



TOWA PHARMACEUTICAL CO., LTD.

Supplementary material of financial results for the year ended March 2016

May, 2016

(stock ticker number : 4553)

Summary

- Sales increased by 14.9% year-on-year. Sales was in line with the plan.
- COGS rate increased by 0.8 point year-on-year due to, mainly, depreciation cost of Daichi Kasei's Hyogo Plant operated from March 2015.
- SGA increased by 18.7% year-on-year. R&D cost increased by 45.2% year-on-year due to increase of products to be developed and R&D cost fixed within this financial year by discontinuation of development. Labor cost increased due to increasing number of sales force.
- OP income slightly increased by 0.3% year-on-year. OP income of 0.365 bn Yen is below the plan due to R&D and labor cost over the budget.
- Ordinary income decreased by 34.2% year-on-year. Gain on revaluation of currency swaps for the purpose of currency hedge of API payments was 2,999 million yen due to sharp depreciation of the yen in the same period of last year, and on the other hand, loss on revaluation of currency swaps was 2,280 million yen due to significant appreciation of the yen in this period.
- Loss due to discontinuation of development is posted as non-operating expense. The loss is 381 million yen of API for the products discontinued due to lower long-term yieldability by reduction of the NHI price for the newly listed product.
- Extraordinary loss of 254 million yen includes demolition cost (195 million yen) of Yamagata Daiichi Plant in the 2Q.
- Convertible bonds (15 bn yen, 2022 maturity) was issued in July 2015, and funds for capital expenditure were procured.

Outline of the financial results for the year ended March 2016

Period	16/3			15/3	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Net sales	82,115	100.0	+ 14.9	71,470	100.0
COGS	40,261	49.0	+ 16.7	34,487	48.3
SGA	30,719	37.4	+ 18.7	25,877	36.2
Operating income	11,134	13.6	+ 0.3	11,105	15.5
Ordinary income	10,157	12.4	- 34.2	15,437	21.6
Profit <small>attributable to owners of parent</small>	7,684	9.4	- 30.9	11,118	15.6

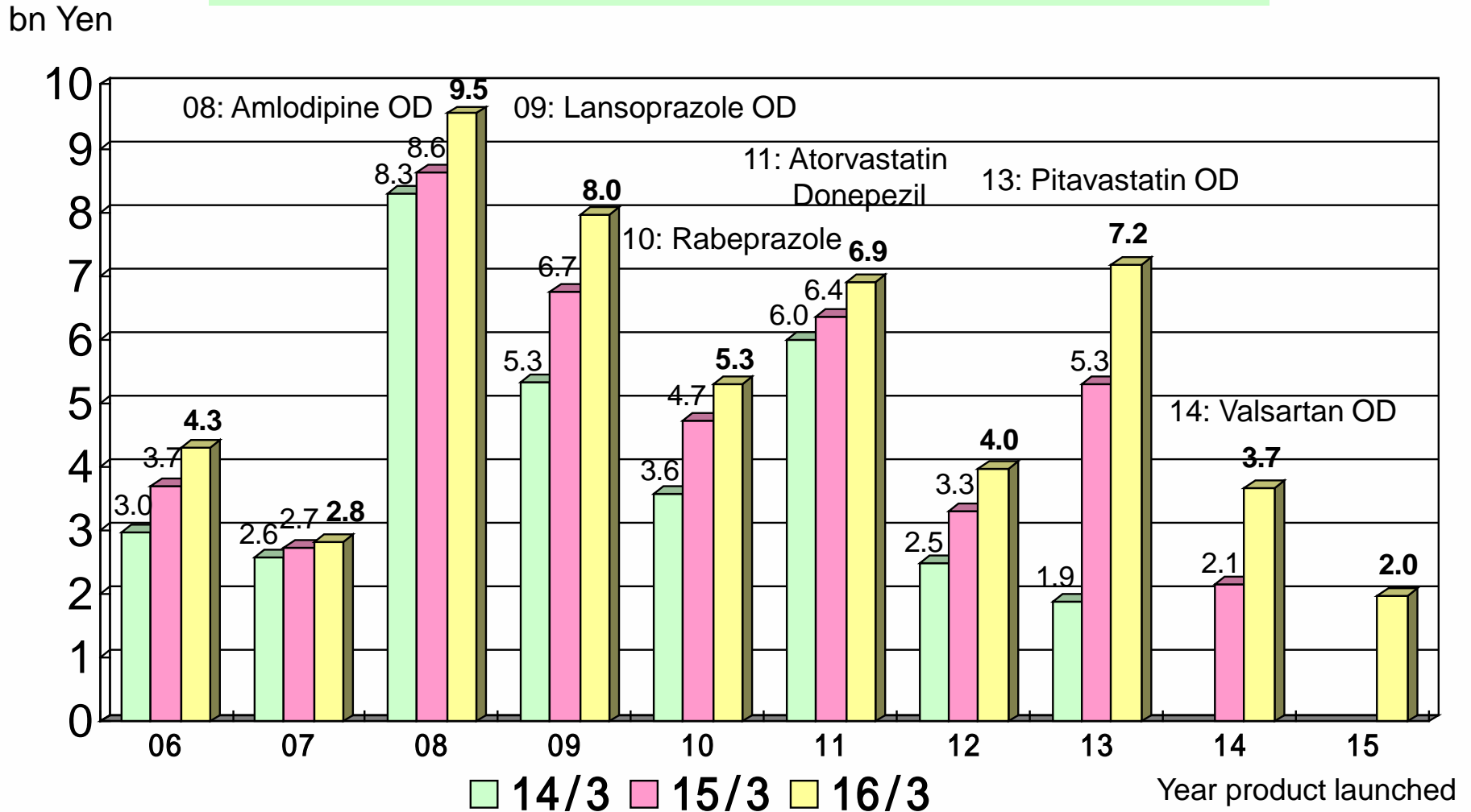
Exchange rate 2016/3 2015/12 2015/9 2015/3 2014/12 2014/9 2014/3
 US\$1.00 111.68 yen 119.61 yen 118.96 yen 119.17 yen 119.55 yen 108.45 yen 101.92 yen

