

# Financial Results for the 1<sup>st</sup> Half of FY2017

(Apr. 1 to Sep. 30)



Sawai Pharmaceutical Co., Ltd.

Code 4555, First Section of the TSE

# Overview of the Financial Results for the 1H of FY2017

- ◆ With the Japanese generic market as a whole growing at a slower pace and sales of contract manufacturing down from the prior year, sales in Japan grew just 1.7%
- ◆ Overall sales grew 8.2% thanks to the inclusion of the June sales of US-based Upsher - Smith Laboratories (USL)
- ◆ Operating income excluding M&A related expenses of 1.3 billion yen rose 9.7%

(Unit: Millions of yen)

	FY2016 1H	FY2017 1H			Year on Year	
		Sale and Profit by Region			Mil. yen	Growth (%)
			Japan	North America		
Net Sales	65,416	<b>70,758</b>	<b>66,555</b>	<b>4203</b>	5,341	8.2%
Operating Income	11,360	<b>11,144</b>	<b>11,596</b>	<b>-452</b>	-216	-1.9%
Operating Income (excluding extraordinary factors)※	11,360	12,457	11,596	861	1,097	9.7%
Ordinary Income	11,326	11,801	—	—	475	4.2%
profit attributable to owners of parent	8,565	<b>8,791</b>	—	—	226	2.6%

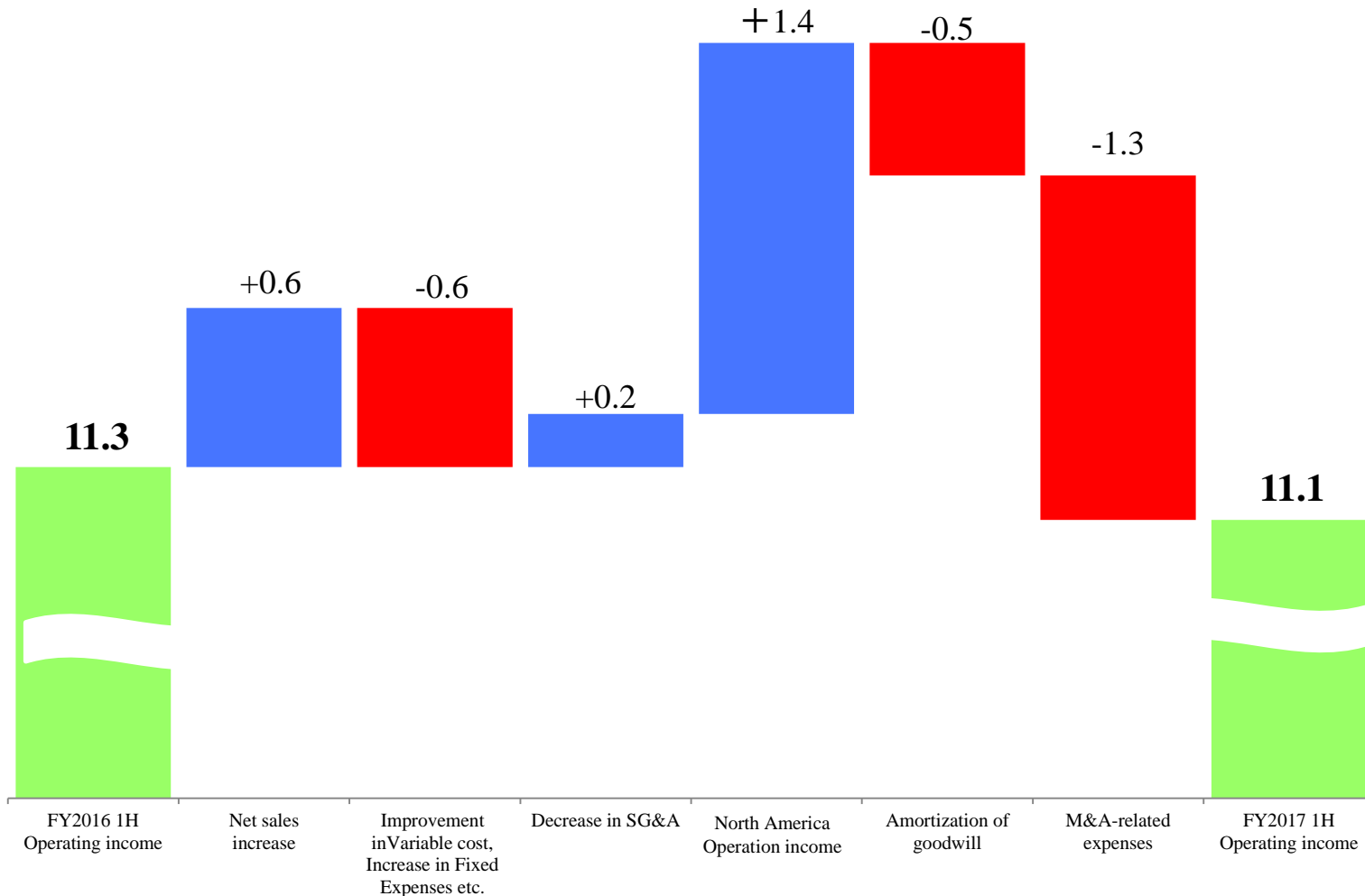
\*1. A goodwill amortization expense of 535 million yen associated with the USL acquisition was recorded in the North America segment

