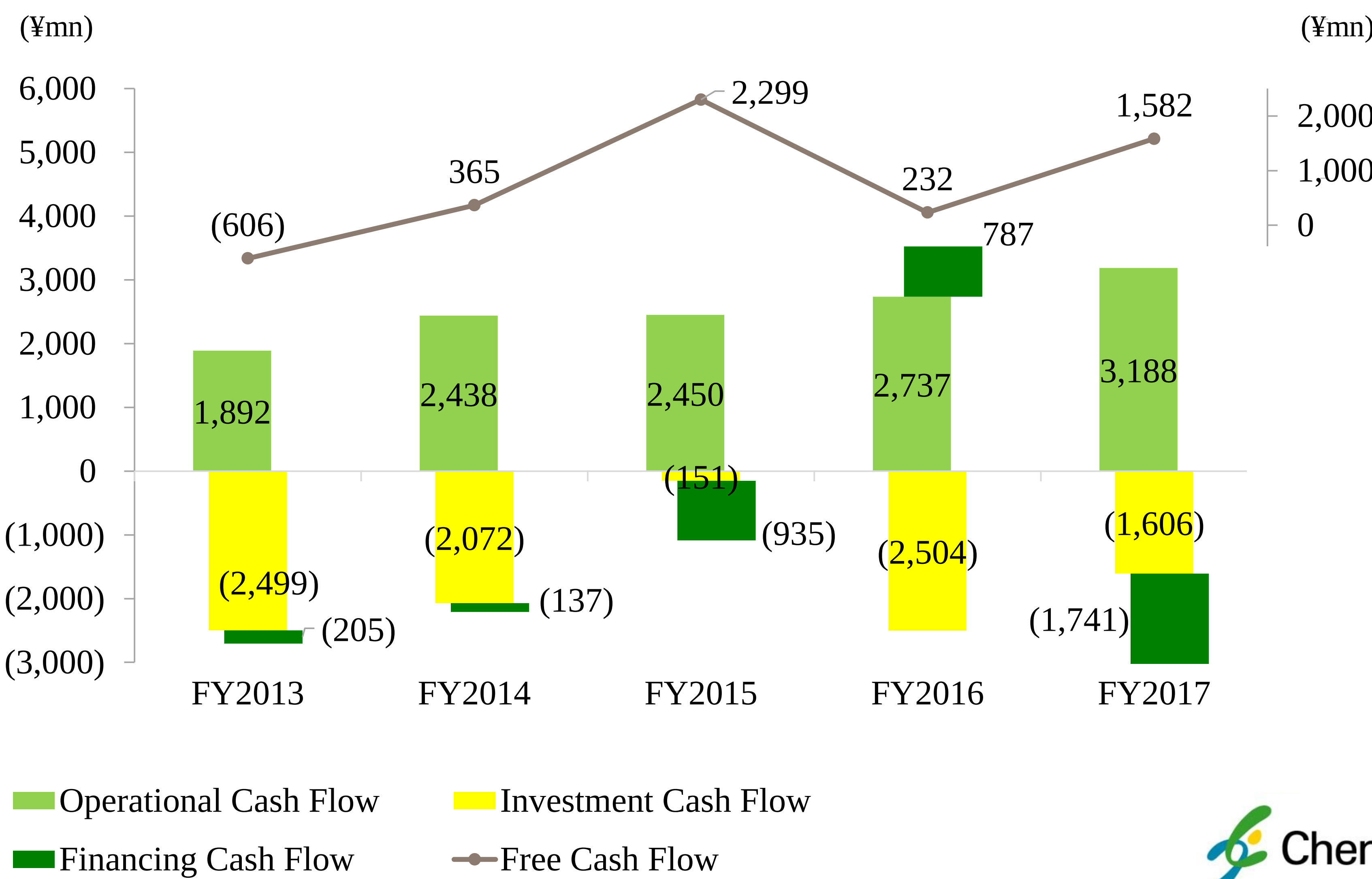
Cash Flow



(¥mn)
(¥mn)
6,000
5,000
4,000
3,000
2,000
1,000
0
(1,000)
(2,000)
(3,000)
2,000
1,000
0
(606)
365
2,299
232
1,582
787
1,892
2,438
2,450
2,737
3,188
(151)
(935)
(2,499)
(205)
(2,072)
(137)
(2,504)
(1,606)
(1,741)
FY2013
FY2014
FY2015
FY2016
FY2017
Operational Cash Flow
Investment Cash Flow
Financing Cash Flow
Free Cash Flow

II. FY2018　Forecasts

Sales, Income (Consolidated)

(¥mn)

	FY2017		FY2018 (Forecasts)		
	Amount	% of Sales	Amount	% of Sales	YOY (%)
Net Sales	35,331	100	35,500	100	A 0.5
Pharmaceuticals	32,153		31,800		(1.1)
Generics	30,115		30,150		0.1
Proprietary products	2,038		1,650		(19.0)
Operating income	1,848	5.2	1,100	3.1	B (40.5)
Net income attributable to owners of the parent	1,160	3.3	500	1.4	(56.9)

