



TOWA PHARMACEUTICAL CO., LTD.

Supplementary material of financial results for the 2Q of the year ending March 2014

November, 2013

(stock ticker number : 4553)

Summary

- Sales increased by 6.8% year-on-year. Sales growth after July is slowing, but it is still in line with the plan, which is high single digit growth year-on-year.
- COGS rate increased by 3.0 point year-on-year. Major reasons are as follows.
 - Increase of depreciation cost : 1.2 pt
 - Decrease of work-in-process : 1.7 pt
 - Increase of inventories : -1.0 pt
 - Influence by consolidation of Daichi Kasei : 0.7 pt
- SGA increased by 13.9% year-on-year. Increase of R&D expenses by increase of product pipelines including value-added products impacts a lot. In addition, contract research payment from Towa to Daichi Kasei, etc. (233 million yen in 14/3 2Q) are eliminated by the consolidation of Daichi Kasei, and actual R&D expenses increased by 34.9% year-on-year. On the other hand, compared with the budget, ca. 0.3 bn yen of R&D cost and ca. 0.1 bn yen of advertisement cost are behind, both of which will be expended in 2H.
- OP income decreased by 28.6% year-on-year. It exceeded by ca. 0.5 bn yen compared with the plan by SGA behind the budget. But OP income in full year will be in line with the original plan, because the same amount will be expended in 2H.
- The full year forecast for 14/3 is not revised. However, the breakdown of COGS and SGA was revised because the way to account for COGS and SGA of Daichi Kasei has changed from the original plan.
- Daichi Kasei is included in the consolidated financial figures from 14/3 1Q.
- The construction of API manufacturing facility in Daichi Kasei has been delayed, but will restart soon after changing the plan.
- The head office becomes crowded and in order to expand the space, Towa decided to purchase the neighbor office building. The detailed plan will be considered.

Outline of the financial results for the 2Q of the year ending March 2014

Period	14/3 2Q (Consolidated without Daichi Kasei)			13/3 2Q	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Net sales	28,559	100.0	+ 6.8	26,742	100.0
COGS	14,276	50.0	+ 12.0	12,747	47.7
SGA	11,130	39.0	+ 15.6	9,626	36.0
Operating income	3,152	11.0	- 27.8	4,368	16.3
Ordinary income	3,176	11.1	- 24.9	4,228	15.8
Net income	2,124	7.4	- 21.6	2,710	10.1

Outline of the financial results for the 2Q of the year ending March 2014

(progress rate to 14/3 2Q plan)

Period	14/3 2Q			14/3 2Q plan (disclosed on May 14 th)	
	(million Yen)	Ratio to sales (%)	Progress rate in %	(million Yen)	Ratio to sales (%)
Net sales	28,559	100.0	100.6	28,400	100.0
COGS	14,478	50.7	103.4	14,000	49.3
SGA	10,961	38.4	92.9	11,800	41.5
Operating income	3,119	10.9	120.0	2,600	9.2
Ordinary income	3,140	11.0	120.8	2,600	9.2
Net income	2,019	7.1	115.4	1,750	6.2