\*2. Extraordinary factors: expenses related to the acquisition of the US firm Upsher-Smith Laboratories, LLC (USL)

Exchange rates: 110.9 yen/dollar

# Analysis of Factors Causing Changes in Operating Income

(Unit: Billion. Yen)



# Sales per Medical Institution Types (non-consolidated)

Although growth in adoption amounts was somewhat weak for both hospitals and pharmacies, the adoption amount increased overall

## The Track Record of SAWAI's Products Delivered to Medical Institutions by Distribution Companies

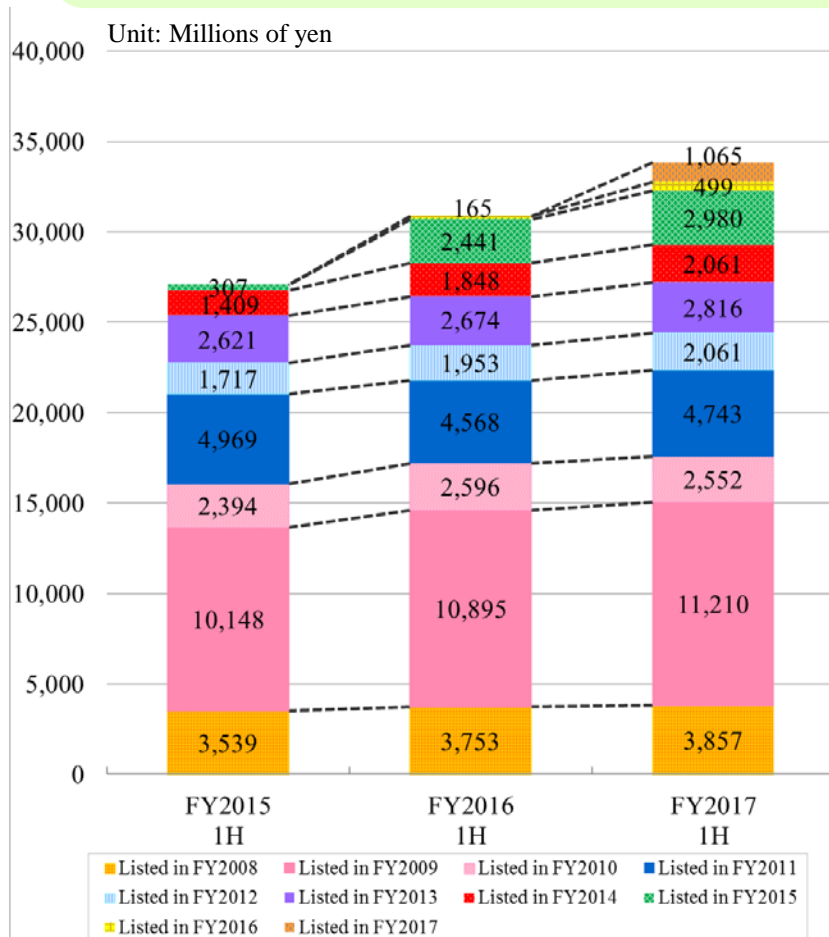
(Unit: Number of Medical Institution)