Outline of the financial results for the year ended March 2016 (progress rate)

Period	16/3			16/3 plan (disclosed on May 14th)		
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)	Progress rate in %
Net sales	82,115	100.0	+ 0.1	82,000	100.0	100.1
COGS	40,261	49.0	- 0.6	40,500	49.4	99.4
SGA	30,719	37.4	+ 2.4	30,000	36.6	102.4
Operating income	11,134	13.6	- 3.2	11,500	14.0	96.8
Ordinary income	10,157	12.4	- 11.7	11,500	14.0	88.3
Profit attributable to owners of parent	7,684	9.4	- 6.3	8,200	10.0	93.7

Sales of products by launched year

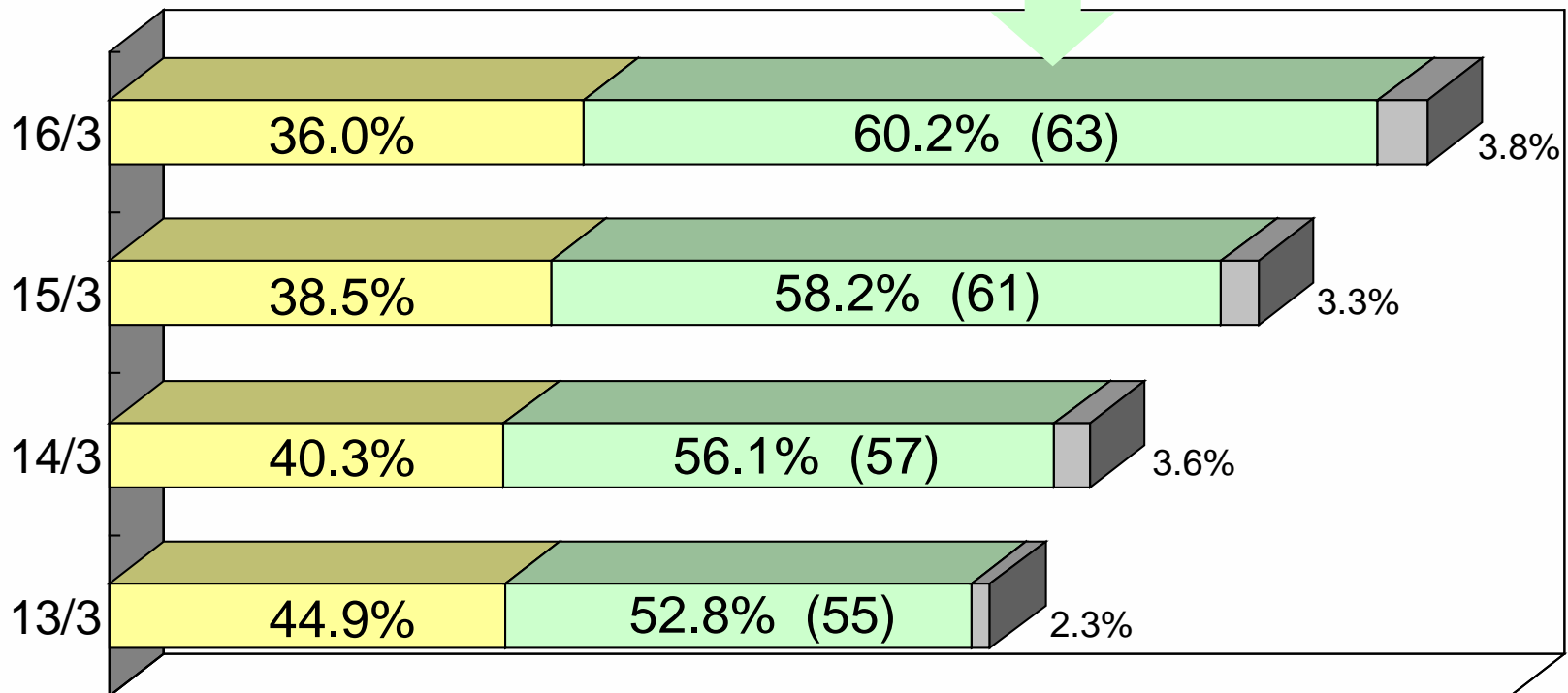
Products launched after 08 increased steadily.



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.