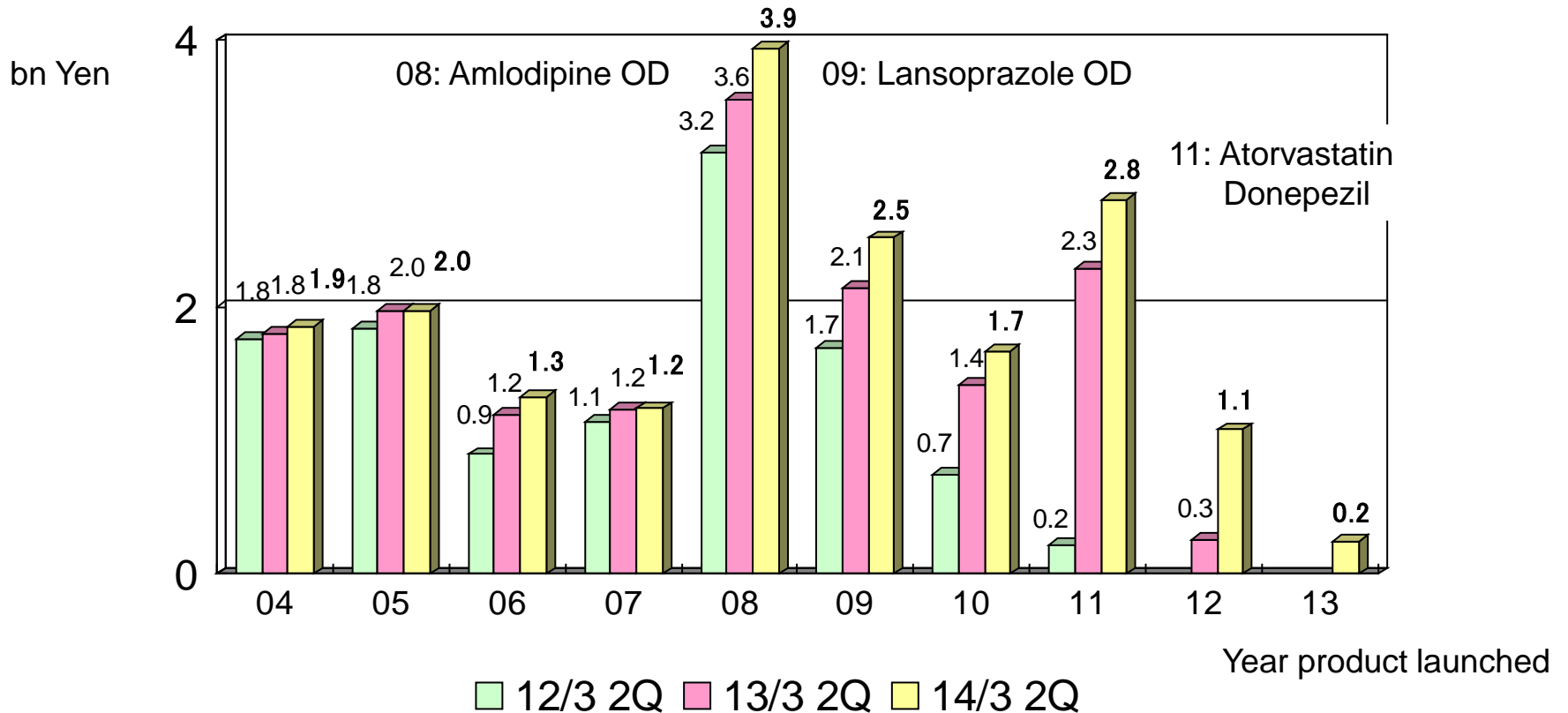
Outline of the financial results for the 2Q of the year ending March 2014

(non-consolidated)

Period	14/3 2Q			13/3 2Q	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Net sales	27,773	100.0	+ 6.9	25,983	100.0
COGS	13,809	49.7	+ 12.1	12,322	47.4
SGA	10,879	39.2	+ 16.2	9,366	36.1
Operating income	3,084	11.1	- 28.2	4,294	16.5
Ordinary income	3,112	11.2	- 25.0	4,152	16.0
Net income	2,086	7.5	- 21.8	2,666	10.3

