



TOWA PHARMACEUTICAL CO., LTD.

Supplementary material of financial results for the 2Q of the year ending March 2017

November, 2016

(stock ticker number : 4553)

Summary

- Sales increased by 3.5% year-on-year. Increase of sales volume contributed to the sales growth. Sales is behind the plan due to insufficient reduction of influence of decrease in our NHI price revision of April 2016 by sales expansion of recently launched products and main products, and also due to sales volume was behind the plan.
- COGS rate increased by 4.7 point year-on-year due to decrease of NHI prices of our main products, as a main factor, and also due to manufactured volume behind the plan.
- SGA increased by 13.7% year-on-year. Main factors are increases in R&D cost due to increase of products to be developed and labor cost by increase of employees in sales force.
- OP income decreased by 57.9% year-on-year as a results of the above.
- Profit attributable to owners of parent was 85 million yen due to the result that loss on revaluation of currency swaps for the purpose of currency hedge of API payments was 2,374 million yen due to sharp appreciation of the yen in this period.
- The full-year plan for 17/3 was revised in consideration of the results of 2Q.

Outline of the financial results for the 2Q of the year ending March 2017

Period	17/3 2Q			16/3 2Q	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Net sales	40,521	100.0	+ 3.5	39,162	100.0
COGS	21,834	53.9	+ 13.4	19,251	49.2
SGA	16,363	40.4	+ 13.7	14,388	36.7
Operating income	2,323	5.7	- 57.9	5,522	14.1
Ordinary income	383	0.9	- 93.2	5,613	14.3
Profit attributable to owners of parent	85	0.2	- 97.9	4,014	10.3

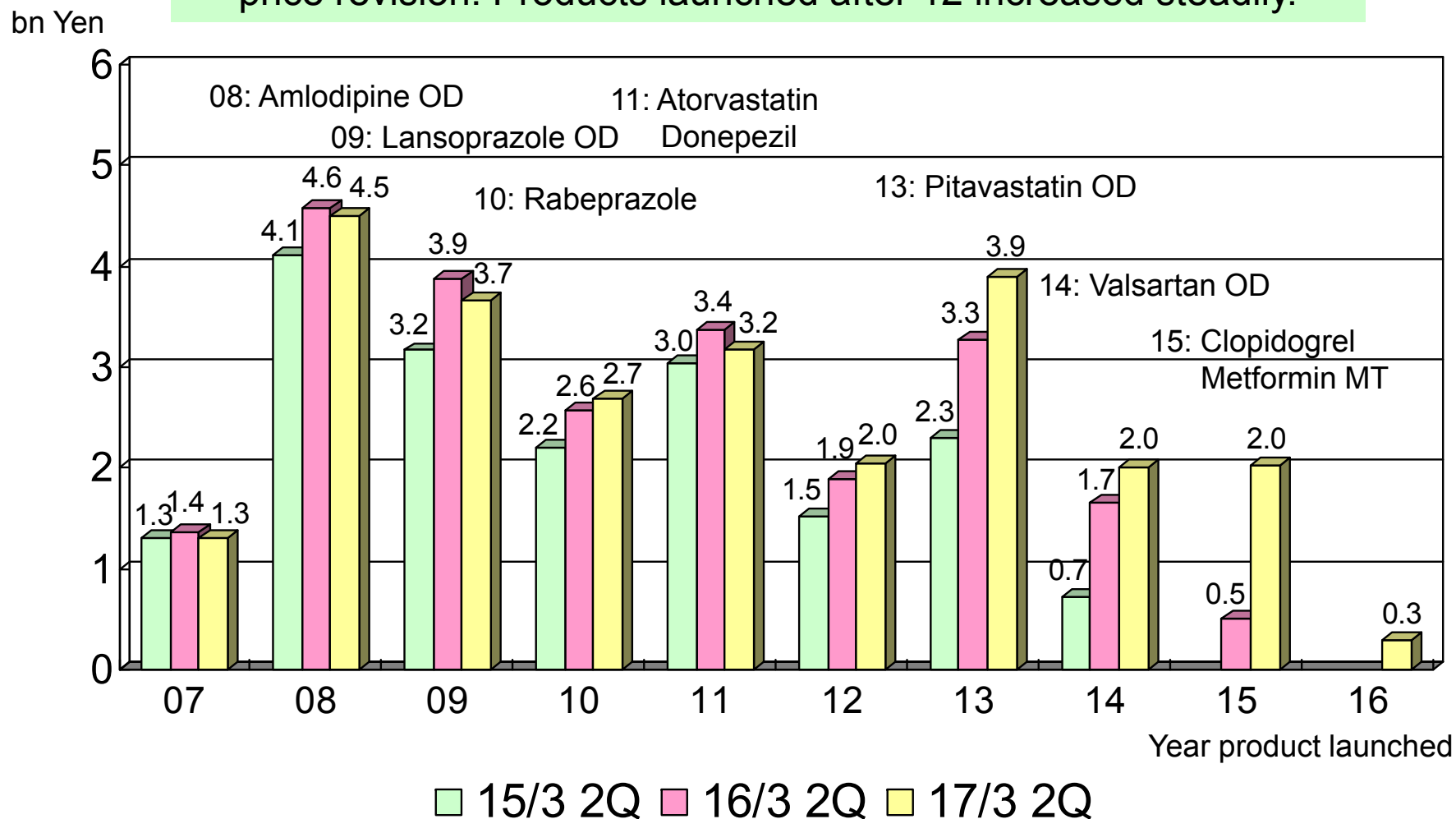
Exchange rate	2016/9	2016/6	2016/3	2015/9	2015/6	2015/3
US\$1.00	100.12 yen	101.91 yen	111.68 yen	118.96 yen	121.45 yen	119.17 yen