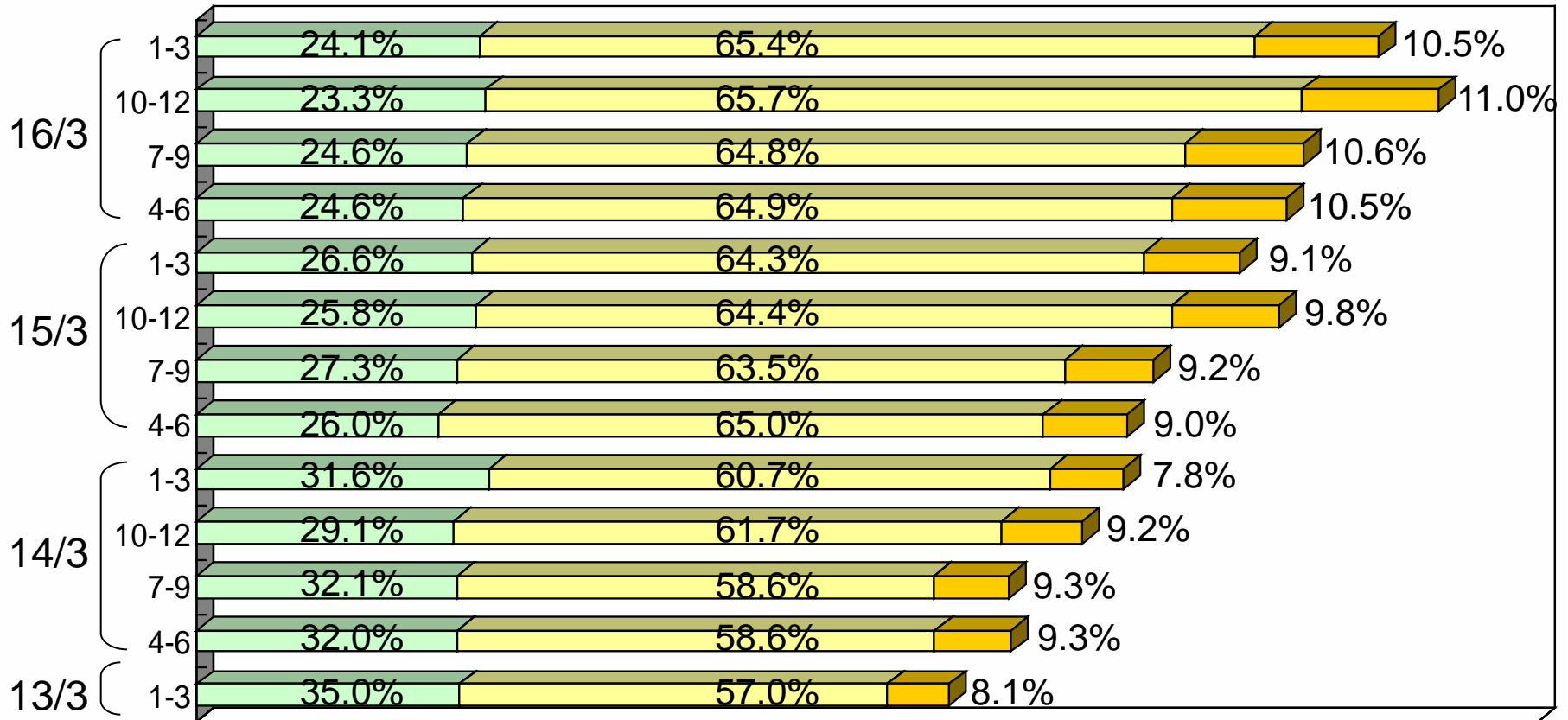


■ Sales agent ■ Direct sales ■ Others

Sales of medical institutions

(non-consolidated)

Sales rates of dispensing pharmacies and hospitals keep well under good 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	16/3			15/3	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Labor	12,122	14.8	+ 14.8	10,563	14.8
R&D	8,924	10.9	+ 45.2	6,144	8.6
Packing and freight	1,595	1.9	+ 21.8	1,309	1.8
Ad.	1,507	1.8	- 5.7	1,598	2.2
Depreciation cost	967	1.2	+ 14.0	849	1.2
Commission	992	1.2	+ 10.4	898	1.3
Others	4,609	5.6	+ 2.1	4,514	6.3
SGA	30,719	37.4	+ 18.7	25,877	36.2

SGA increased by 18.7% year-on-year. R&D cost increased by 45.2% year-on-year due to increase of products to be developed and R&D cost fixed within this financial year by discontinuation of development. Labor cost increased due to increasing number of sales force. Depreciation cost for R&D is excluded from the above figure of depreciation cost.

Balance Sheets

(million Yen)

	16/3	15/3	Change
Cash and deposits	20,526	3,009	+ 17,516
Trade notes and accounts receivable	25,802	22,669	+ 3,133
Marketable securities	5,000	3,198	+ 1,801
Finished products	21,039	16,677	+ 4,361
Other current assets	22,763	21,086	+ 1,677
Total current assets	95,132	66,642	+ 28,489
Buildings and structures	24,170	24,750	- 579
Machineries, equipments and carriers	14,618	12,433	+ 2,184
Construction in progress	8,146	2,883	+ 5,263
Other fixed assets	14,783	14,476	+ 306
Total fixed assets	61,719	54,544	+ 7,174
Total assets	156,851	121,187	+ 35,664

	16/3	15/3	Change
Trade notes and accounts payable	14,136	12,577	+ 1,558
Current portion of long-term debt	2,033	2,505	- 471
Income taxes payable	258	3,366	- 3,107
Other current liabilities	14,833	12,605	+ 2,228
Total current liabilities	31,262	31,054	+ 208
Long-term debt	38,435	18,468	+ 19,966
Convertible bond	15,067	-	+ 15,067
Other long-term liabilities	1,481	1,616	- 134
Total long-term liabilities	54,984	20,085	+ 34,899
Total liabilities	86,246	51,139	+ 35,107
Total net assets	70,605	70,048	+ 556
Total liabilities and net assets	156,851	121,187	+ 35,664