Sales of products by launched year

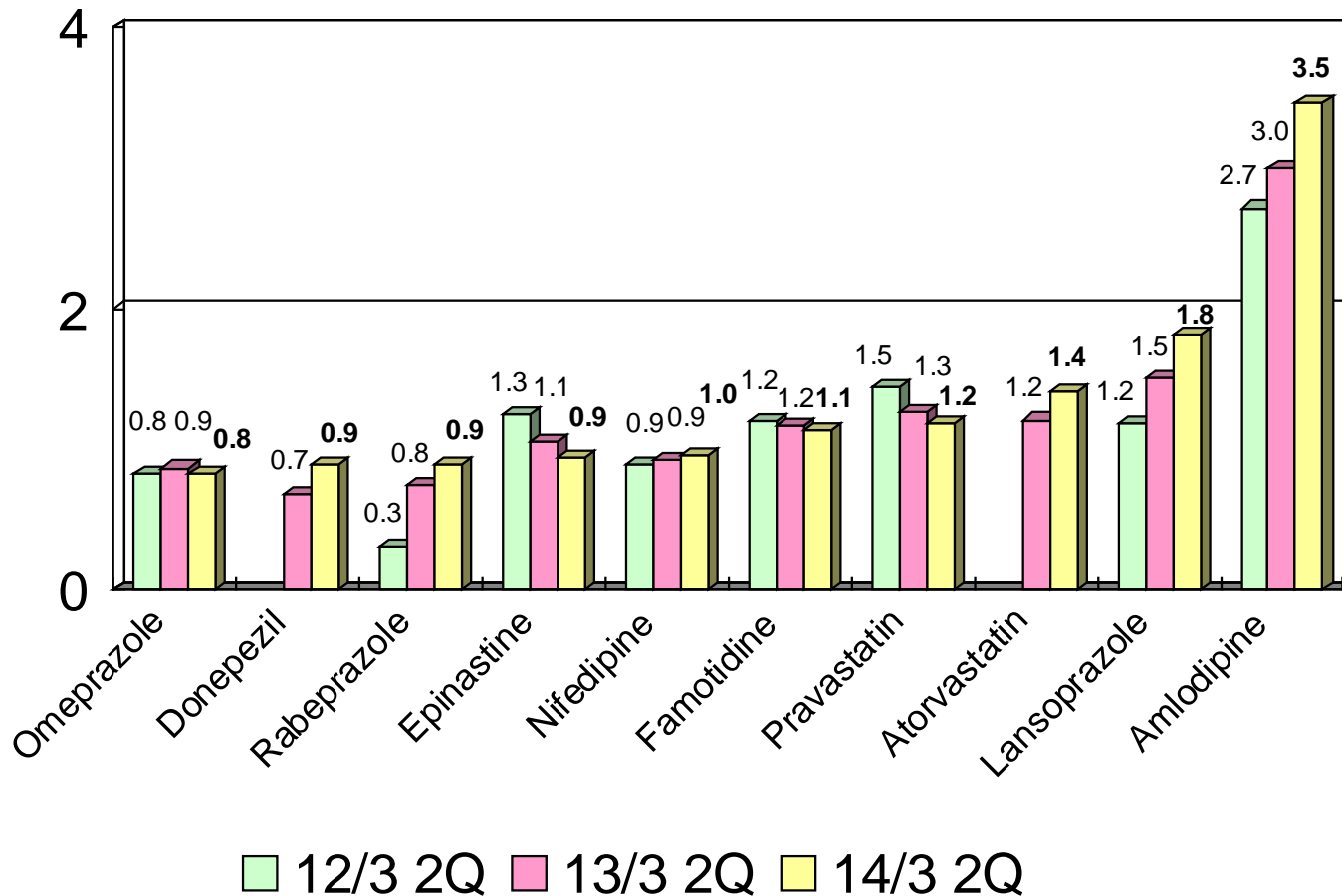
Product launched after 08 increased steadily.



Sales of leading products

Amlodipines and Lansoprazoles increased steadily.

