



TOWA PHARMACEUTICAL CO., LTD.

Mid-term Business Plan 2015-2017

May, 2015

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1. Review of 2011-2014

Measures of the Mid-term Business Plan 2011-2013 and 2015/03

- Establishment of Towa Direct Sales System
 - ✓ Sales growth with sales agents
 - ✓ Strengthening sales network by sales agents and sales office
 - ✓ 61 sales office as of the end of March, 2015
- Manufacture of sophisticated products with No. 1 total product performance
 - ✓ Improving products by evaluation of customer's demands
 - ✓ Improving products from re-selection of API
- Improvement of stable supply system
 - ✓ 7.5 bn tablets capacity of domestic 3 plants
 - ✓ Two distribution center in the East and West of Japan

1. Review of 2011-2014

(million yen, %)

Period	2012/03			2013/03			2014/03			2015/03		
	Plan	Result	Progress rate	Plan	Result	Progress rate	Plan	Result	Progress rate	Plan	Result	Progress rate
Net Sales	48,000	48,719	101.5	52,200	55,241	105.8	56,200	61,351	109.2	72,000	71,470	99.3
COGS	22,000	21,986	99.9	26,800	27,500	102.6	28,100	31,121	110.8	35,700	34,487	96.6
SGA	17,600	17,624	100.1	19,100	20,018	104.8	20,200	22,523	111.5	26,300	25,877	98.4
(Labor)	7,800	7,790	99.9	8,400	8,790	104.6	8,900	9,706	109.1	-	10,563	-
(R&D)	4,000	4,076	101.9	4,400	4,478	101.8	4,700	5,296	112.7	-	6,144	-
(Others)	5,800	5,758	99.3	6,300	6,750	107.1	6,600	7,521	114.0	-	9,170	-
Operating Income	8,400	9,107	108.4	6,300	7,723	122.6	7,900	7,706	97.5	10,000	11,105	111.1
Ordinary income	8,300	9,841	118.6	6,200	9,544	153.9	7,800	8,834	113.3	11,000	15,437	140.3
Net income	5,100	5,737	112.5	3,800	6,201	163.2	4,800	5,992	124.8	8,060	11,118	137.9
Dividend per share	75 yen	75 yen	-	70 yen	70 yen	-	70 yen	70 yen	-	95 yen	95 yen	-
MRs	506	506	-	550	556	-	600	597	-	-	668	-

From 2012/03 through 2015/03, results are in line with the plan.

2. Position of the Mid-term Business Plan 2015-2017

Period: 3 years, 2015/04-2018/03

Assumptions:

- No significant change in “GE Roadmap” announced in April, 2013
- There may be some governmental Generics promotions, but they would not be substantial ones more than ever
- No fundamental reform on the NHI pricing system

3. Basic strategies

1. To establish supply system to cover increasing demand of GE in the term of this plan (2015/04-2018/03)
2. To concrete “Towa brand” by launching value-added products and supplying reliable products stably
3. To achieve stronger growth by our unique sales channel “Towa Direct Sales System”
4. To strengthen fundamental functions and systems for further growth and reliability after 2025