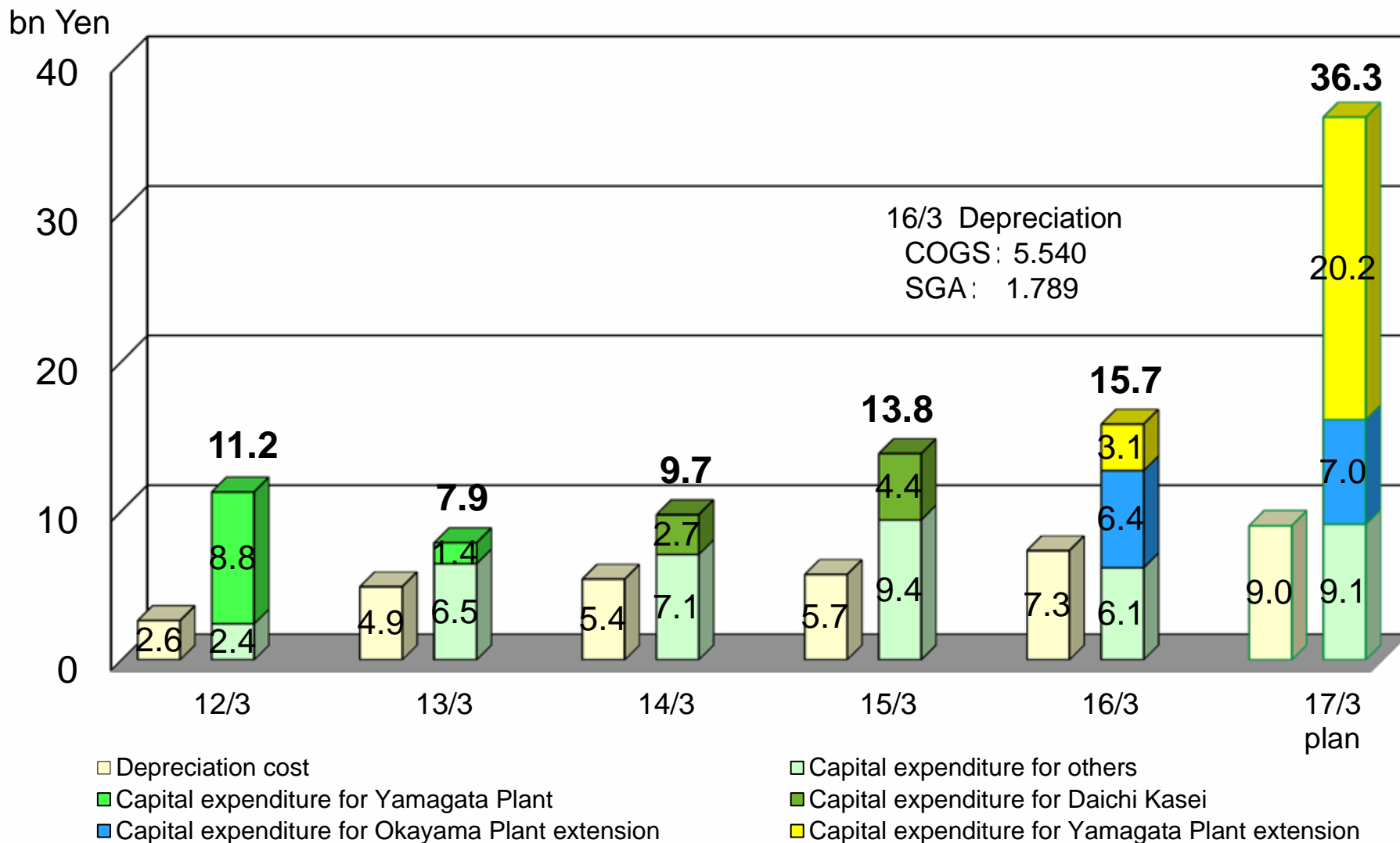
Revised plan of major capital expenditure and depreciation cost

Period	16/3 plan	16/3	17/3 plan		18/3 plan		Total (million Yen)
	(million Yen)	(million Yen)	(million Yen)	Change in %	(million Yen)	Change in %	
Capital expenditure	18,100	15,792	20,700	+ 31.1	39,000	+ 88.4	75,492
Revised			36,300	+ 129.9	27,300	- 24.8	79,392
Okayama Plant	5,700	6,499	5,700	- 12.3	1,400	- 75.4	13,599
Revised			7,000	+ 7.7	1,000	- 85.7	14,499
Yamagata Plant	3,700	3,106	5,000	+ 61.0	36,500	+ 630.0	44,606
Revised			20,200	+ 550.4	23,600	+ 16.8	46,906
Osaka Plant	1,100	728	900	+ 23.6	1,100	+ 22.2	2,728
Eastern Distribution Center	1,600	744	3,200	+ 330.1	0	-	3,944
Revised			2,400	+ 222.6	0	-	3,144
Others	6,000	4,715	5,600	+ 18.8	1,400	- 75.0	11,715
Depreciation cost	6,960	7,329	7,150	- 2.4	8,900	+ 24.5	23,379
Revised			9,080	+ 23.9	11,410	+ 25.7	27,819

