

Message from Rusty Field

President & CEO (Upsher-Smith)
Rusty Field



Approaching Our 100 Year Milestone

In 2019, Upsher-Smith marks a century of delivering high-quality, life-enhancing medications to the patients who need them. For one hundred years, we have provided a high level of service, built strong industry relationships, and ensured safe and reliable product supply for all our partners in care. This rich history provides a springboard to a successful future as we work to bring an even greater diversity of products to a wider array of U.S. customers.

I am pleased to report that in FY2018, we achieved our high-level financial goals, including EBITDA and cash flow targets. We brought 75 percent of our approved ANDAs to market in calendar year 2018, significantly expanding and diversifying our portfolio of products, and we did so at a time when only 36 percent of FDA-approved ANDA products launched.

The year 2018 marked a turning point in the US generics industry. After almost four years of intense downward pricing pressure, generic price deflation has begun to stabilize in mid-single digit annual

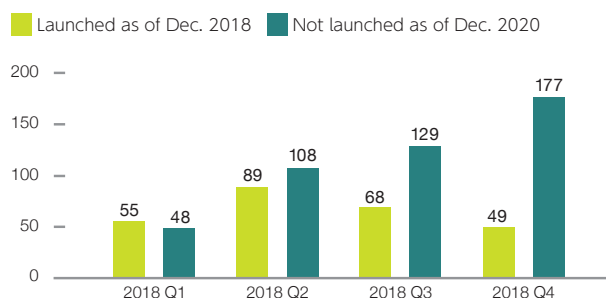
declines. Competition remains intense across the industry, and companies have had to adjust expectations and focus on strategies to lower expenses, such as reductions in force, plant closures, product removals, and consolidation. In addition, the FDA has been accelerating ANDA approvals since 2014, a move which has led to increased competition as more companies have entered the U.S. generics market. Despite these challenges, there are trends that could have a positive impact on performance in the coming years. Given the economic reality of high debt and falling margins, some companies have made financial decisions to exit certain product markets or delay approved product launches. In calendar year 2018, the FDA saw a record spike in ANDA withdrawals, while only 261 of the 723 approved ANDAs had gone to market by December. These trends create new opportunities for nimble companies to enter new markets, expand market share, and launch competitive products.

Going forward, we will use a number of closely connected strategies to ensure we continue to grow,

Approved ANDA Product Launch Ratio in 2018



ANDA Approvals: Launched vs. Not Launched by Quarter



Source: FDA, IQVIA

beginning with expense reduction. We are right-sizing our entire organization, increasing efficiencies and aligning expenses with expected revenues. These efforts to control costs will bring near-term net income to a positive level and increase our cash flow so that we can invest in future growth.

For Sustainable Growth

One of the ways we will invest is in acquisitions, as we aggressively pursue both generic and brand product opportunities. We are targeting branded products that allow us to leverage our sales force's existing brand commercial capabilities. In July 2019, we acquired two FDA-approved products from Dr. Reddy's Laboratories, Ltd. These products, which are indicated for the acute treatment of migraine in adults, are an excellent fit with our current portfolio. They bring us new dosage forms with their intranasal and injectable delivery systems and allow us to drive faster growth in a space with an established group of prescribers. At the same time, we are also investing in infrastructure to increase our capabilities and remain competitive. Through an initiative known as Project Keystone, we are building a modern, efficient, high-quality manufacturing facility that will add significant net income to the bottom line in three years.

As we advance, we need to address several ongoing challenges, beginning with our existing pipeline. While we are gaining our targeted share, prices and margins have been lower than expected. We expect challenging market conditions to continue but we have taken action to position the company for success. Going forward, and with help from Sawai, we aim to deliver organic pipeline growth. We are increasing investment in new starts with the goal of driving growth for the next three to four years and beyond. In this way, we plan to achieve sustainable growth, as promised in our vision statement, and to Do More Good™ for more people, even in the face of an evolving market. We have greatly benefited in this work through the contributions of our expatriate employees who have crossed an ocean to deepen their own understanding of the US market, and bring their knowledge of Sawai, its culture and goals to our Maple Grove headquarters. This team has been an invaluable resource as we integrate our operations with Sawai's, and they play a critical role in the transfer of information to our colleagues in Japan.

I want to thank the entire expatriate team for going above and beyond the call of duty to help us manage



the complex process of integration and to drive Upsher-Smith toward an even more innovative, growth-focused, and globally-oriented future.

Looking Ahead to the Next 100 Years

As Upsher-Smith grows, it is important that we continue to make community involvement a priority. The Company supports programs that help create a sense of community between our company, pharmacists, and the people who rely on our therapies. Upsher-Smith is proud to sponsor awards annually that recognize leaders in the field of pharmacy, actively participate in and support numerous nonprofits, and offer funds for corporate sponsorships, medical education grants, clinical research, and charitable contributions. Our employees are active in the community and are encouraged to volunteer with local organizations as a way to better understand patients' unmet needs.

Upsher-Smith is fortunate to have a parent company like Sawai, one that shares our focus on long-term success. We are also privileged to have the cash-on-hand we need to invest in our core business, enhance our manufacturing and improve our processes. As we look ahead to the next 100 years, we're inspired not only by what we have accomplished thus far, but also by the prospect of working with all of our partners to deliver the products that will lead to a healthier world.