Outline of the financial results for the 2Q of the year ending March 2017 (progress rate)

Period	17/3							
	2Q		2Q plan			Full-year plan (disclosed on May 13)		
	(million Yen)	Ratio to sales (%)	(million Yen)	Ratio to sales (%)	Progress rate in %	(million Yen)	Ratio to sales (%)	Progress rate in %
Net sales	40,521	100.0	44,500	100.0	91.1	93,500	100.0	43.3
COGS	21,834	53.9	22,900	51.5	95.3	48,200	51.6	45.3
SGA	16,363	40.4	17,500	39.3	93.5	34,800	37.2	47.0
Operating income	2,323	5.7	4,100	9.2	56.7	10,500	11.2	22.1
Ordinary income	383	0.9	4,030	9.1	9.5	10,350	11.1	3.7
Profit attributable to owners of parent	85	0.2	2,965	6.7	2.9	7,450	8.0	1.1

Sales of products by launched year

Volume of sold products increased under strong impact of the NHI price revision. Products launched after 12 increased steadily.

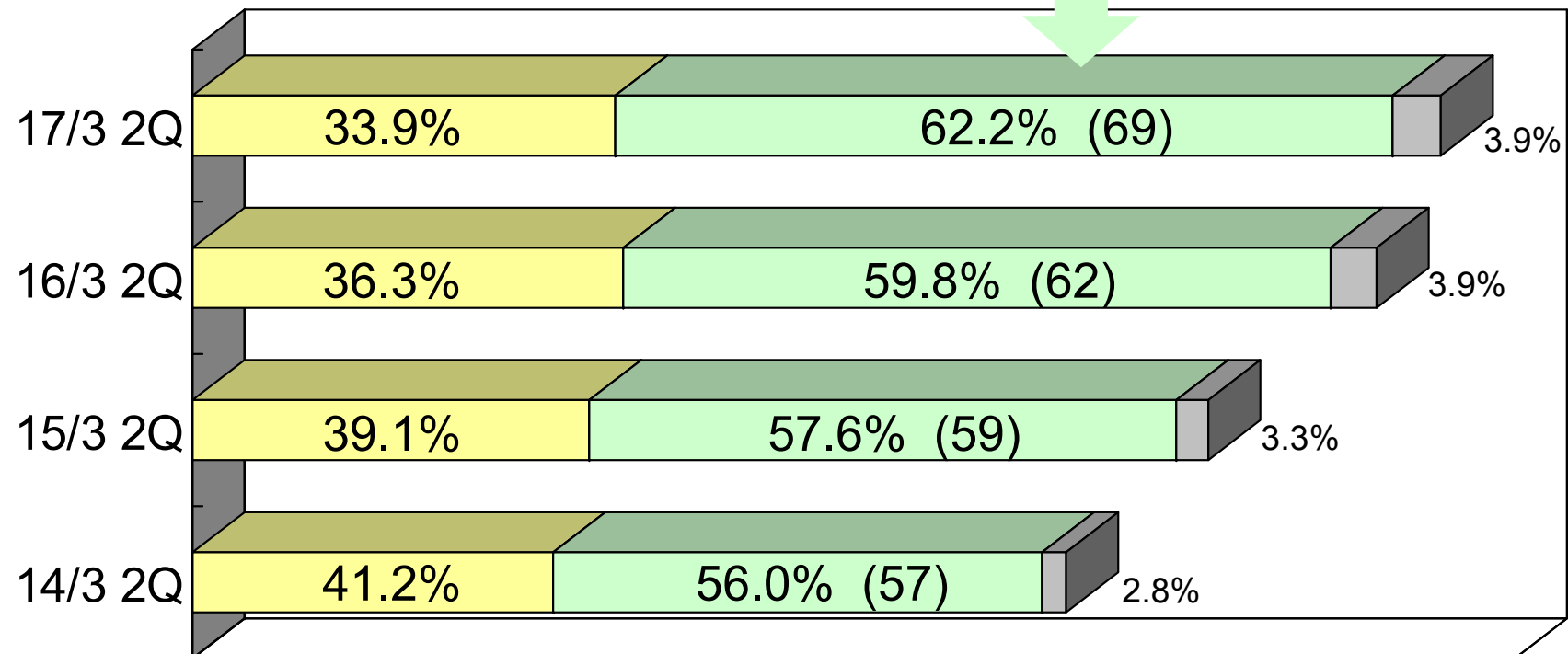


Sales of channels

(non-consolidated)

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.