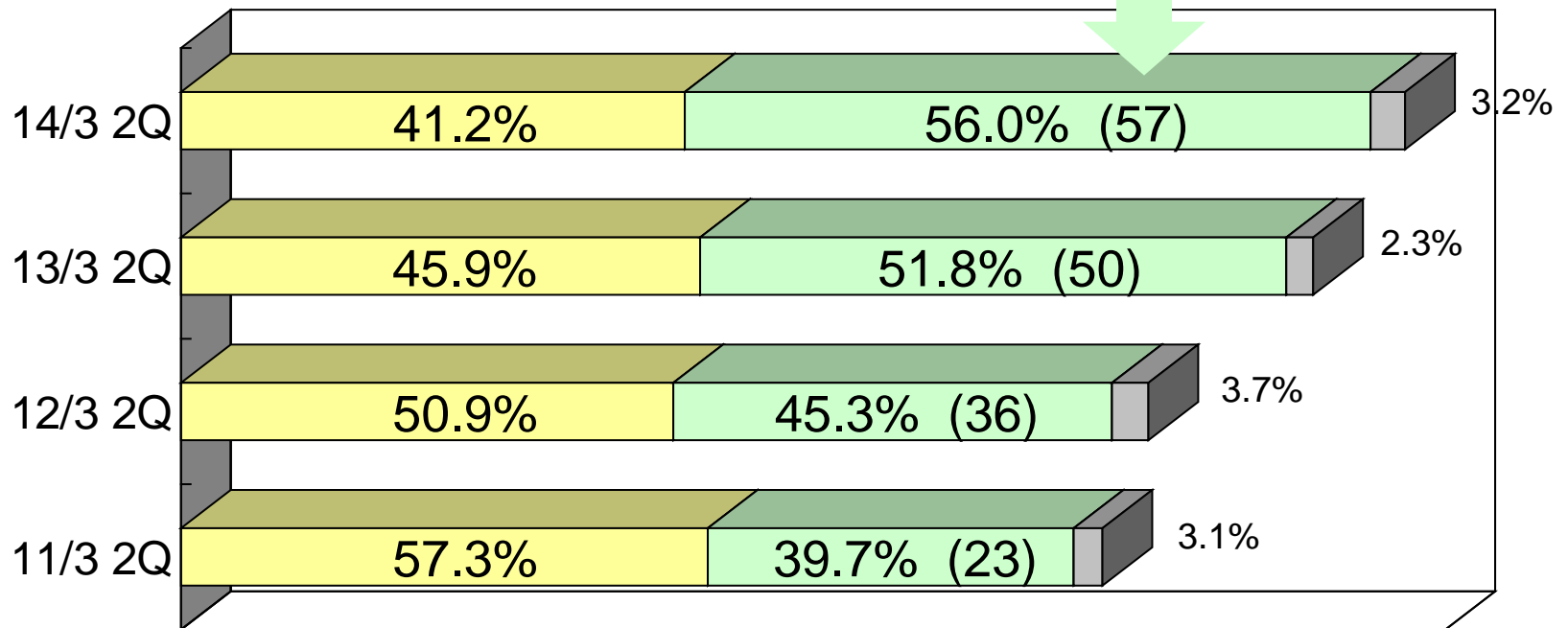
bn Yen



Sales of channels

Ratio of direct sales increased due to changing sales agent to sales office and opening new offices, and increased headquarter transaction.

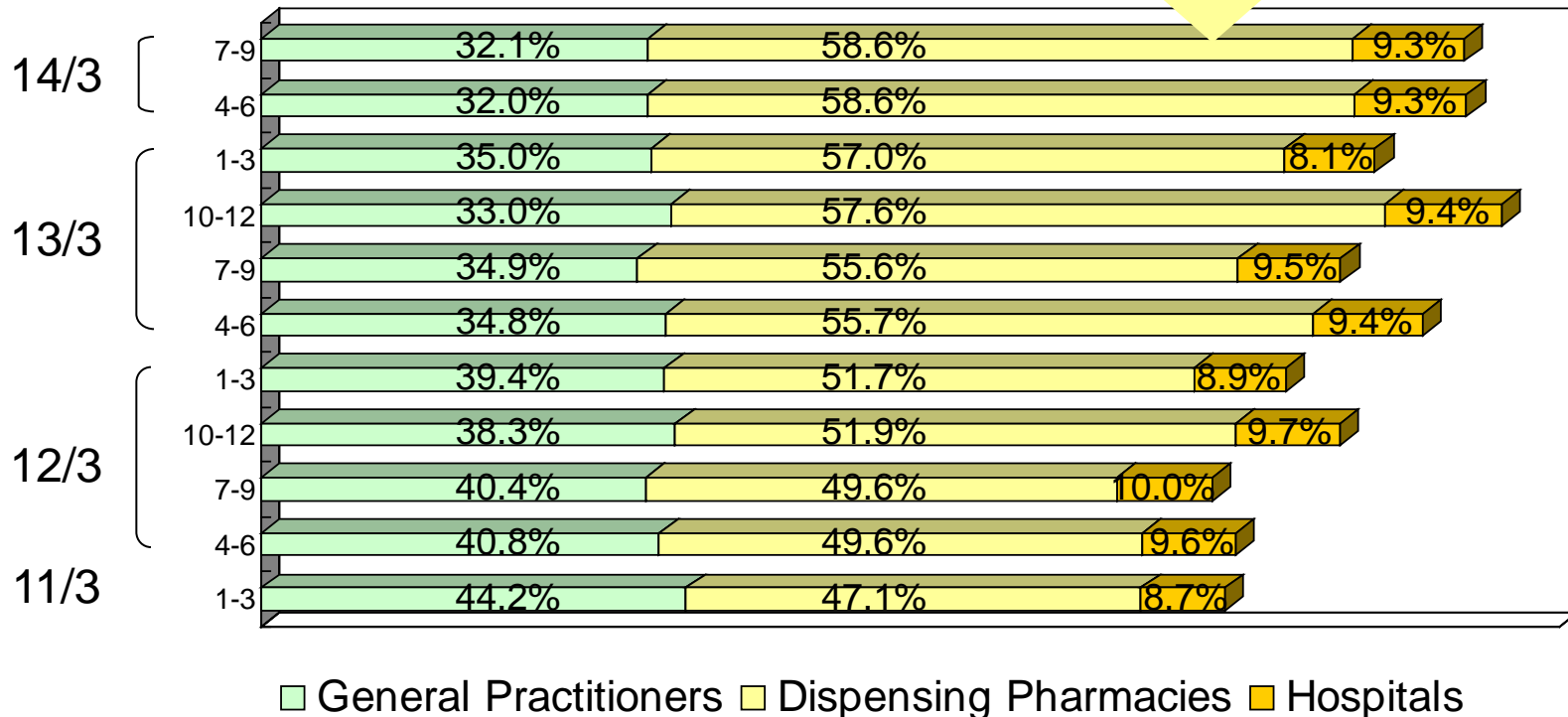
() is the number of sales offices.