4. Measures to be implemented

“Improvement of the reliability”
- Toward establishment of Towa’s brand -

Measure 1: Improvement of stable supply system

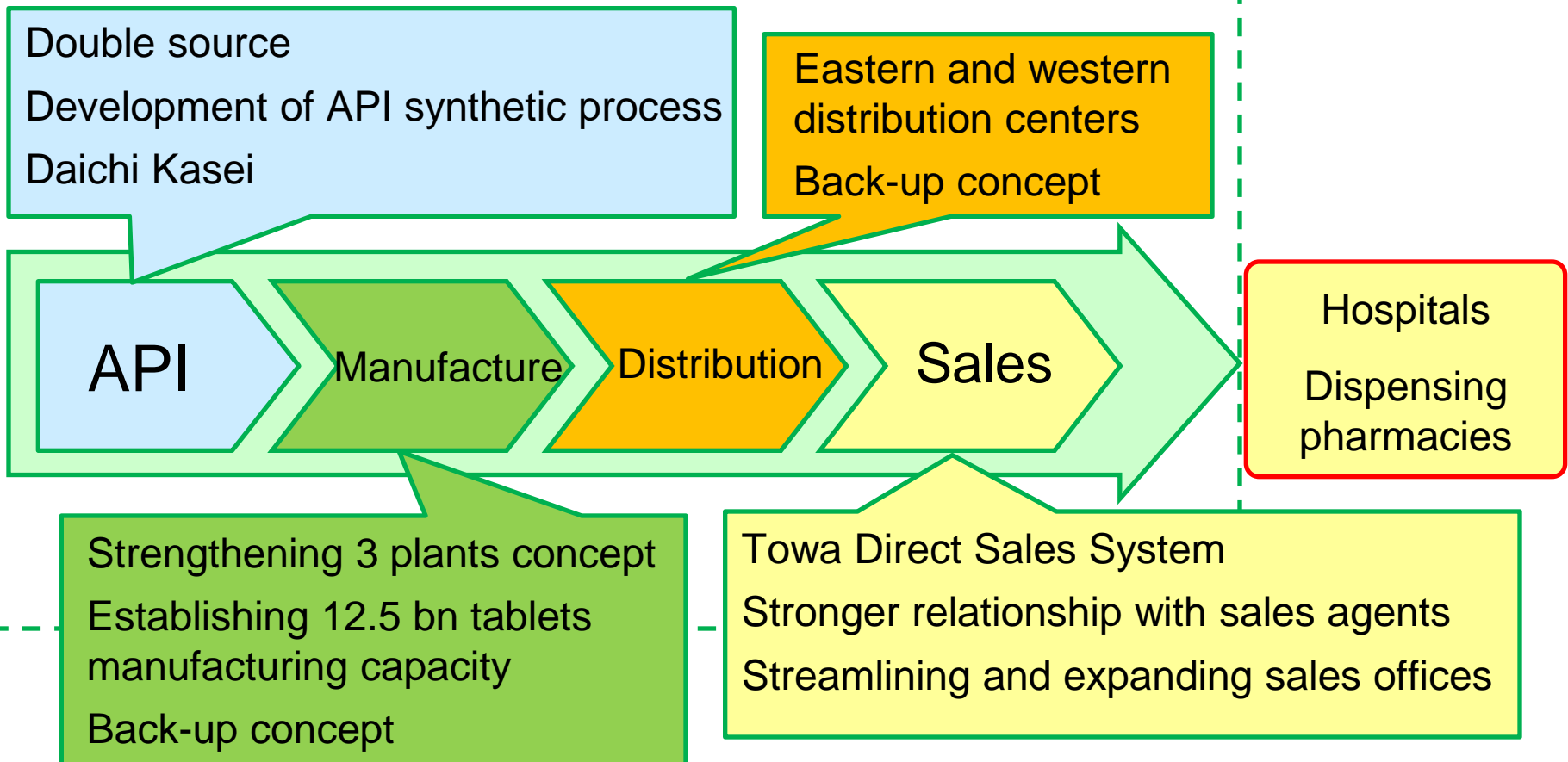
Measure 2: Establishment of Towa Direct Sales System

Measure 3: Manufacture of sophisticated products with
No.1 total product performance

Measure 1: Improvement of stable supply system

Towa's stable supply system

System from API sourcing to product delivery



Measure 1: Improvement of stable supply system

Stable supply system - API

□ Multiple sourcing of API

Approximately 340 APIs for Towa's own products:
ca. 37% ➡ more than 40% (by the end of March, 2018)

□ Utilizing Daichi-Kasei Achieving 30 APIs to be manufactured by the end of March, 2018



Measure 1: Improvement of stable supply system

Stable supply system - API

- Development of API synthetic process
 - To develop synthetic process for manufacture of API complying with Towa quality standard
 - ➔ More than 100 APIs within three to five years



To realize stable supply and double sourcing by asking Daichi-Kasei and reliable domestic and abroad API manufacturers

Measure 1: Improvement of stable supply system

Stable supply system - Production

- ❑ Manufacture system with 3 plants responsible for stable supply

Osaka Plant:

- ✓ To introduce newly launched products and value-added products
- ✓ Specialized for oral solid products



Okayama Plant:

- ✓ Mass production of oral solid products



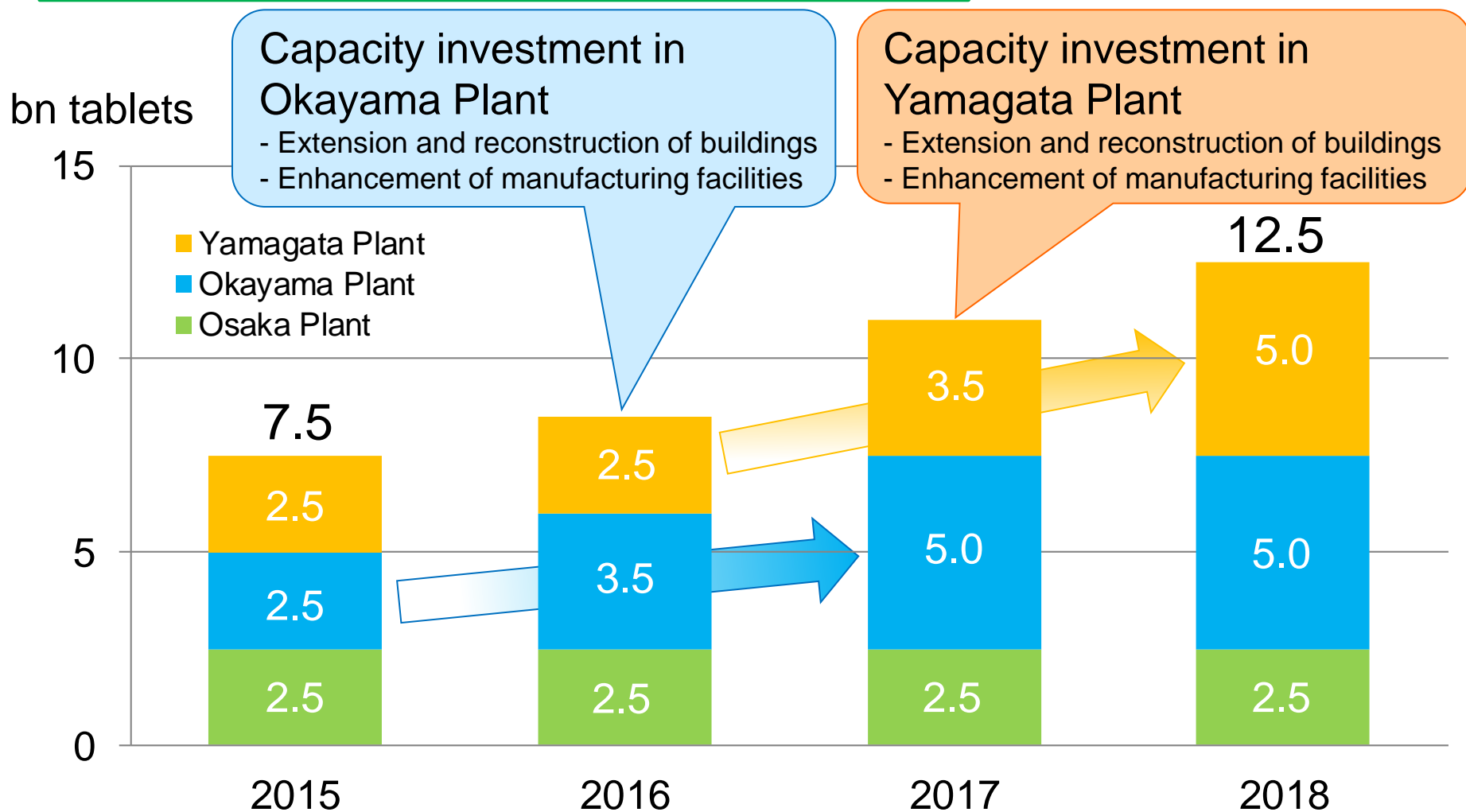
Yamagata Plant:

- ✓ Multi-production of oral solid products and injectables
- ✓ Possible to manufacture highly-active products under strict environment control



