



TOWA PHARMACEUTICAL CO., LTD.

Supplementary material of financial results for the 3Q of the year ending March 2014

February, 2014

(stock ticker number : 4553)

Summary

- Sales increased by 8.4% year-on-year. Sales exceeded the plan by ca. 1.5 bn yen, which keep high single digit growth year-on-year.
- COGS rate increased by 1.0 point year-on-year. COGS rate stays in the same level excluding the influence by consolidation of Daichi Kasei of 0.6 point.
- SGA increased by 11.6% year-on-year. Increase of R&D and Labor expenses impacts a lot. On the other hand, compared with the budget, ca. 0.3 bn yen of R&D cost and the others are behind.
- OP income decreased by 5.4% year-on-year. Compared with the budget, increase of sales, decline of COGS rate and SGA came up and OP income exceeded the budget by ca. 1.6 bn.
- Daichi Kasei is included in the consolidated financial figures from 14/3 1Q.
- The full year forecast for the year ending March 2014 was revised reflecting the 3Q results and the 4Q forecast.

Outline of the financial results for the 3Q of the year ending March 2014

Period	14/3 3Q			13/3 3Q	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Net sales	45,225	100.0	+ 8.4	41,704	100.0
COGS	22,306	49.3	+ 10.8	20,132	48.3
SGA	16,532	36.6	+ 11.6	14,818	35.5
Operating income	6,387	14.1	- 5.4	6,754	16.2
Ordinary income	7,597	16.8	+ 1.0	7,526	18.0
Net income	5,139	11.4	+ 2.8	4,998	12.0

Exchange rate
US\$1.00

2013/12 2013/9 2013/3
104.39yen 96.75yen 93.05yen

2012/12 2012/9 2012/3
85.58yen 76.60yen 81.19yen

Outline of the financial results for the 3Q of the year ending March 2014

Period	14/3 3Q (Consolidated without Daichi Kasei)			13/3 3Q	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Net sales	45,225	100.0	+ 8.4	41,704	100.0
COGS	22,018	48.7	+ 9.4	20,132	48.3
SGA	16,764	37.1	+ 13.1	14,818	35.5
Operating income	6,441	14.2	- 4.6	6,754	16.2
Ordinary income	7,659	16.9	+ 1.8	7,526	18.0
Net income	5,270	11.7	+ 5.4	4,998	12.0

Outline of the financial results for the 3Q of the year ending March 2014

(progress rate to 14/3 plan)

Period	14/3 3Q			14/3 plan (disclosed on Nov. 11 th)	
	(million Yen)	Ratio to sales (%)	Progress rate in %	(million Yen)	Ratio to sales (%)
Net sales	45,225	100.0	74.4	60,800	100.0
COGS	22,306	49.3	73.1	30,500	50.2
SGA	16,532	36.6	73.5	22,500	37.0
Operating income	6,387	14.1	81.9	7,800	12.8
Ordinary income	7,597	16.8	96.8	7,850	12.9
Net income	5,139	11.4	98.8	5,200	8.6