■ Sales agents ■ Direct sales ■ Others

Sales of medical institutions

Sales for dispensing pharmacies account for ca. 60%.



Excluding sales by other companies.

Assuming sales of general practitioners, dispensing pharmacies and hospitals is 100%.

SGA

Period	14/3 2Q			13/3 2Q	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Labor	4,771	16.7	+ 10.5	4,316	16.1
R&D	2,568	9.0	+ 23.6	2,077	7.8
Ad.	565	2.0	+ 62.0	348	1.3
Others	3,056	10.7	+ 6.0	2,883	10.8
SGA	10,961	38.4	+ 13.9	9,626	36.0

SGA increased by 13.9% year-on-year. Increase of R&D expenses by increase of product pipelines including value-added products impacts a lot. In addition, contract research payment from Towa to Daichi Kasei, etc. (233 million yen in 14/3 2Q) are eliminated by the consolidation of Daichi Kasei, and actual R&D expenses increased by 34.9% year-on-year. On the other hand, compared with the budget, ca. 0.3 bn yen of R&D cost and ca. 0.1 bn yen of advertisement cost are behind, both of which will be expended in 2H.

Balance Sheets

(million Yen)

	13/9	13/3	Change
Cash and deposits	2,650	3,485	- 835
Trade notes and accounts receivable	16,654	17,217	- 562
Marketable securities	1,000	3,000	- 2,000
Finished products	11,459	10,450	+ 1,009
Other current assets	12,470	12,895	- 425
Total current assets	44,235	47,049	- 2,813
Buildings and structures	20,849	21,271	- 422
Machineries, equipments and carriers	8,734	8,388	+ 345
Other fixed assets	14,538	12,996	+ 1,541
Total fixed assets	44,122	42,656	+ 1,465
Total assets	88,358	89,705	- 1,347

	13/9	13/3	Change
Trade notes and accounts payable	6,960	7,482	- 522
Current portion of long-term debt	2,925	2,825	+ 100
Accrued income taxes	711	1,667	- 955
Other current liabilities	7,196	7,543	- 347
Total current liabilities	17,793	19,519	- 1,725
Long-term debt	12,083	12,908	- 825
Other long-term liabilities	1,642	1,667	- 24
Total long-term liabilities	13,726	14,575	- 849
Total liabilities	31,520	34,095	- 2,574
Total net assets	56,837	55,610	+ 1,227
Total liabilities and net assets	88,358	89,705	- 1,347

Statement of Cash Flows

(Million Yen)

	14/3 2Q	13/3 2Q
Net profit before tax	3,025	4,182
Depreciation cost	2,557	1,998
Increase of inventories	- 887	- 1,566
Tax paid	- 1,526	- 1,649
Others	- 518	1,530
Net cash provided by operating activities	2,650	4,495

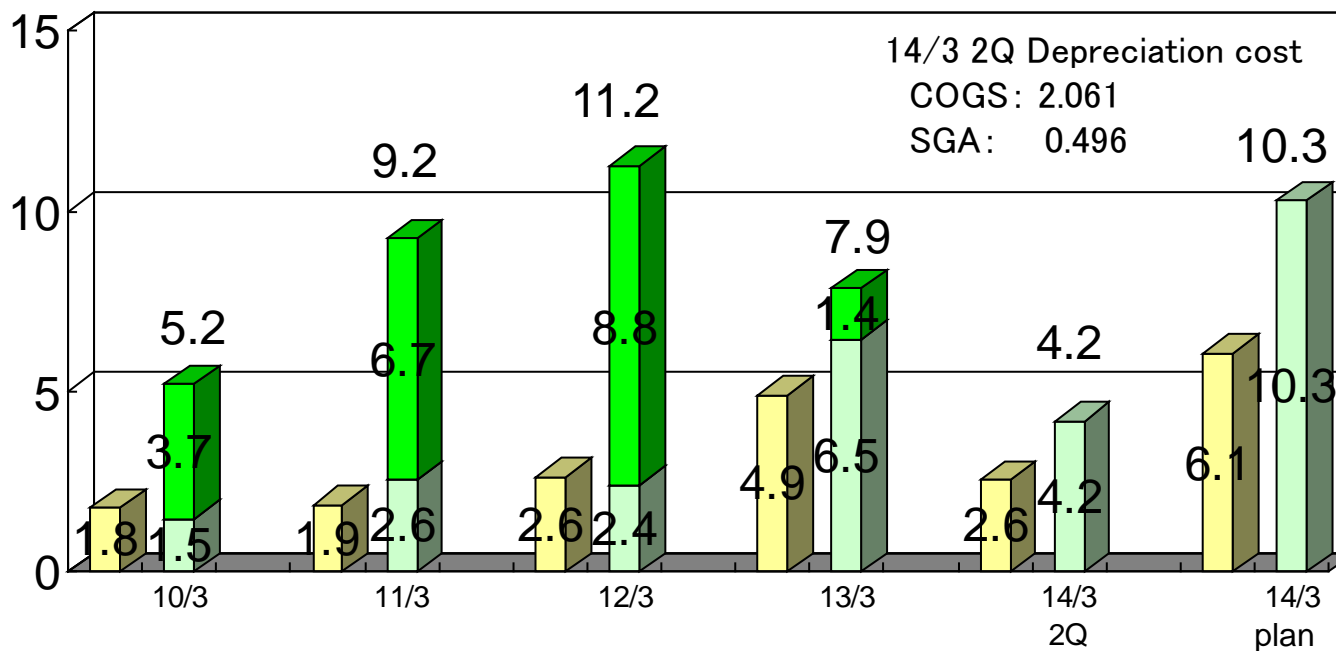
	14/3 2Q	13/3 2Q
Payments for purchase of marketable securities	- 1,000	- 3,000
Payments for tangible fixed assets	- 4,825	- 7,198
Others	1,936	- 628
Net cash used in investing activities	- 3,889	- 10,827