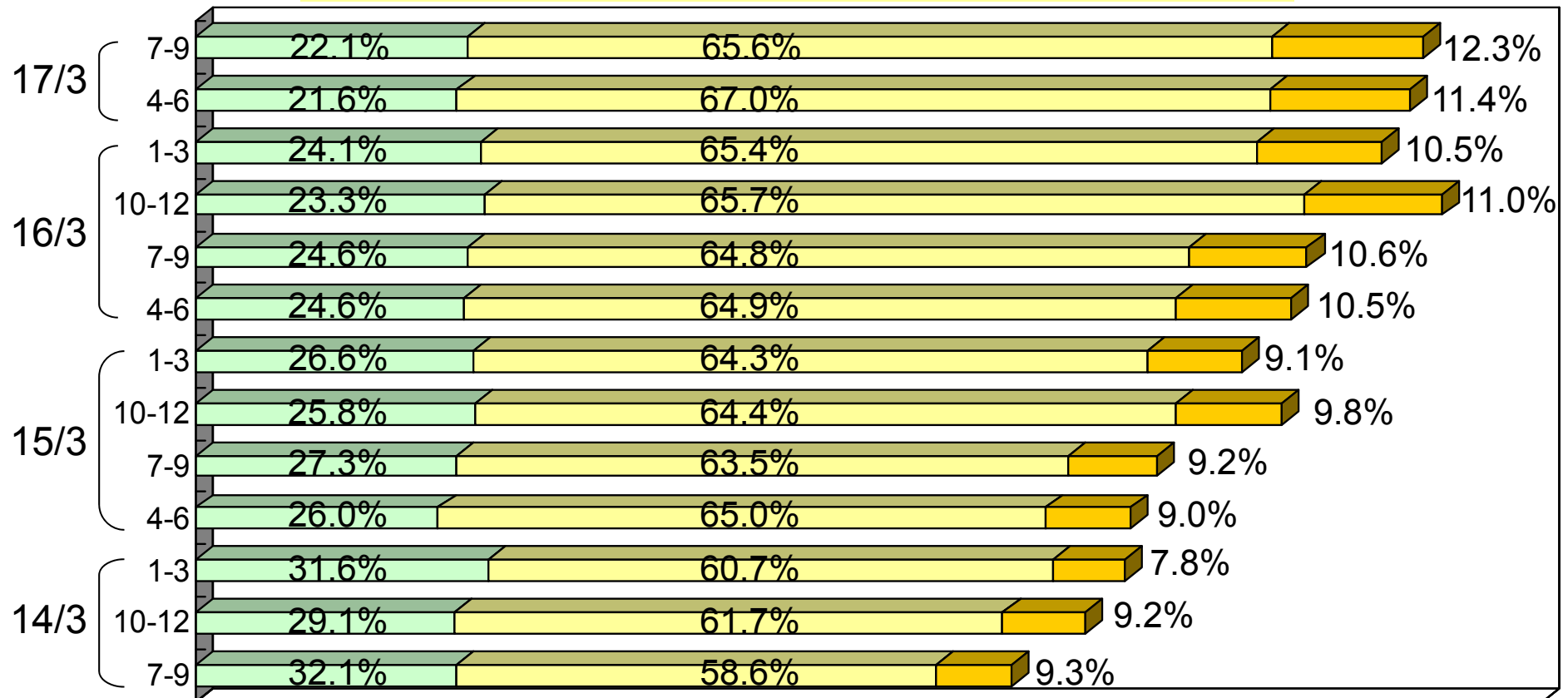


■ Sales agent ■ Direct sales ■ Others

Sales of medical institutions

(non-consolidated)

Sales rate of dispensing pharmacies and hospitals keeps well under sales growth.



■ General Practitioners
 ■ Dispensing Pharmacies
 ■ Hospitals

Excluding sales by other companies.