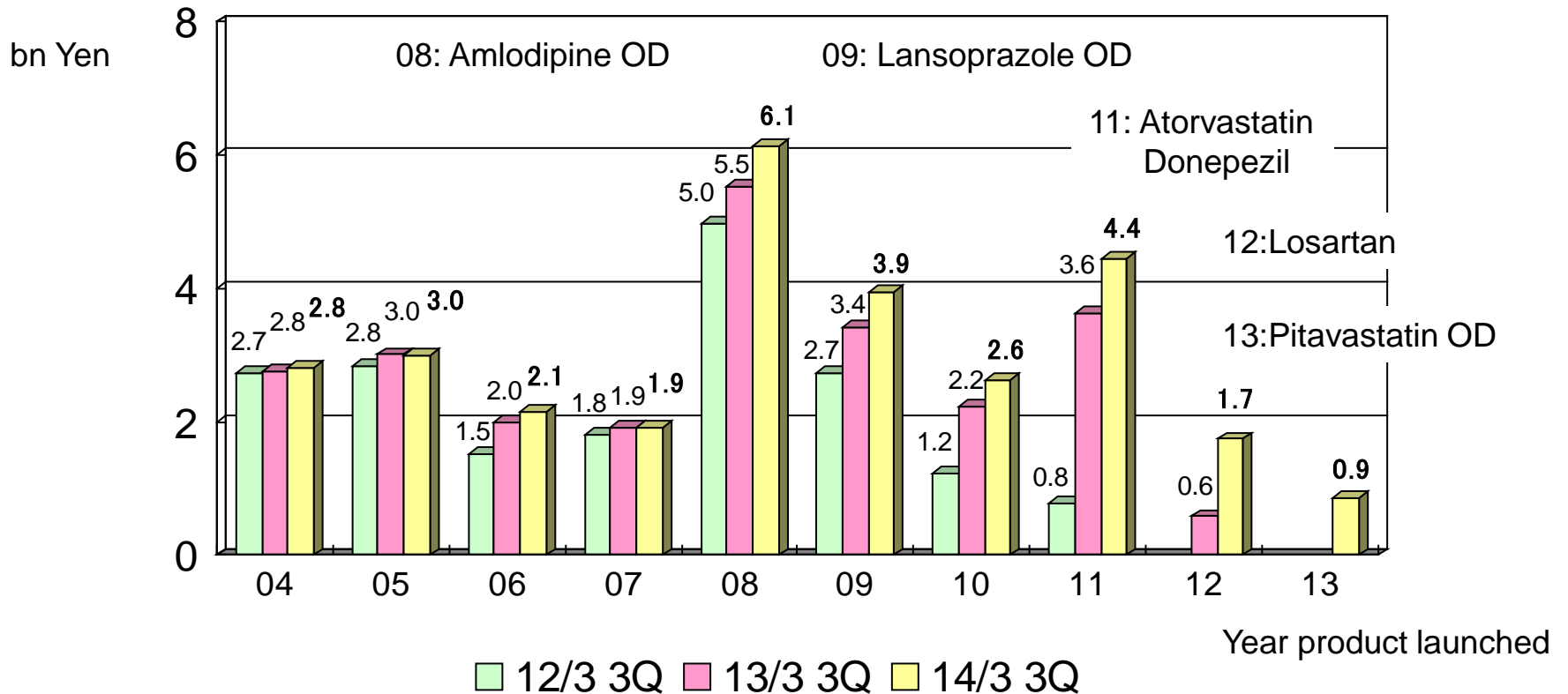
Outline of the financial results for the 3Q of the year ending March 2014

(non-consolidated)

Period	14/3 3Q			13/3 3Q	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Net sales	43,961	100.0	+ 8.5	40,504	100.0
COGS	21,264	48.4	+ 9.3	19,453	48.0
SGA	16,372	37.2	+ 13.5	14,421	35.6
Operating income	6,324	14.4	- 4.6	6,628	16.4
Ordinary income	7,545	17.2	+ 2.0	7,396	18.3
Net income	5,200	11.8	+ 5.6	4,924	12.2