Measure 1: Improvement of stable supply system

Stable supply system - Production



Measure 1: Improvement of stable supply system

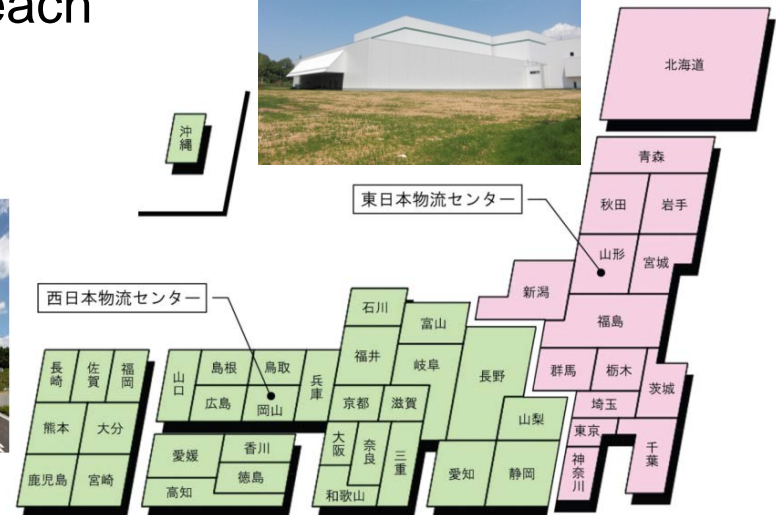
Stable supply system - Distribution

□ Back-up structure of distribution function

Back-up structure to enable one distribution center to cover all over Japan in case of temporary suspension of other center due to disaster

□ Response to increasing volume

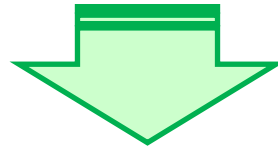
To expand maximum stock volume of each center for increasing volume due to strengthening manufacturing capacity



Measure 2: Towa Direct Sales System

Towa's sales force

- ❑ Sales network throughout Japan by sales agents and sales offices
- ❑ Differentiation of product, quality and information for fair pricing strategy



- ✓ Stronger codependent relationship with sales agents
- ✓ Sales offices to be newly built, expanded or moved for enhancement and efficiency of sales activities in sales increasing area of mainly big city area

 80 sales offices (as of March, 2018)

Measure 3: Manufacture of sophisticated products with No.1 total product performance

Towa's manufacturing

- ❑ To be the top Generic company as total product performance, as well as a wide range of products
- ❑ Total product performance
 - = Total performance of quality and cost of each of following elements associated with products from the customer view point
 - API
 - Formulation technology, value-added products
 - Packaging and labeling
 - Information, etc.
- ❑ Reviewing every product, Towa will continue to improve API and formulation of the products that will be used for many years to come, and prepare highly sophisticated products
- ❑ To provide products at a fair price which is worth each product's value

Measure 3: Manufacture of sophisticated products with No.1 total product performance

Expectation of manufacture of sophisticated products with No.1 total product performance

- ❑ Medical experts (doctor, pharmacist, etc.): easy to handle and prevention of medical malpractice in addition to quality, ease and safety
- ❑ Patients and their family: easy to handle and improved adherence in addition to ease and safety
- ❑ Maintenance and development of products demanded by medical experts and patients



- ✓ Added value occurs, and is acknowledged.
- ✓ Towa's products can be supplied stably with fair price through an unique sales system, Towa Direct Sales System.

Measure 3: Manufacture of sophisticated products with No.1 total product performance

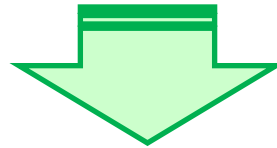
Further research for reliable product manufacture

❑ Development of original crystal control technology

Solid property (crystalline form, particle size, etc.) of API suitable for variable products such as tablet, OD tablet, etc. can be freely controlled.

❑ Manufacture of high quality and price competitive products

To develop high quality products by establishment of innovative fundamental technology for API manufacture



- ✓ Procurement of API with optimized property for product
- ✓ Realization of value-added product development with new technology of API

Measure 3: Manufacture of sophisticated products with No.1 total product performance

Research and development of added value of generic drugs

Not only formulation improvement, but also PTP and packaging materials

OD tablet



RACTAB® means name of oral disintegration tablets with easy handling and administration, which are developed using Towa's unique technology.