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

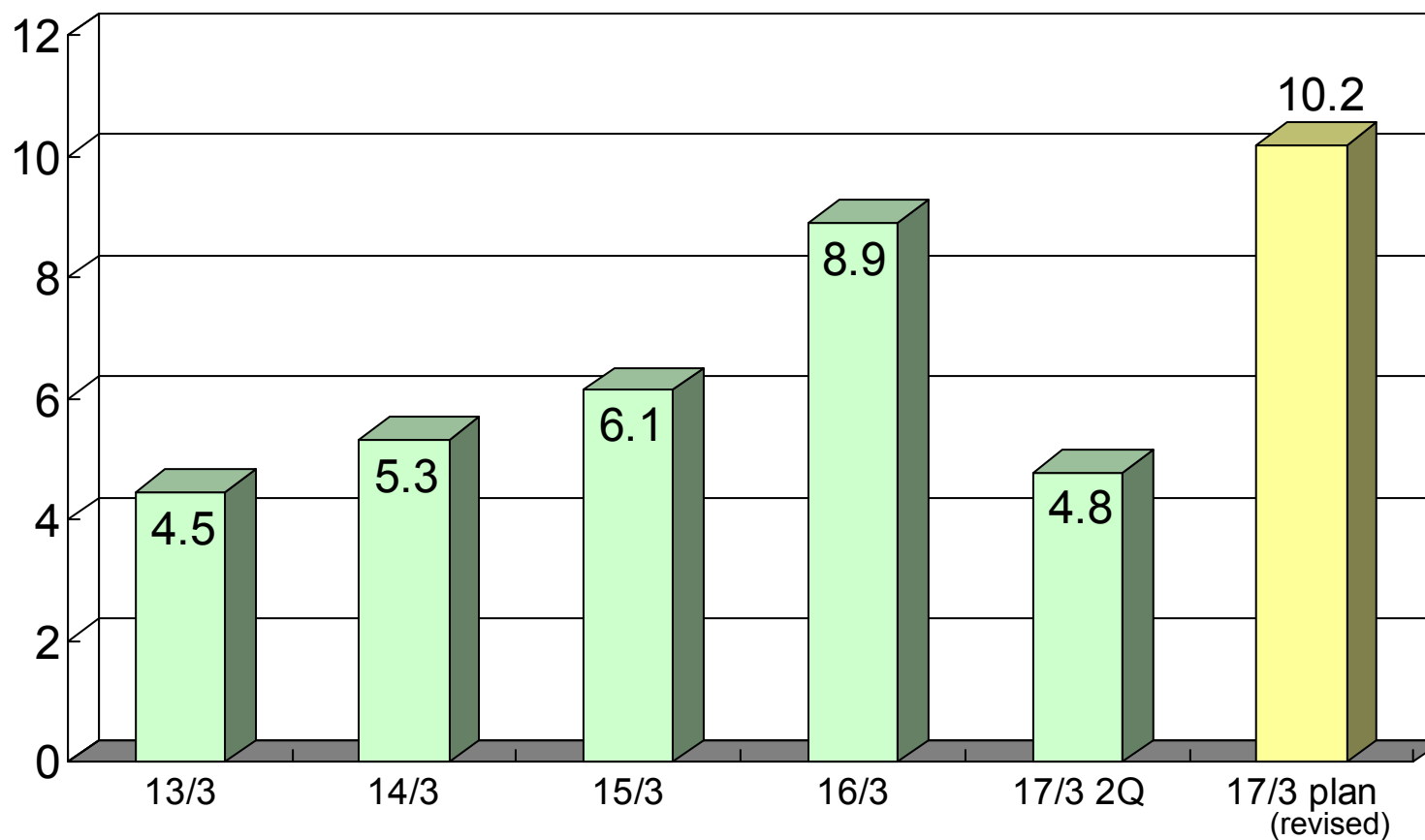
SGA

Period	17/3 2Q			16/3 2Q	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Labor	6,695	16.5	+ 14.6	5,840	14.9
R&D	4,771	11.8	+ 28.1	3,726	9.5
Packing and freight	987	2.4	+ 34.7	733	1.9
Depreciation cost	513	1.3	+ 14.2	449	1.1
Commission	467	1.2	- 2.4	479	1.2
Ad.	545	1.3	- 32.1	803	2.1
Others	2,381	5.9	+ 1.1	2,356	6.0
SGA	16,363	40.4	+ 13.7	14,388	36.7

SGA increased by 13.7% year-on-year. Main factors are increases in R&D cost due to increase of products to be developed and labor cost by increase of employees in sales force.

R&D expenditure

bn Yen



R&D cost was revised from 10.5 bn yen to 10.2 bn yen due to revised full-year plan.