	14/3 2Q	13/3 2Q
Cash provided by long-term debt	750	6,500
Repayment of long-term debt	- 1,475	- 1,178
Others	9	- 597
Net cash provided by financing activities	- 715	4,723

	14/3 2Q	13/3 2Q
Effect of exchange rate changes on cash and cash equivalents	53	- 31
Net increase in cash and cash equivalents	- 1,900	- 1,640
Net increase in cash and cash equivalents by new consolidation	65	-
Cash and cash equivalents at beginning of the period	3,985	3,798
Cash and cash equivalents at end of the period	2,150	2,158

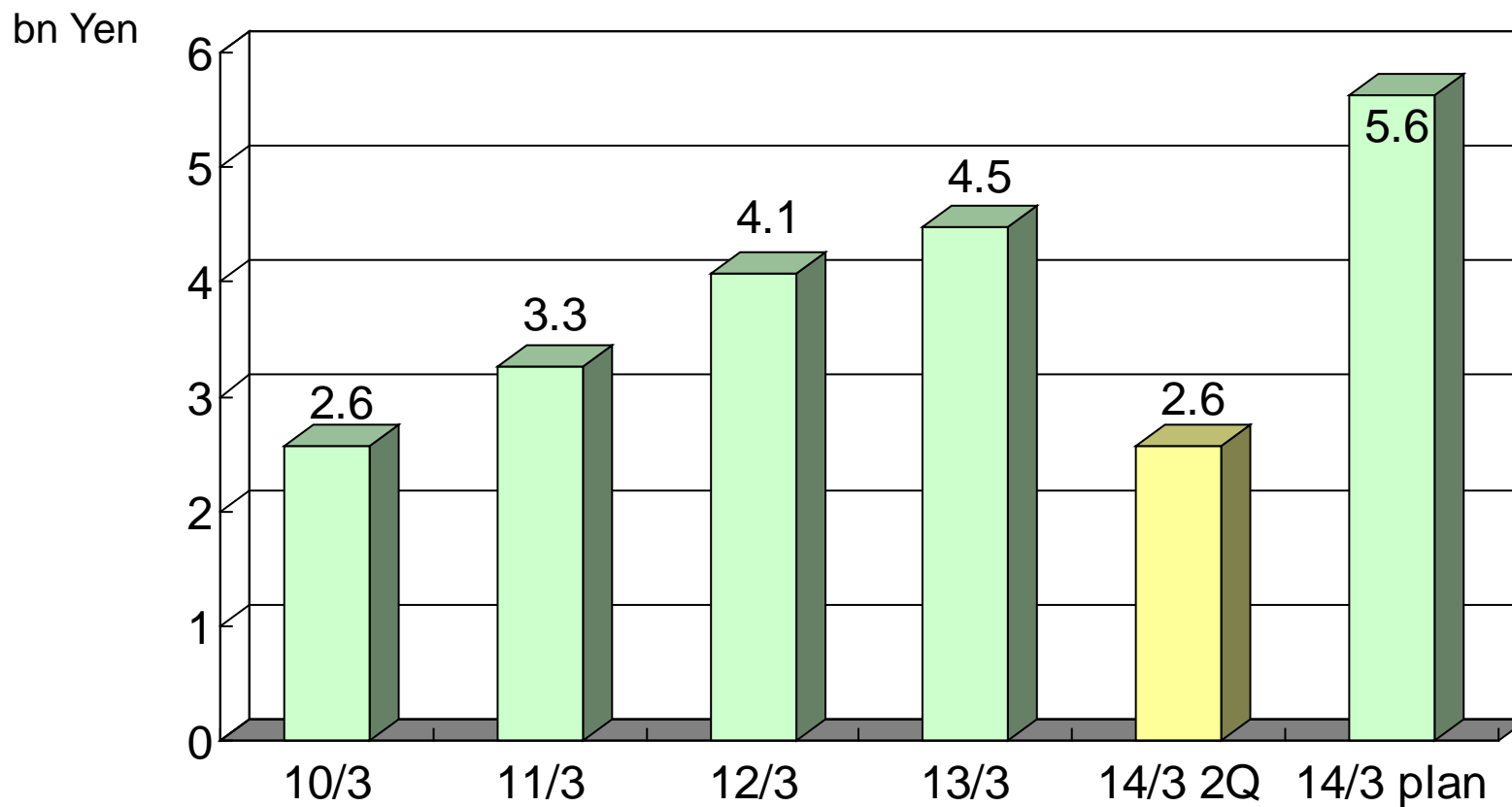
Capital expenditure and depreciation cost