A. Main factors driving changes in net sales

(–) NHI price revisions –14 %
(+) New sales channels
(+) New product launches

B. Increased upfront expenses

- **Vietnam** + ¥400mn YOY
  (Commercial productions start-up costs)
- **R&D expenses for new drugs** + ¥300mn YOY
  (Expenses related to new drug development)

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Pharmaceutical Sales (Consolidated)

(¥mn)

	FY 2017		FY2018 (Forecast)		
	Amount	% of Sales	Amount	% of Sales	YOY (%)
Total (① + ②)	**32,153**	**100.0**	**31,800**	**100.0**	**(1.1)**
① Generics	**30,115**	**93.7**	**30,150**	**94.8**	**0.1**
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
② Proprietary products	**2,038**	**6.3**	**1,650**	**5.2**	**(19.0)**
Uralyt	1,225		1,070		(12.7)
Soleton	598		400		(33.1)
Calvan	214		180		(16.2)
Total (① + ③)	**31,100**	**100.0**	**31,350**	**100.0**	**0.8**
③ Generics (ODM)	**985**	**3.2**	**1,200**	**3.8**	**21.8**

* Includes exports

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New Generics in FY 2018

Planned June 2018 NHI price listing
(Eight items by four ingredients)

Product	Item
Iluamix	2
Lanthanum Carbonate OD	2
Lanthanum Carbonate	2
Nalfurafine	1
Minodroic Acid	1

Three items by two ingredients are planned for December 2018.

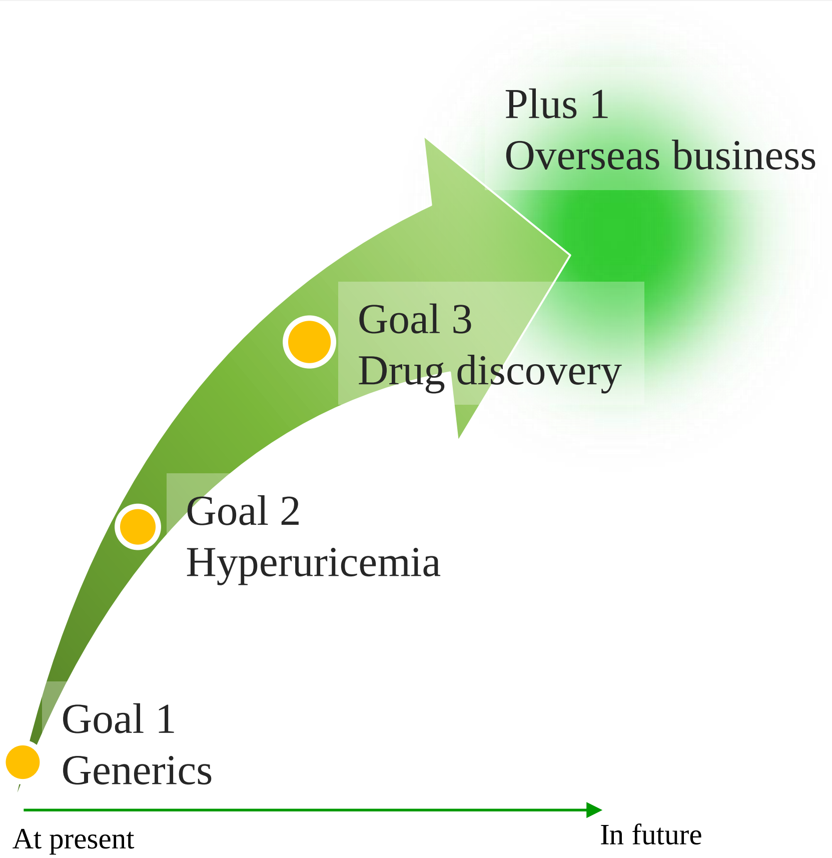
III. Management Strategy

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: Secure our presence in the generics business

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

Goal 2: Achieve a stronger position in the hyperuricemia market, focused on Uralyt

Enhance group research initiatives, promote R&D in antihyperuricemic agents, and out-licensing new drugs earlier.

Goal 3: Contribute to society through drug discovery toward innovative medicine

Focus on discovery in our particular areas of strength.