Sales of products by launched year

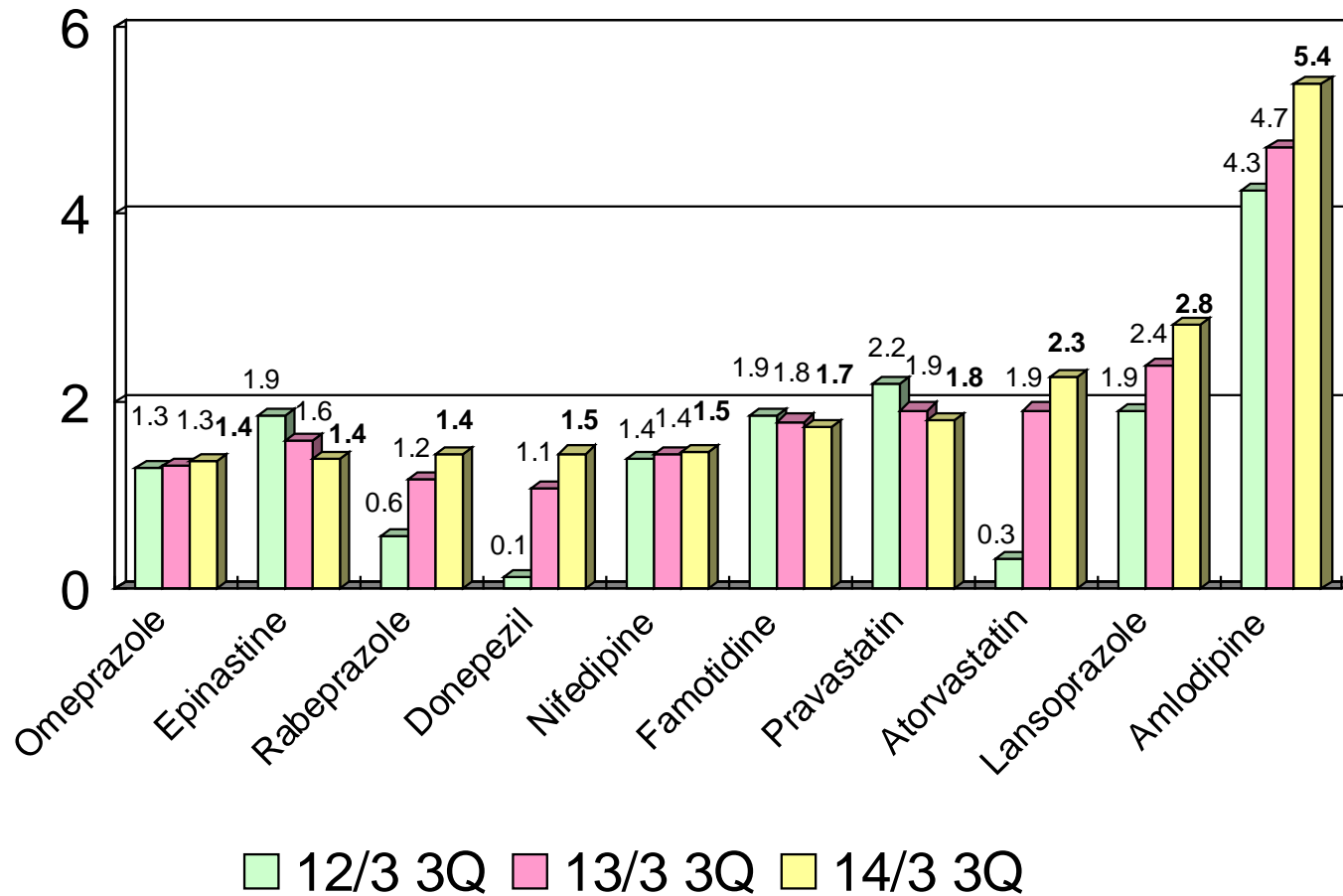
Products launched in 12 increased steadily.
Products launched in 13 started right.



Sales of leading products

Amlodipines and Lansoprazoles increased steadily.