ü Major capital expenditure and depreciation cost disclosed in 2Q of this fiscal year were updated and revised.

ü Capital expenditure increased due to, mainly, forwarded expense of Yamagata Plant.

Capital expenditure and depreciation cost

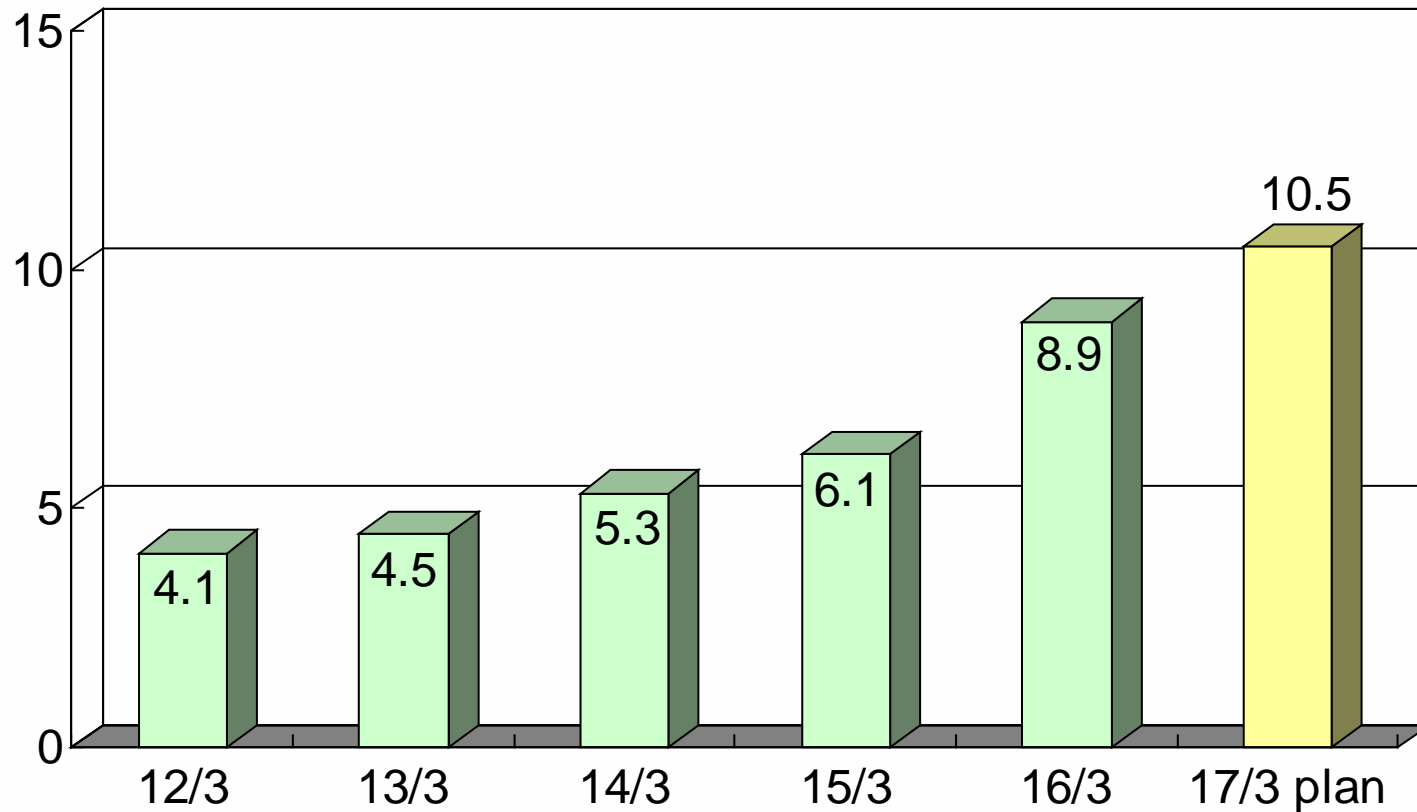


Capital expenditure plan of the year ending March 2017

Items	Capital expenditure (bn Yen)	Main contents
Okayama Plant	20.2	Expansion and alteration, manufacturing facilities
Yamagata Plant	7.0	Expansion and alteration, manufacturing facilities
Osaka Plant	0.9	Manufacturing facilities
Distribution	2.4	Eastern Distribution Center
Sales	1.7	Sales office
R&D	1.2	Analytical instruments, manufacturing facilities
J-Dolf	1.3	Expansion and alteration
Others	1.0	IT system
Total	36.3	

R&D expenditure

bn Yen



Major products to be launched in June 2016

Therapeutic Category	Product Name	Branded Products (Company)	Sales in 2015 (bn Yen/year)
Antipsychotic Agent	OLANZAPINE TABLETS 2.5mg/5mg/10mg "TOWA"	Zyprexa Tablets 2.5mg/5mg/10mg (Eli Lilly Japan)	38.2
	OLANZAPINE OD TABLETS 2.5mg/5mg/10mg "TOWA"	Zyprexa Zydis 2.5mg/5mg/10mg (Eli Lilly Japan)	20.5
	OLANZAPINE FINE GRANULES 1% "TOWA"	Zyprexa Fine Granules 1% (Eli Lilly Japan)	2.2
Therapeutic Agent for Deep Mycosis	VORICONAZOLE TABLETS 50mg/200mg "TOWA"	VFEND Tablets 50mg/200mg (Pfizer)	11.5
Peripheral COMT Inhibitor	ENTACAPONE TABLETS 100mg "TOWA"	Comtan Tablets 100mg (Novartis)	7.2
Selective Serotonin Reuptake Inhibitor	SERTRALINE HYDROCHLORIDE OD TABLETS 25mg/50mg "TOWA"	JZOLOFT OD Tablets 25mg/50mg (Pfizer)	1.3

15 products in total