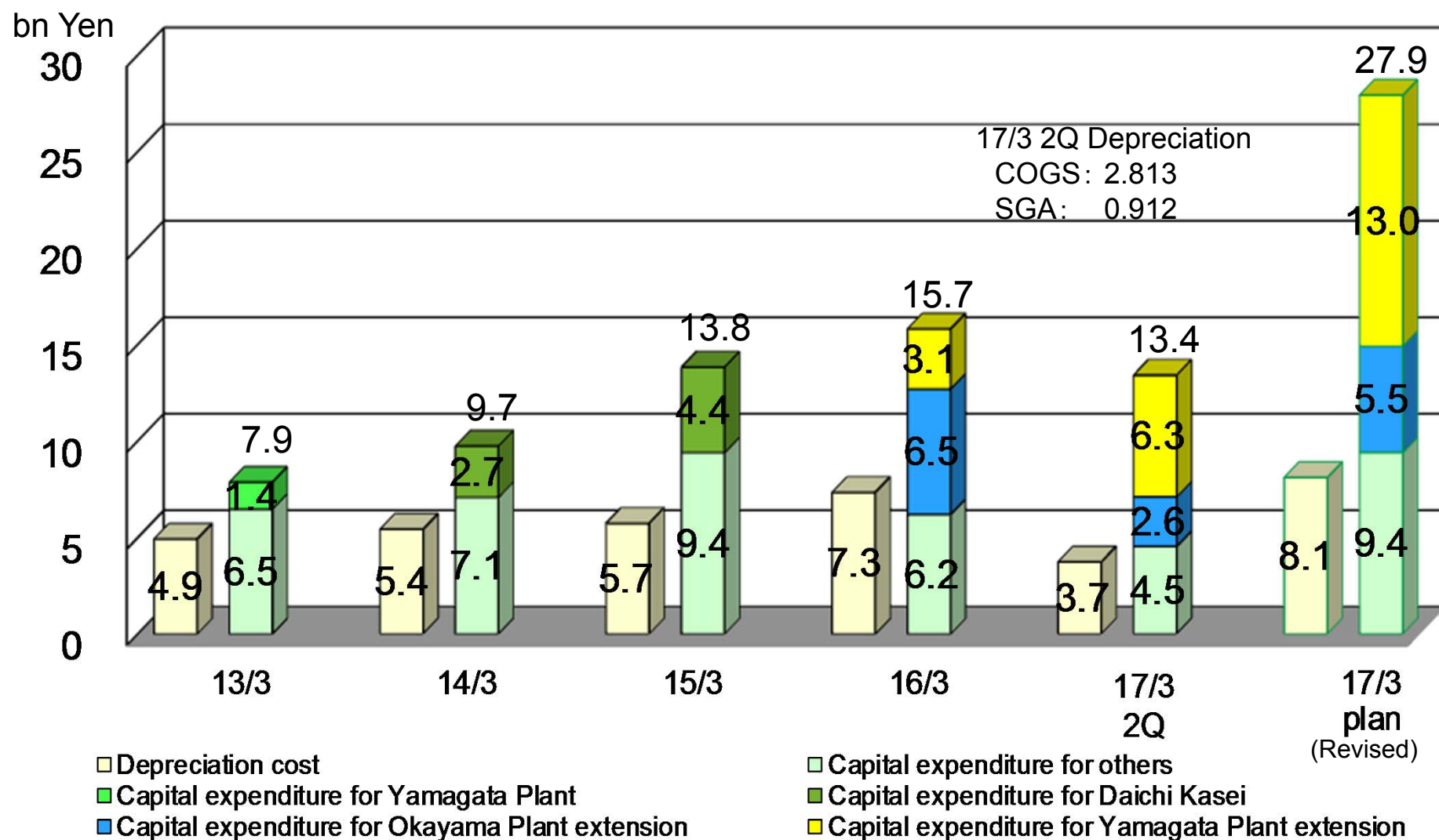
Balance Sheets

(million Yen)

	16/9	16/3	Change
Cash and deposits	19,707	20,526	- 818
Trade notes and accounts receivable	24,046	25,802	- 1,756
Marketable securities	4,000	5,000	- 1,000
Finished products	22,897	21,039	+ 1,857
Other current assets	20,495	22,763	- 2,268
Total current assets	91,146	95,132	- 3,985
Buildings and structures	30,231	24,170	+ 6,060
Machineries, equipments and carriers	14,725	14,618	+ 107
Construction in progress	11,267	8,146	+ 3,120
Other fixed assets	15,171	14,783	+ 387
Total fixed assets	71,395	61,719	+ 9,676
Total assets	162,542	156,851	+ 5,690

	16/9	16/3	Change
Trade notes and accounts payable	15,231	14,136	+ 1,095
Current portion of long-term debt	2,404	2,033	+ 370
Income taxes payable	288	258	+ 30
Other current liabilities	17,808	14,833	+ 2,975
Total current liabilities	35,733	31,262	+ 4,471
Long-term debt	40,161	38,435	+ 1,726
Convertible bond	15,062	15,067	- 5
Other long-term liabilities	1,529	1,481	+ 47
Total long-term liabilities	56,753	54,984	+ 1,769