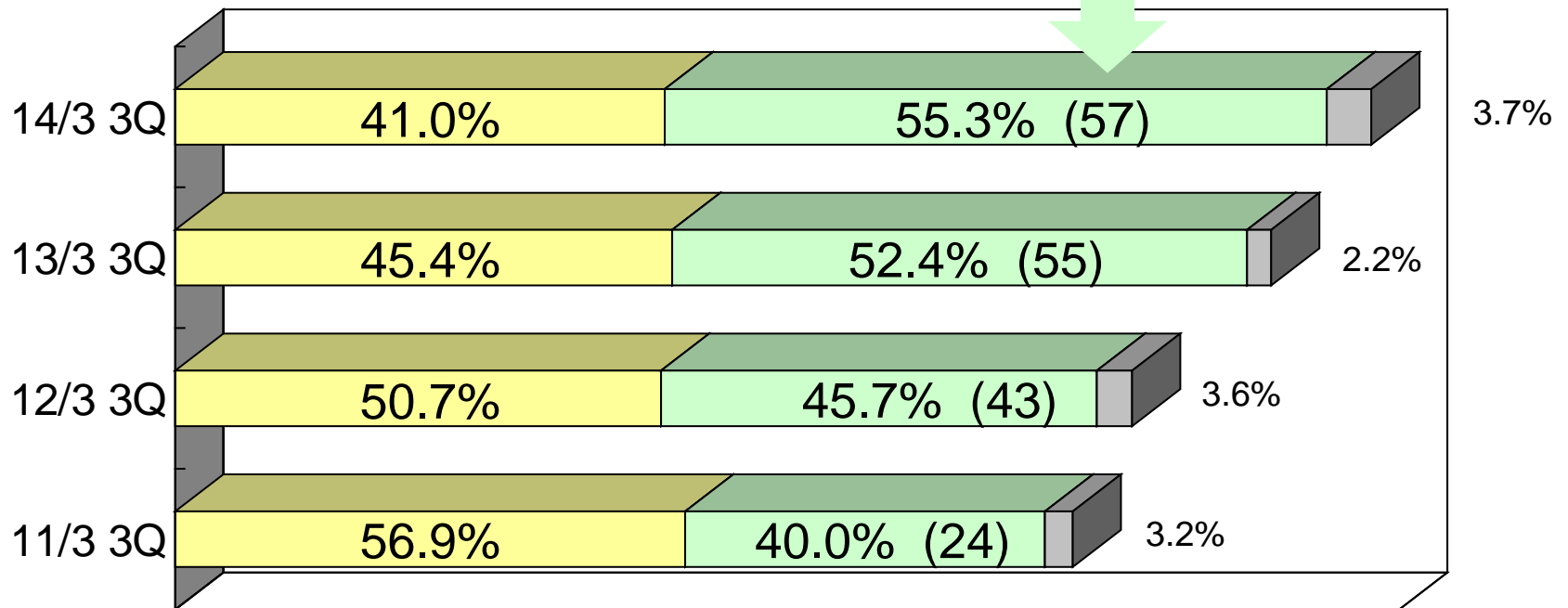
bn Yen



Sales of channels

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

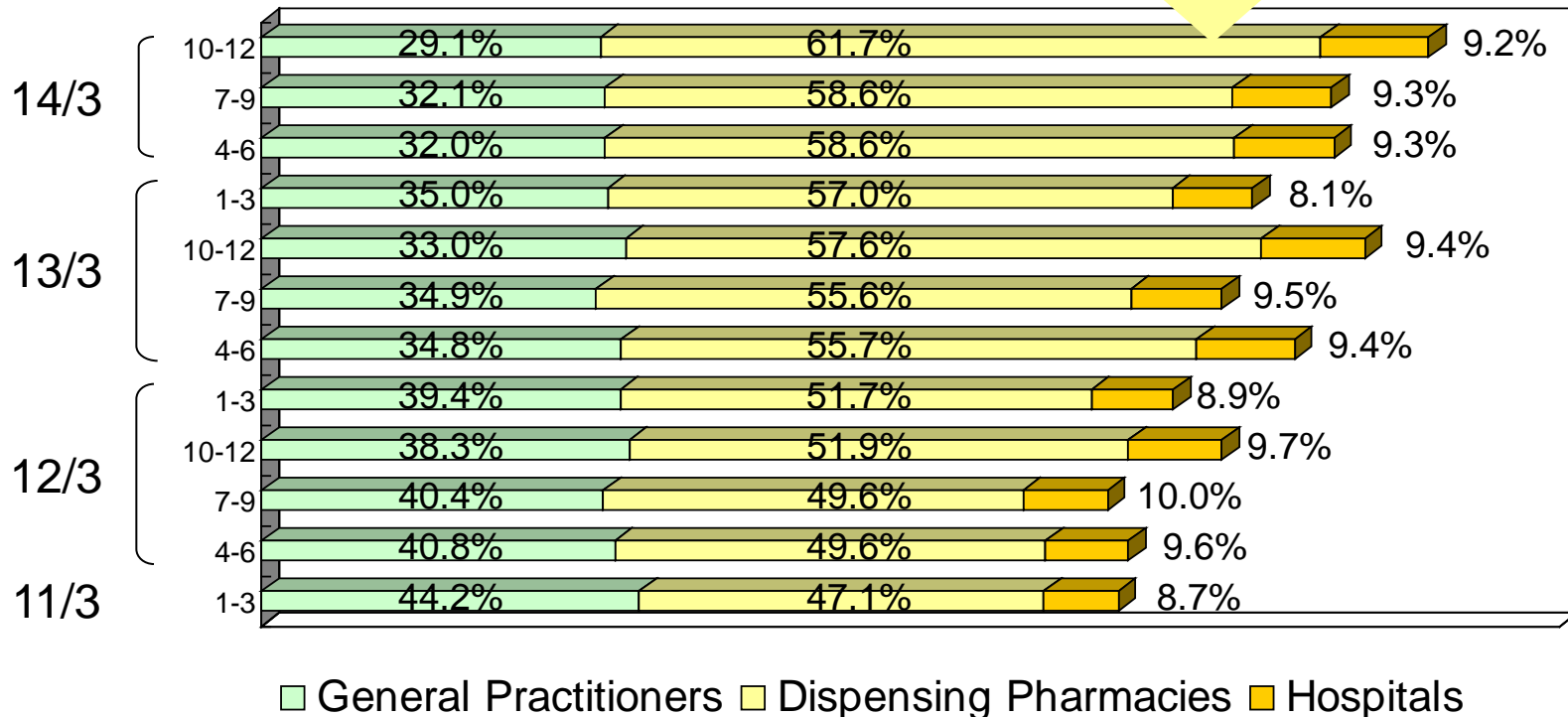
() is the number of sales offices.