Institution Type	a) Nationwide Total Number	FY2016 1H		FY2017 1H			Year on Year	
		Number of Customers	Sales Share	b) Number of Customers	Coverage Rate (b/a)	Sales Share	Changes in Number of Customers	Sales Growth
Hospital	8,459	7,831	12.9%	7,906	(93.5%)	13.0%	75	8.4%
DPC Hospital	1,667	1,646	8.0%	1,650	(99.0%)	7.9%	4	6.4%
Clinic	105,610	31,726	10.4%	32,552	(30.8%)	10.1%	826	4.0%
Pharmacy	87,590	55,896	75.6%	56,555	(64.6%)	75.3%	659	7.0%
Dispensing Pharmacy	60,558	55,559	75.0%	56,250	(92.9%)	74.7%	691	7.0%
Drug Stores, etc.	27,032	337	0.5%	305	(1.1%)	0.6%	-32	11.3%
Others	-	-	1.1%	-	-	1.6%	-	50.8%
<b>Total</b>	<b>201,659</b>	<b>95,453</b>	<b>100.0%</b>	<b>97,013</b>	<b>(48.1%)</b>	<b>100.0%</b>	<b>1,560</b>	<b>7.4%</b>

DPC: Diagnosis Procedure Combination, means fixed payment system for inpatients

# Sales by Listed Year of Drugs

- ◆ Sales of products listed since FY2014 steadily grow
- ◆ Sales of new products in FY2017 are in line with expectations



(Unit: Millions of yen, %)

	FY2016 1H	FY2017 1H	Y on Y (%)
	Mil. yen	Mil. yen	Growth
Listed in FY2017	-	<b>1,065</b>	-
Listed in FY2016	165	<b>499</b>	202.2%
Listed in FY2015	2,441	<b>2,980</b>	22.1%
Listed in FY2014	1,848	<b>2,061</b>	11.5%
Listed in FY2013	2,674	<b>2,816</b>	5.3%
Listed in FY2012	1,953	<b>2,061</b>	5.5%
Listed in FY2011	4,568	<b>4,743</b>	3.8%
Listed in FY2010	2,596	<b>2,552</b>	-1.7%
Listed in FY2009	10,895	<b>11,210</b>	2.9%
Listed in FY2008	3,753	<b>3,857</b>	2.8%
Existing Drugs and Transferred Drugs, etc.	34,520	<b>32,705</b>	-5.3%
<b>Total</b>	<b>65,416</b>	<b>66,555</b>	<b>1.7%</b>

# Comparison of Sales Volume

- ◆ Cardiovascular and central nervous system drugs have steadily increased

Therapeutic Category	Volume Composition		Y on Y (volume)	Y on Y (value) (Note)
	FY2016 1H	FY2017 1H		
Cardiovascular drugs	26.8%	28.1%	6.4%	7.4%
Gastro-intestinal drugs	23.3%	23.3%	1.4%	0.1%
Central nervous system drugs	12.1%	12.4%	4.2%	6.6%
Blood/body fluid pharmaceutical products	8.0%	7.9%	0.0%	1.9%
Other metabolic drugs	7.4%	6.8%	-6.4%	3.8%
Respiratory organ agents	6.4%	5.5%	-13.2%	-5.5%
Antibiotics drugs	2.7%	2.6%	-3.6%	-2.2%
Antiallergic drugs	2.0%	2.2%	8.7%	10.7%
Antineoplastic agents	0.2%	0.2%	14.5%	11.4%
Others	11.1%	11.0%	2.4%	9.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>1.6%</b>	<b>4.6%</b>

Note: The contracted sales of the Kashima factory are excluded from the calculation.

## FY2017 Earnings Forecasts (IFRS:Core basis)

- ◆ Earnings forecast revised to reflect the forecast for USL (for the 10-month period from June 2017 to March 2018), which we acquired on May 31
- ◆ With the adoption of IFRS, we have introduced “Core Operating Income” as an indicator of recurring profitability, and we regard this as a key indicator of business performance that excludes non-recurring factors from operating income

(Unit: Millions of yen)

IFRS	FY2017				Change
	Initial Forecasts	Revised Forecasts	Sale and Profit by Region		
			Japan	North America	
Net Sales	142,000	168,800	137,100	31,700	+26,800
Gross Profit	56,700	71,300	52,800	18,500	+14,600
Operating Income	24,500	30,500	24,700	5,800	+6,000
Net profit	18,400	21,700	—	—	+3,300
EBITDA	34,400	41,200	34,600	6,600	+6,800

- Assumed exchange rate: 110 yen/dollar

## FY2017 Earnings Forecasts (IFRS: Full basis)

◆ The North America segment is expected to show an operating loss of 0.3 billion yen due to the accounting charge (about 6.4 billion yen) posted in conjunction with the PPA\* and M&A related expenses (about 1.5 billion yen)

\* PPA: Purchase Price Allocation

(Unit: Millions of yen)