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

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Management Strategy 1-(1)

Challenges Related to Generic Drugs

- Intensified market competition with rise of authorized generics
- Market growth slowed due to NHI price reductions and coming era of generic drugs with an 80% share

Strengthen the entire supply chain

(Review development and sales strategies, reduce costs)

Management Strategy 1-(2)

Strengthen Generic Drug Supply Chain

Development → Manufacturing → Sales

Development

Establish advantage

Value-added product development
(First to launch generic drugs)

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Pursue efficiency

- Selection of items with priority on securing market share from market size
- Promote joint development in Japan and overseas

Manufacturing

Cost reductions

- Promoting switch to high-quality and inexpensive APIs
- Vietnam factory
- New production IT system

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Improve operating ratio

- Expanding contract business in Japan and overseas
- Took over Quenmet (generic of Uralyt) and manufacture

Sales

Sales channel diversification

Utilizing new sales channels in line with acquisition of products from other companies

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Productivity improvement

- Strengthening dispensing chains and group hospitals
- Increasing efficiency and reducing inventory with two logistics bases

Management Strategy 2

Multifaceted Approach to Hyperuricemia (Urine Alkalization)

NPI took over Quenmet (generic of Uralyt)	• Nippon Chemiphar Group almost entirely controls the citrate formulation market
Progress of clinical research at Tohoku University	• Possibility of citrate formulation market expansion
New drug discovery (NC-2500 and NC-2700)	• Development of drugs with different mechanism of action

Management Strategy 3-(1)

New Drug Discovery

Pipeline (as of April 2018)

Letters in red are the revised parts from FY2017 2Q

No.	Function (Target)	Preclinical	Phase 1	Phase 2	Notes
NC-2400	PPAR-delta agonist (Lipid metabolism)			Finished Phase 1. Licensed.	• Licensed to Cerenis Therapeutics (France).
NC-2500	XOR inhibition (Hyperuricemia)			Finished Phase 1. Conducting licensing activities .	• Phase1 was finished in September, after which data collection was also completed. • Strengthening activities aimed at licensing and alliances based on trial results.
NC-2600	P2X4 antagonist (Neuropathic pain)			Finished Phase 1. Conducting licensing activities .	• Joint research with Kyusyu University. • Phase 1 was finished in September. • Promoting data analysis while engaging in licensing activities for Japanese and foreign companies.
NC-2700	URAT1 inhibition (Hyperuricemia)		Finished preclinical trial. Conducting licensing activities		• Finished preclinical trial, after which data collection was also completed. • Strengthening activities aimed at licensing and alliances based on trial results.
NC-2800*	Delta opioid receptor agonist (Depression / Anxiety)		Finished preclinical trial. Preparing for Phase 1.		• Joint research with the University of Tsukuba, Kitasato University, and the National Center of Neurology and Psychiatry. • Selected by the Japan Agency for Medical Research and Development (AMED) for its Fiscal 2017 Cyclic Innovation for Clinical Empowerment (CiCLE) funding program. • Conducting trials under the new funding program.
Soleton	NSAID (Diffuse-type tenosynovial giant cell tumor and others)				• **Physician-initiated clinical trial started.**
Calvan	α1β1 blocker (Huntington's disease)				• **Phase 2 is scheduled for new application by an overseas venture.**

* Supproted by the Japanese Agency for Research and Development (AMED).

Management Strategy 3-(2)

NC-2800 Adopted by CiCLE

2013

- Selected for support under the Adaptable and Seamless Technology Transfer Program through Target Driven R&D (A-Step) Program for high-risk development by the Japan Science and Technology Agency (JST).

  (Support period: December 2013–September 2015)

2015

- Selected for research under AMED's Acceleration Transformative Research for Medical Innovation (ACT-M) program.

  (Support period: October 2015—March 2018)

2017

- **Selected by AMED for the Cyclic Innovation for Clinical Empowerment (CiCLE) funding program in December 2017.**

  (Support period: March 2018–March 2027 or up to nine years and one month; licensing activity permitted during support period)

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Management Strategy 4-(1)

Overseas Business

Pharmaceuticals

Area	Have been approved	Approval applications
China	Calvan	2 products center in ASEAN
Hong Kong	Pioglitazone, Cilostazol	
Korea	Soleton, Calvan	
Thailand	Uralyt	

Sales of Cilostazol in Hong Kong began in October 2017.

Diagnostics

We are conducting marketing, mainly in Asia, centering on the world's fastest allergy testing equipment (DP3000) and allergy testing reagent (IgE NC). Also, Business is also being developed in China in conjunction with a Japanese trading company.

DP3000

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Management Strategy 4-(2)

Overseas Business

■ Vietnam factory

- We took delivery of the building on September 14, 2017.
- Currently, trial manufacturing and various drug applications have been submitted for approval.
- Export to Japan to commence in 3rd quarter FY2018.

Address	**No76, Dac Lap Avenue, Vietnam-Singapore Industrial Park, An Phu Ward, Thuan An Town, Binh Duang Province, Vietnam**
Property	**Approx. 10,000 m^2（1 ha）**
Factory	**Two stories, approx. 11,000 m^2**
Operation start date	**Second half of 2018**
Investment amount	**Approx. USD 39 million (including capital of USD 10.5 million)**
Manufacturing capacity	**600 million pills per year**
Main products	**Generic drugs and proprietary products**
Employees	**180 local hires (plan)**

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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.

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