■ Sales agents ■ Direct sales ■ Others

Sales of medical institutions

Sales for dispensing pharmacies exceeded 60%.



Excluding sales by other companies.

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

SGA

Period	14/3 3Q			13/3 3Q	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Labor	7,221	16.0	+ 10.3	6,548	15.7
R&D	3,954	8.7	+ 20.6	3,278	7.9
Ad.	749	1.7	+ 12.8	664	1.6
Others	4,606	10.2	+ 6.4	4,327	10.4
SGA	16,532	36.6	+ 11.6	14,818	35.5

Balance Sheets

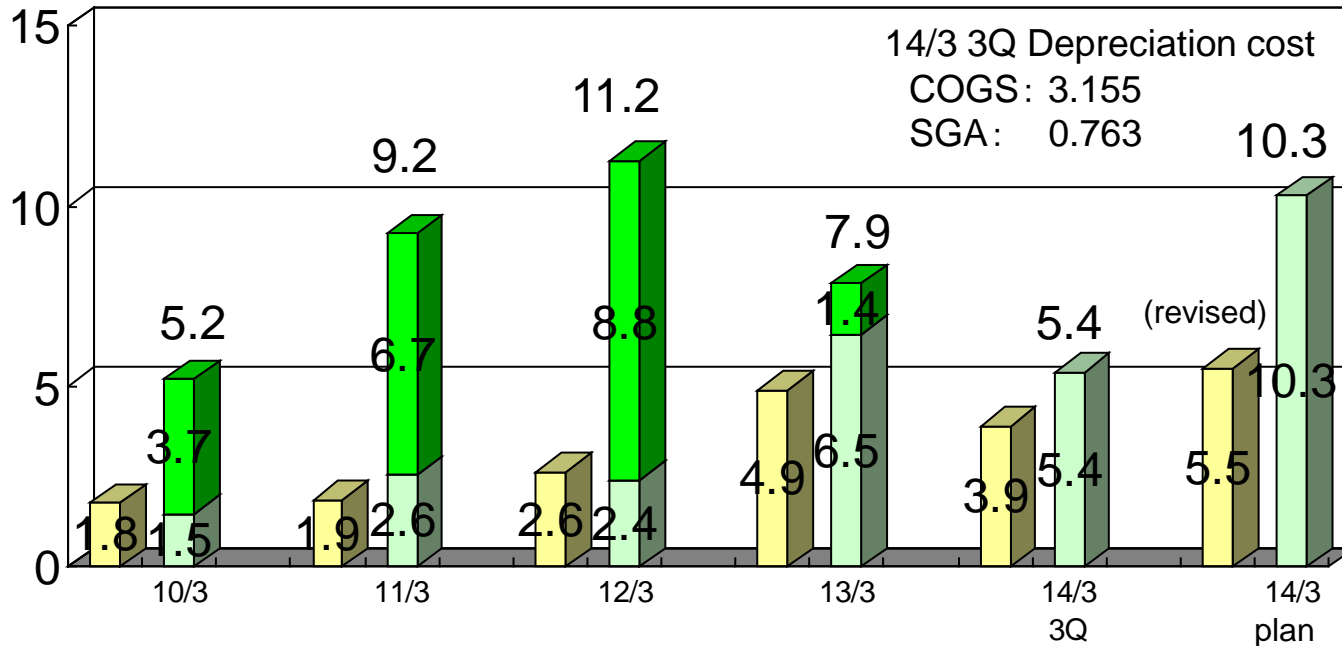
(million Yen)

	13/12	13/3	Change
Cash and deposits	5,680	3,485	+ 2,194
Trade notes and accounts receivable	18,909	17,217	+ 1,692
Marketable securities	4,000	3,000	+ 1,000
Finished products	12,185	10,450	+ 1,734
Other current assets	12,941	12,895	+ 45
Total current assets	53,716	47,049	+ 6,667
Buildings and structures	20,408	21,271	- 863
Machineries, equipments and carriers	8,312	8,388	- 75
Other fixed assets	15,193	12,996	+ 2,197
Total fixed assets	43,914	42,656	+ 1,258
Total assets	97,631	89,705	+ 7,925