Total liabilities	92,487	86,246	+ 6,240
Total net assets	70,055	70,605	- 549
Total liabilities and net assets	162,542	156,851	+ 5,690

Capital expenditure and depreciation cost



Revised plan of major capital expenditure and depreciation cost

Period	16/3	17/3 plan		18/3 plan		Total
	(million Yen)	(million Yen)	Change in %	(million Yen)	Change in %	(million Yen)
Capital expenditure	15,792	36,300	+ 129.9	27,300	- 24.8	79,392
Revised		27,900	+ 76.7	18,900	- 32.3	62,592
Okayama Plant	6,499	7,000	+ 7.7	1,000	- 85.7	14,499
Revised		5,500	- 15.4	2,500	- 54.5	14,499
Yamagata Plant	3,106	20,200	+ 550.4	23,600	+ 16.8	46,906
Revised		13,000	+ 318.5	12,300	- 5.4	28,406
Osaka Plant	728	900	+ 23.6	1,100	+ 22.2	2,728
Revised		700	- 3.8	500	- 28.6	1,928
Eastern Distribution Center	744	2,400	+ 222.6	0	-	3,144
Revised		3,200	+ 330.1	30	- 99.1	3,974
Others	4,715	5,600	+ 18.8	1,400	- 75.0	11,715
Revised		5,300	+ 12.4	3,400	- 35.8	13,415
Depreciation cost	7,329	9,080	+ 23.9	11,410	+ 25.7	27,819
Revised		8,100	+ 10.5	9,070	+ 12.0	24,499