OD tablet: 53 products → more than 90 products (as of March, 2018)

Taste

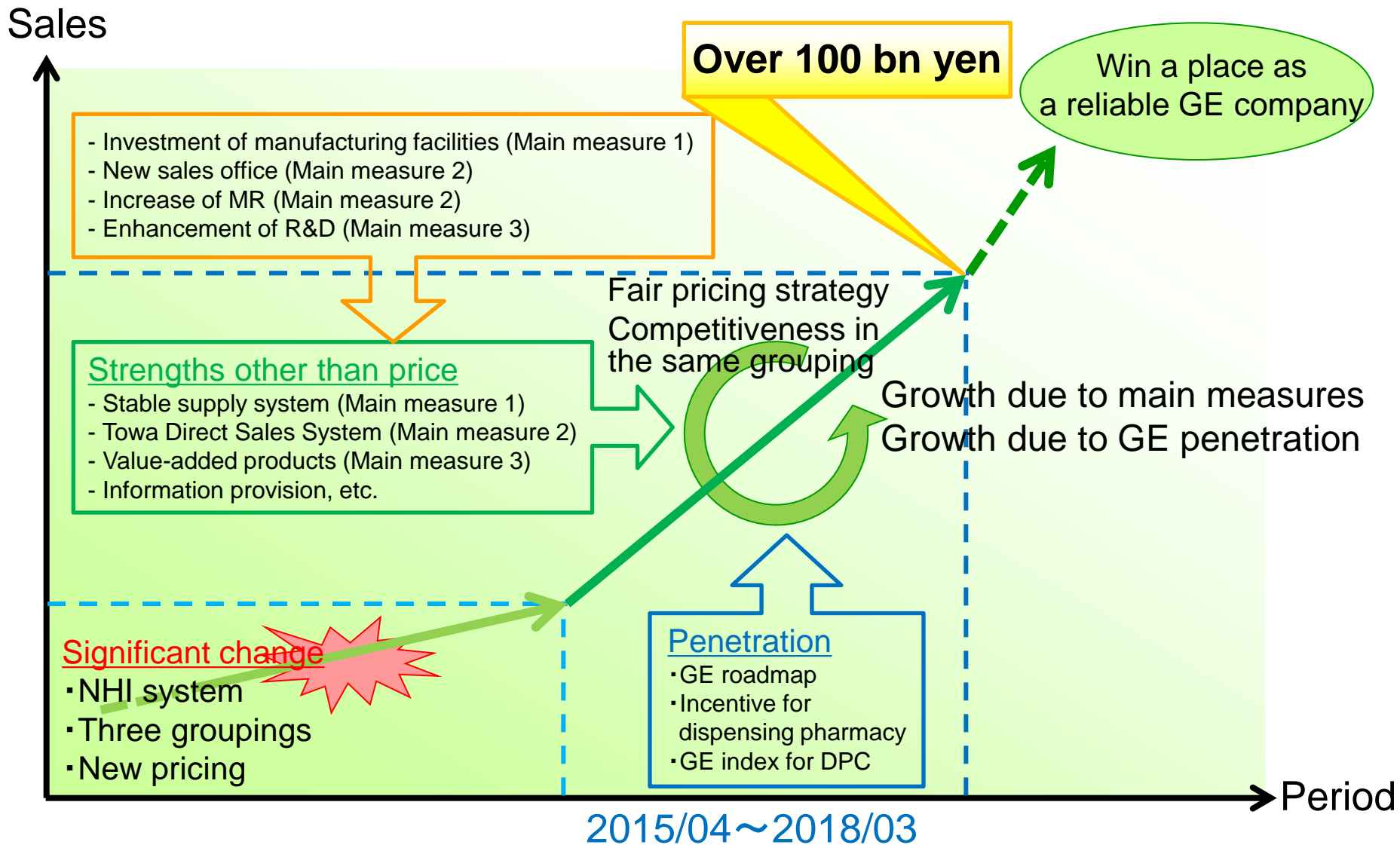
Improving taste and smell of dry syrup for pediatric use, for example, by masking bitter taste for easy administration

Product name print

Enabling a portion of split tablet to be easily identified by product name printed tablet aligned with a score