	13/12	13/3	Change
Trade notes and accounts payable	8,657	7,482	+ 1,174
Current portion of long-term debt	2,925	2,825	+ 100
Accrued income taxes	1,087	1,667	- 580
Other current liabilities	7,359	7,543	- 184
Total current liabilities	20,029	19,519	+ 510
Long-term debt	16,696	12,908	+ 3,787
Other long-term liabilities	1,617	1,667	- 49
Total long-term liabilities	18,313	14,575	+ 3,737
Total liabilities	38,343	34,095	+ 4,248
Total net assets	59,288	55,610	+ 3,677
Total liabilities and net assets	97,631	89,705	+ 7,925

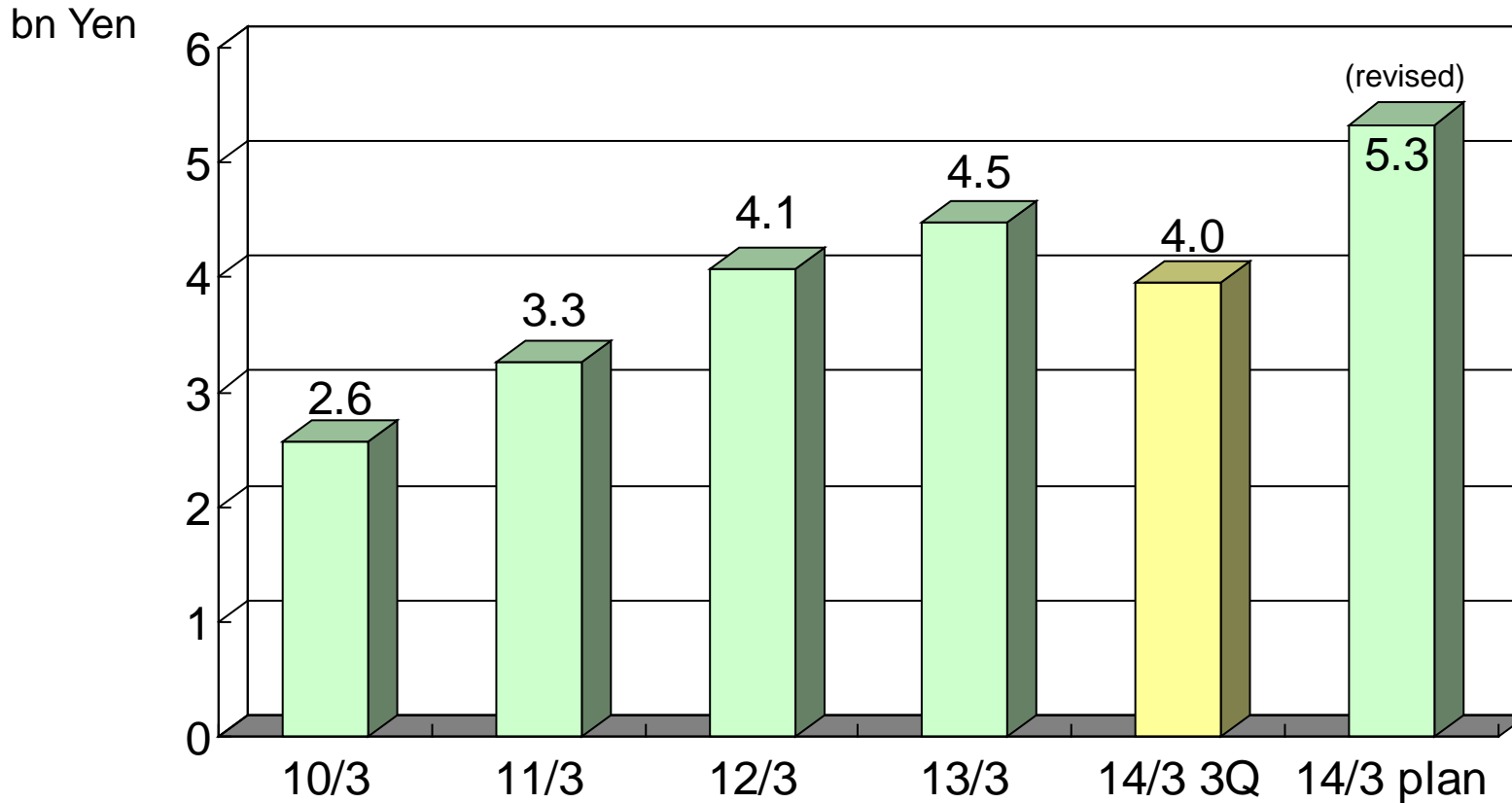
Capital expenditure and depreciation cost

bn Yen



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

R&D expenditure



Based on unused ca. 0.3 bn yen R&D budget by 3Q,
full-year R&D budget has revised from 5.6 bn yen to 5.3 bn yen.