Major change

- A part of new buildings is postponed to be constructed. (ca. 6.0 bn yen)
- A part of manufacturing facilities is postponed to be introduced. (ca. 12.5 bn yen)

Enhancement of manufacturing capacity

Capacity investment in Okayama Plant

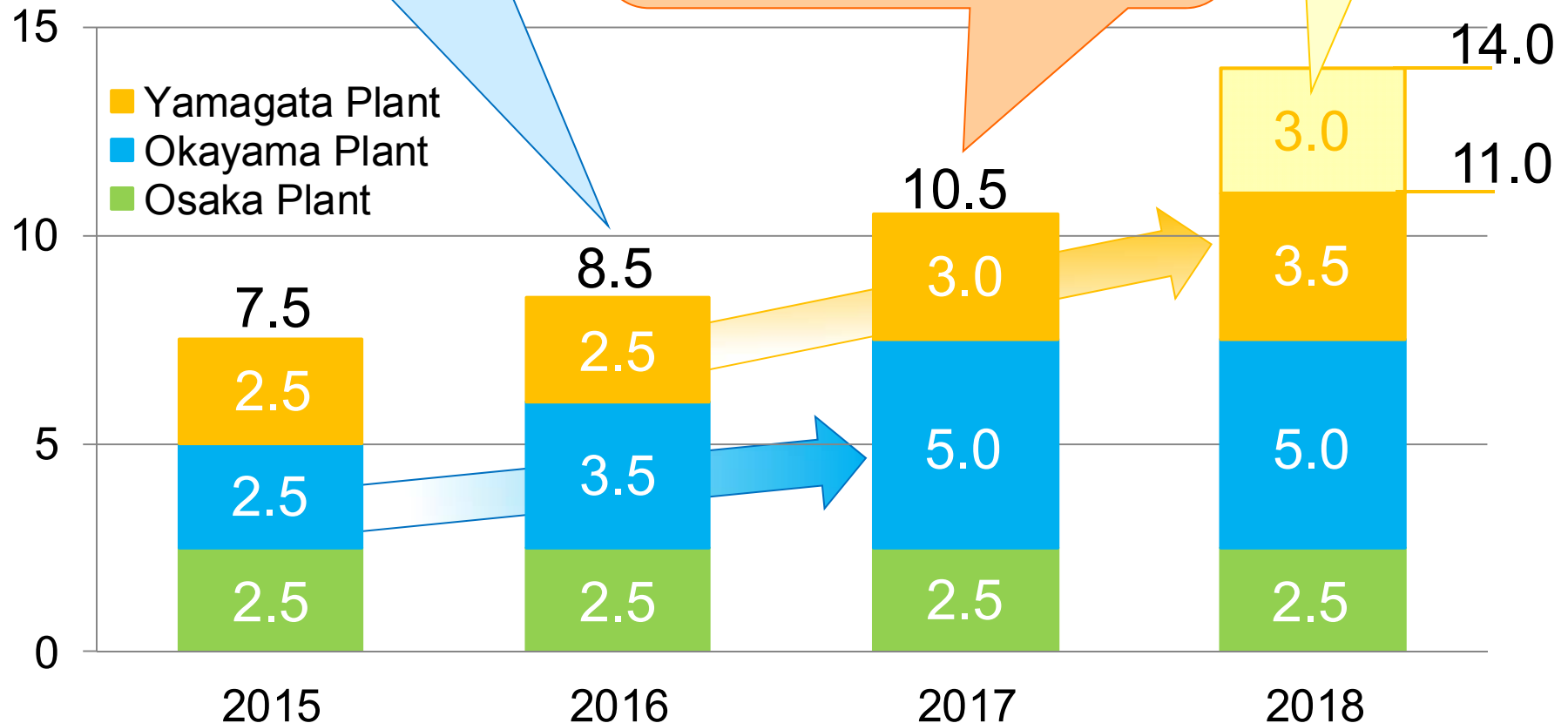
- Extension and reconstruction of buildings
- Enhancement of manufacturing facilities