bn Yen



- Capital expenditure for Yamagata Plant construction
- Capital expenditure excluding for Yamagata Plant construction
- Depreciation cost

R&D expenditure



Financial forecast for the year ending March 2014

The plan disclosed on May 14 has been unchanged.

Period	14/3 plan (disclosed on May 14 th)			13/3	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Net sales	60,800	100.0	+ 10.1	55,241	100.0
Operating income	7,800	12.8	+ 1.0	7,723	14.0
Ordinary income	7,850	12.9	- 17.8	9,544	17.3
Net income	5,200	8.6	- 16.1	6,201	11.2

Reasons of unchanged plan

- Sales for 1H exceeded the plan slightly and sales for full year is expected to be in line with the plan.
- The reason of exceeded 1H OP income compared with the plan is delayed SGA from 1H to 2H and full year OP income is expected to be in line with the plan.

Financial forecast for the year ending March 2014

Period	14/3 plan (The breakdown of COGS and SGA was revised)			14/3 plan (disclosed on May 14 th)	
	(million Yen)	Ratio to sales (%)	Change	(million Yen)	Ratio to sales (%)
Net sales	60,800	100.0	0	60,800	100.0
COGS	30,500	50.2	+ 500	30,000	49.3
SGA	22,500	37.0	- 500	23,000	37.8
Operating income	7,800	12.8	0	7,800	12.8
Ordinary income	7,850	12.9	0	7,850	12.9
Net income	5,200	8.6	0	5,200	8.6

The breakdown of COGS and SGA was revised because the way to account for COGS and SGA of Daichi Kasei has changed from the original plan.

Major products to be launched in December 2013

Therapeutic Category	Product Name	Branded Products (Company)	Sales (bn Yen / year)
HMG-CoA Reductase Inhibitor	PITAVASTATIN CALCIUM OD TABLETS 1mg/2mg "TOWA" /TABLETS 1mg/2mg/4mg "TOWA"	LIVALO OD TAB. 1mg/2mg LIVALO TAB. 1mg/2mg/4mg (Kowa)	51.5
HMG-CoA Reductase Inhibitor	ATORVASTATIN OD TABLETS 5mg/10mg "TOWA"	(Lipitor Tablets 5mg/10mg) (Astellas)	(81.6)
Immunosuppressant	TACROLIMUS TABLETS 0.5mg/1mg/1.5mg/3mg/5mg "TOWA"	(Prograf Capsules 0.5mg/1mg/5mg) (Astellas)	(45.7)
15-membered ring macrolide antibiotic	AZITHROMYCIN TABLETS 250mg/500mg "TOWA"	ZITHROMAC Tablets 250mg (Pfizer)	10.7
Anti-allergy agent	FEXOFENADINE HYDROCHLORIDE DS 6% "TOWA"	-	-
Therapeutic Agent for Alzheimer-type Dementia	DONEPEZIL HYDROCHLORIDE OD TABLETS 10mg "TOWA" /TABLETS 10mg "TOWA" /ORAL SOLUTION 10mg "TOWA"	Aricept D 10mg Aricept 10mg (Eisai)	23.0
Antihypertensive diuretic	HYDROCHLOROTHIAZIDE OD TABLETS 12.5mg "TOWA"	-	-