Annual sales budget: ca. 0.5 bn yen for products to be launched in June 2016

Olanzapine	0.3 bn yen
Voriconazole	0.07 bn yen
Entacapone	0.06 bn yen

Financial forecast for the year ending March 2017

Period	17/3 plan (disclosed on May 13)			16/3	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Net sales	93,500	100.0	+ 13.9	82,115	100.0
COGS	48,200	51.6	+ 19.7	40,261	49.0
SGA	34,800	37.2	+ 13.3	30,719	37.4
Operating income	10,500	11.2	- 5.7	11,134	13.6
Ordinary income	10,350	11.1	+ 1.9	10,157	12.4
Profit attributable to owners of parent	7,450	8.0	- 3.0	7,684	9.4

Financial forecast for the year ending March 2017 (Revised from the Mid-term Business Plan 2015-2017)

Period	17/3 plan (disclosed on May 13)			17/3 (The Mid-term Business Plan 2015-2017)	
	(million Yen)	Ratio to sales (%)	Change in %	(million Yen)	Ratio to sales (%)
Net sales	93,500	100.0	+ 1.1	92,500	100.0
COGS	48,200	51.6	+ 2.6	47,000	50.8
SGA	34,800	37.2	- 2.0	35,500	38.4
Operating income	10,500	11.2	+ 5.0	10,000	10.8
Ordinary income	10,350	11.1	+ 3.5	10,000	10.8
Profit <small>attributable to owners of parent</small>	7,450	8.0	+ 6.4	7,000	7.6

- Sales grows in DPC hospitals and dispensing pharmacies.
- In terms of COGS, depreciation cost will increase due to, mainly, Okayama Plant and Yamagata Plant in spite of decrease in depreciation cost of Daichi Kasei's Hyogo Plant. SGA includes R&D cost of 10.5 bn Yen (increase of products to be developed) and labor cost of 13.8 bn Yen.

Contact information

President Office

Towa Pharmaceutical Co., Ltd.

ir@towayakuhin.co.jp

TEL : +81-6-6900-9101

FAX : +81-6-6900-0634

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