Capacity investment in Yamagata Plant

- Extension and reconstruction of buildings (6.5 bn tablets capacity as buildings)
- Relocation of Eastern Distribution Center
- Enhancement of manufacturing facilities

Possible to enhance manufacturing capacity by introduction of manufacturing facilities

bn tablets



Revised financial forecast for the year ending March 2017

Period	17/3 revised plan (disclosed on October 28)				17/3 plan (disclosed on May 13)	
	(million Yen)	Ratio to sales (%)	Change in %	Change in % to original plan	(million Yen)	Ratio to sales (%)
Net sales	88,400	100.0	+ 7.7	- 5.5	93,500	100.0
COGS	47,500	53.7	+ 18.0	- 1.5	48,200	51.6
SGA	33,700	38.1	+ 9.7	- 3.2	34,800	37.2
Operating income	7,200	8.1	- 35.3	- 31.4	10,500	11.2
Ordinary income	5,100	5.8	- 49.8	- 50.7	10,350	11.1
Profit attributable to owners of parent	3,600	4.1	- 53.2	- 51.7	7,450	8.0

Net sales: The full-year plan for 17/3 was revised in consideration of the results of 2Q. Main products are focused for sales extension in the second half.

COGS:COGS is revised due to decrease of the NHI price of main products and decrease of manufacturing volume by adjustment of manufacturing plan.

SGA:SGA is revised as results of cost reduction. Labor cost is 13,600 million yen and R&D cost is 10,200 million yen.

Ordinary income: Forecast of exchange rate is uncertain, and 2,374 million yen of loss on revaluation of currency swaps for 2Q is expected for the full-year plan.

Revised financial forecast for the year ending March 2017 (progress rate)

Period	17/3				
	2Q		Revised full-year plan (disclosed on October 28)		
	(million Yen)	Ratio to sales (%)	(million Yen)	Ratio to sales (%)	Progress rate in %
Net sales	40,521	100.0	88,400	100.0	45.8
COGS	21,834	53.9	47,500	53.7	46.0
SGA	16,363	40.4	33,700	38.1	48.6
Operating income	2,323	5.7	7,200	8.1	32.3
Ordinary income	383	0.9	5,100	5.8	7.5
Profit attributable to owners of parent	85	0.2	3,600	4.1	2.4

Major products to be launched in December 2016

Therapeutic Category	Product Name	Branded Products (Company)	Sales (bn Yen / year)
Leukotriene receptor antagonist /Anti-bronchial asthma and allergic rhinitis drug	MONTELUKAST TABLETS 5mg/10mg "TOWA"	KIPRES Tablets 5mg/10mg(Kyorin) SINGULAIR Tablets 5mg/10mg(MSD)	66.7
Therapeutic agent for osteoporosis	RALOXIFENE HYDROCHLORIDE TABLETS 60mg "TOWA"	Evista Tablets 60mg (Lilly)	19.7
Therapeutic agent for secondary hyperparathyroidism	MAXACALCITOL INTRAVENOUS INJECTION FOR DIALYSIS 2.5µg/5µg/10µg "TOWA"	OXAROL Injection 2.5µg/ 5µg/10µg (Chugai)	16.0
Therapeutic agent for prostate cancer	BICALUTAMIDE OD TABLETS 80mg "TOWA"	Casodex OD Tablet 80mg (Astrazeneca)	10.3
Selective serotonin reuptake inhibitor	SERTRALINE TABLETS 100mg "TOWA"	JZOLOFT Tablets 100mg (Pfizer)	0.6
	SERTRALINE OD TABLETS 100mg "TOWA"	JZOLOFT OD Tablets 100mg (Pfizer)	0.1

13 products in total

Annual sales budget: ca. 0.3 bn yen for products to be launched in December 2016

MONTELUKAST 0.17 bn yen

RALOXIFENE 0.05 bn yen

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