Financial forecast for the year ending March 2014

The full year forecast for the year ending March 2014 was revised reflecting the 3Q results and the 4Q forecast.

Period	14/3 plan (disclosed on Feb.10 th)			13/3	
	(million Yen)	Ratio to sales (%)	Change	(million Yen)	Ratio to sales (%)
Net sales	61,300	100.0	+ 11.0	55,241	100.0
COGS	30,200	49.3	+ 9.8	27,500	49.8
SGA	22,100	36.1	+ 10.4	20,018	36.2
Operating income	9,000	14.7	+ 16.5	7,723	14.0
Ordinary income	9,700	15.8	+ 1.6	9,544	17.3
Net income	6,600	10.8	+ 6.4	6,201	11.2

Financial forecast for the year ending March 2014

Period	14/3 plan (disclosed on Feb.10 th)			14/3 plan (disclosed on Nov. 11 th)	
	(million Yen)	Ratio to sales (%)	Change	(million Yen)	Ratio to sales (%)
Net sales	61,300	100.0	+ 500	60,800	100.0
COGS	30,200	49.3	- 300	30,500	50.2
SGA	22,100	36.1	- 400	22,500	37.0
Operating income	9,000	14.7	+ 1,200	7,800	12.8
Ordinary income	9,700	15.8	+ 1,850	7,850	12.9
Net income	6,600	10.8	+ 1,400	5,200	8.6

Net sales: exceeded the budget by 3Q +1,500 million yen

Revised 4Q sales budget conservatively on the temporary demand before sales tax increase
2,500 million yen → 1,500 million yen (- 1,000 million yen)

COGS: Revised reflecting lowering COGS rate

SGA: Revised reflecting unused R&D budget and others by 3Q

Others: Reflecting potential stronger Yen, non-operating loss of 500 million yen is included in 4Q conservatively.

Revision of the NHI pricing system for GE

[GE NHI pricing]

(1) GE NHI price to be listed

- 60% of the corresponding branded NHI price (50% for oral GE more than 10 products of one branded)

(2) GE NHI price already listed (price grouping)

- GE NHI prices are categorized into three groups, which are one group of the GE NHI prices between 0-30% of the highest price (the corresponding branded price), one between 30-50% and one between 50-100%, and weighted average price in each group is adopted as revised NHI price respectively.