Summary of strategies and measures

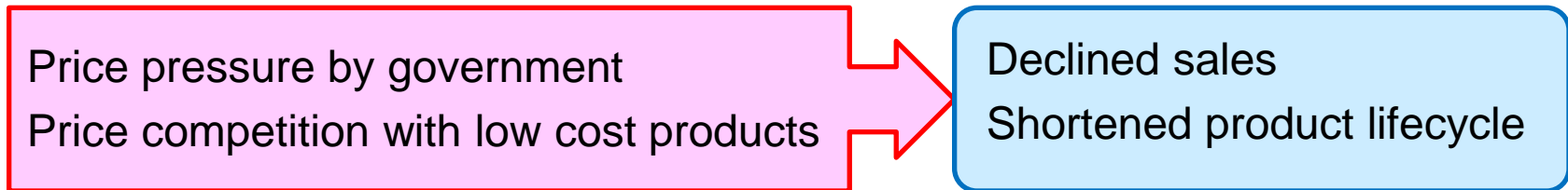


5. New challenge for market outside of Japan

□ Abroad market

Exported territory: Korea, Taiwan, Mongolia, Hong Kong, Philippines

Exported products: tablets, granules, injections, etc.



Challenge

- ✓ Manufacturing technology and quality as Japanese generic drug manufacturer
- ✓ Acknowledgement of Towa's value-added products
- ✓ Investigation of new abroad market
- ✓ Research of potential needs
- ✓ Research of alliance and cooperation relationship with local partners

6. Performance goal of mid-term business plan

Period	15/03	16/03		17/03		18/03	
	(million Yen)	(million Yen)	Change in %	(million Yen)	Change in %	(million Yen)	Change in %
Net sales	71,470	82,000	114.7	92,500	112.8	105,000	113.5
COGS	34,487	40,500	117.4	47,000	116.1	54,000	114.9
SGA	25,877	30,300	115.9	35,500	118.3	38,000	107.0
(Labor)	10,563	11,900	112.7	13,300	111.8	14,200	106.8
(R&D)	6,144	8,200	133.5	11,500	140.2	11,500	100.0
(Other)	9,169	9,900	108.0	10,700	108.1	12,300	115.0
Operating profit	11,105	11,500	103.6	10,000	87.0	13,000	130.0
Ordinary profit	15,437	11,500	74.5	10,000	87.0	13,000	130.0
Net profit	11,118	8,200	73.8	7,000	85.4	9,500	135.7
Dividend per share	95.0 yen	95.0 yen	-	95.0 yen	-	Not decided	-
MRs	668	701	-	750	-	800	-

7. Major capital expenditure and depreciation cost in the term of the mid-term business plan

Period	15/03	16/03		17/03		18/03	
	(million Yen)	(million Yen)	Change in %	(million Yen)	Change in %	(million Yen)	Change in %
Capital expenditure	13,816	13,600	98.4	17,000	125.0	20,000	117.6
Okayama Plant	2,511	3,400	135.4	8,000	235.3	1,300	16.3
Yamagata Plant	2,404	3,100	129.0	2,200	71.0	17,600	800.0
Osaka Plant	725	1,100	151.7	1,300	118.2	500	38.5
Other	8,176	6,000	73.4	5,500	91.7	600	10.9
Depreciation cost	5,724	6,960	121.6	7,150	102.7	8,700	121.7

- ✓ Construction for Okayama Plant will be done during 2015 and 2016.
- ✓ Construction for Yamagata Plant will be done during 2016 and 2017.

8. Major products assumed to be launched

Schedule	Therapeutic Category	Branded Products (Company)	Sales (bn Yen/year)
June 2015	Antiplatelet agent	PLAVIX (Sanofi)	124.8
	Biguanide oral hypoglycemic agent	METGLUCO (Sumitomo Dainippon Pharma)	19.4
December 2015	Hypertension	EXFORGE (Novartis)	22.6
	Depression	JZOLOFT (Pfizer)	22.6
June 2016	Integration disorder syndrome	ZYPREXA (Lilly)	57.3
June 2017	Bronchial asthma	KIPRES (Kyorin) • SINGULAIR (MSD)	96.8
	Hypertension	MICARDIS (Boehringer Ingelheim=Astellas)	71.9
	Integration disorder syndrome	ABILIFY (Otsuka)	38.7
December 2017	Hypercholesteremia	CRESTOR (AstraZeneca=Shionogi)	102.0
	Hypertension	OLMETEC (Daiichi Sankyo)	90.0
	Hypertension	AVAPRO (Sumitomo Dainippon Pharma) • IRBETAN (Shionogi)	24.3

Products assumed to be newly launched are listed, and products to be launched by Towa can be different from the above listed products.

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