Annual sales budget: ca. 0.8 bn yen for products to be launched in Dec. 2013

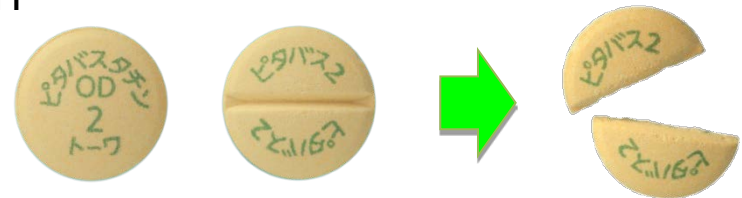
Pitavastatins 0.3 bn yen
Atorvastatins 0.2 bn yen

25 products in total

Features of major products to be launched in December 2013 (1)

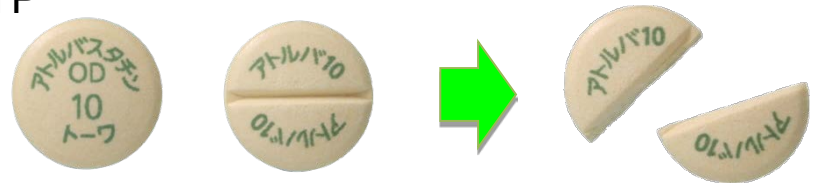
- Pitavastatin calcium OD tablets

- The only Generic product of Pitavastatin calcium OD tablets
- Printed its product name in both side of the tablet (product name printed tablet aligned with a score)
- Prepared in bottled package as well as PTP



- Atorvastatin OD tablets

- The first product of Atorvastatin OD tablets
- Printed its product name in both side of the tablet (product name printed tablet aligned with a score)
- Prepared in bottled package as well as PTP



- Hydrochlorothiazide OD tablets

- Hydrochlorothiazides are used in various blood pressure lowering combination products
- Hydrochlorothiazides are supplied by Towa only
- Scored OD tablets, applied small dosage of 6.25mg
- Easier to adjust to each patient than combination product

Features of major products to be launched in December 2013 (2)

- Fexofenadine hydrochloride DS
 - The first product of Fexofenadine DS

- Tacrolimus tablets

- New formulation of tablet from capsule
- Additional contents of 1.5mg and 3mg
- Taking 1x3mg tablet is more convenient than 3x1mg capsules (smaller numbers of tablet in one administration)



- Azithromycin tablets

- Additional content of 500mg tablet
- Taking 500mg tablet is more convenient than 2x250mg tablets (smaller numbers of tablet in one administration)

The change of the plan of the construction of API manufacturing facility in Daichi Kasei

	Original plan (disclosed on Jan. 28 th)	Revised plan (disclosed on Nov. 11 th)
Construction period	March 2013 – March 2014	Dec. 2013 – Feb. 2015
Operation	April 2014 -	March 2015 -
Site	Fukusaki, Hyogo, JAPAN	Fukusaki, Hyogo, JAPAN (different site from the original plan)
Area	Land: 41,769.12m ² Floor: 10,922.43m ²	Land: 52,367.81m ² Floor: 12,259.38m ²
Total investment	ca. 5.5 billion yen	ca. 6 billion yen <ul style="list-style-type: none"> · Larger administration building in consideration of future expansion · Increase in building works by rising prices
Purpose	<ul style="list-style-type: none"> · A part of the reinforcement measure for securing APIs stably for Towa's products · 20-30 APIs will be produced annually. (The number of the used API for Towa's products: ca. 320)	

Towa's Strategy

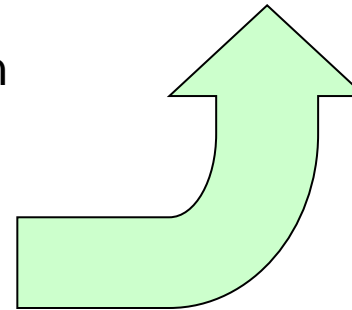
Towa's vision

Win a place
as a reliable GE company

Measures of the Mid-term Business Plan

“Improvement of the reliability”

- Establishment of Towa Direct Sales System
- Manufacture of sophisticated products with No.1 total product performance
- Improvement of stable supply system



The period when investment is necessary

- Sales System
- R&D
- Backup production system between 3 plants
- API production

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