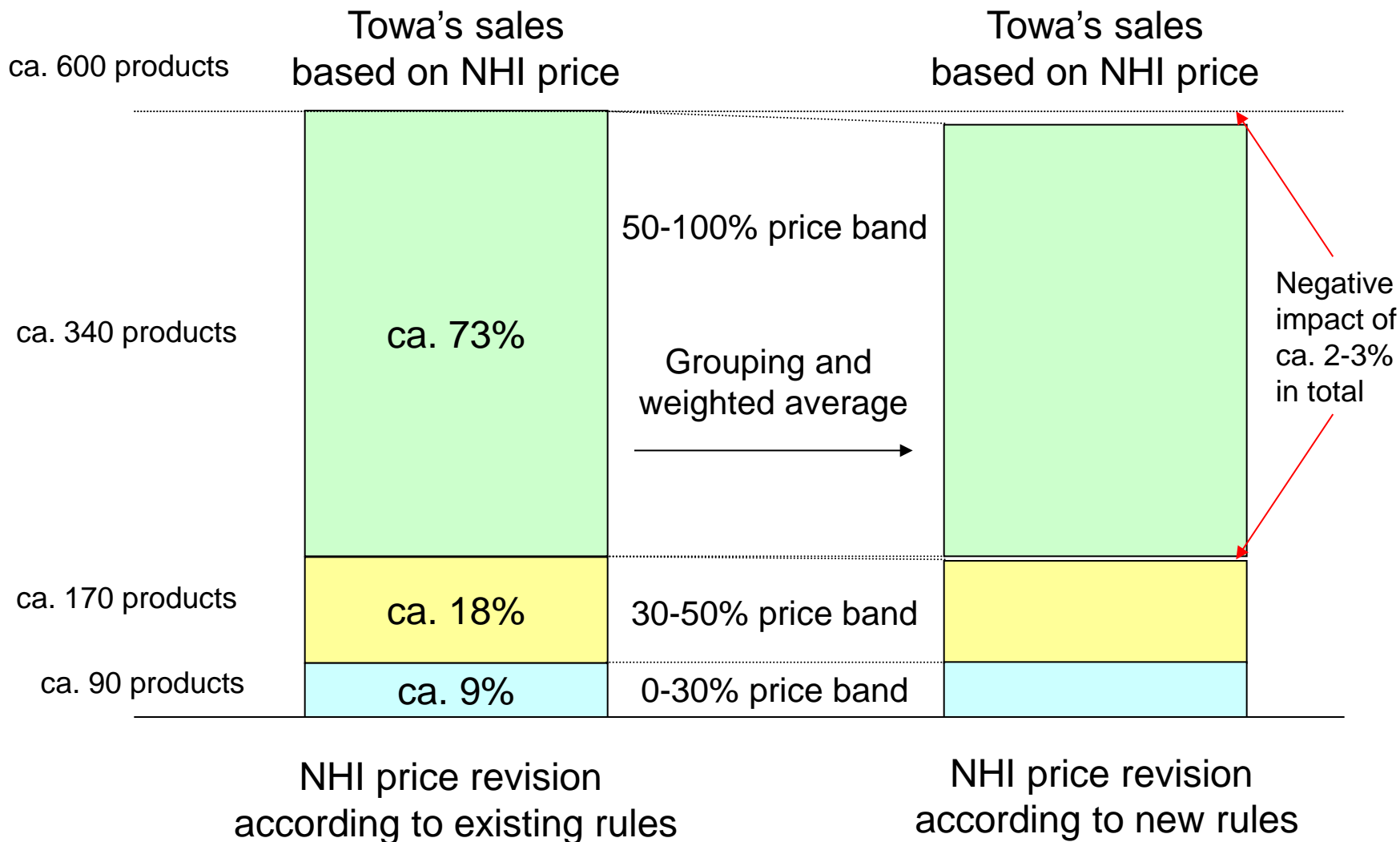
[Promotion of GE usage]

- New target of 60% GE penetration (GE roadmap)
- To be discussed in the Central Social Insurance Medical Council
 - [Dispensing pharmacy] Generic incentive for dispensing pharmacies (higher requirements under new GE penetration index)
 - [Hospital] Addition of GE index in DPC functional evaluation coefficient II. Higher GE penetration will be evaluated (maximum 60% in volume).

Change of NHI pricing system for GE and its impact

Item	(1) GE NHI price to be listed	(2) GE NHI price already listed (price grouping)
Current	70% of the corresponding branded NHI price (60% for oral GE more than 10 products of one branded)	<ul style="list-style-type: none"> • One price in each 3% for not less than 30% of the highest price (the corresponding branded price) • One price for 20-30% of the highest price • One price for 0-20% of the highest price (13 prices as maximum)
New	60% of the corresponding branded NHI price (50% for oral GE more than 10 products of one branded)	<p>[3-price grouping]</p> <ul style="list-style-type: none"> • Weighted average price obtained from calculated prices between 50-100% of the highest price (the corresponding branded price) • Weighted average price obtained from calculated prices between 30-50% of the highest price • Weighted average price obtained from calculated prices between 0-30% of the highest price
Impact to industry	<ul style="list-style-type: none"> • Lower profitability for the future • Less product launch ? 	<ul style="list-style-type: none"> • No impact to NHI price revision rate of industry as a whole • Market price considering lower limit of coming grouping price band to be estimated in case of no change in the pricing system ? • Competitive environment focusing on factors other than price ?
Impact to Towa	<ul style="list-style-type: none"> • No impact in the short term • Slower growth of sales and profit in the mid-term 	<ul style="list-style-type: none"> • The number of price-reduced products will be more than that of price-raised products as a result of weighted average. • Towa's fair pricing strategy will be maintained but it must be modified partially. • Instead, Towa's competitive advantage must be relatively enhanced by "value-added products", etc.

Impact to Towa's NHI prices due to revision of the NHI pricing system for GE on April 2014



Remarks: Accuracy and reliability are not guaranteed due to in-house estimation using various assumptions, and also no verification is possible afterward.

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