IFRS	FY2017				Change
	Initial Forecasts	Revised Forecasts	Sale and Profit by Region		
			Japan	North America	
Net Sales	142,000	168,800	137,100	31,700	+26,800
Gross Profit	56,700	68,100	52,800	15,300	+11,400
Operating Income	24,200	23,700	24,000	-300	-500
Profit before tax	23,800	23,300	—	—	-500
Net profit	18,200	17,300	—	—	-900

- Assumed exchange rate: 110 yen/dollar



# FY2017 Earnings Forecasts

## (Adjusted from Full basis to Core basis)

(Unit: Millions of yen)

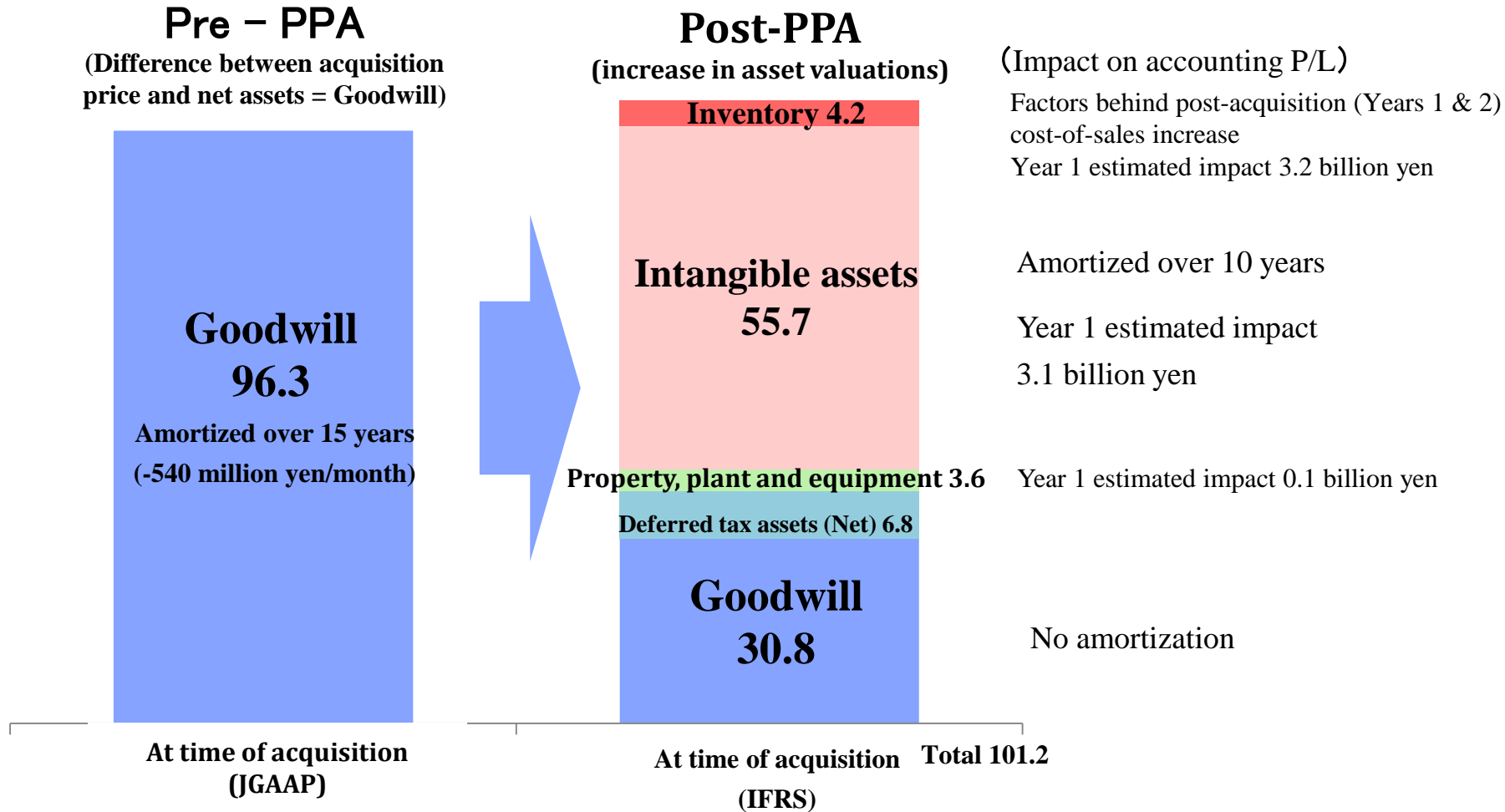
IFRS	FY2017 Earnings Forecasts		
	Full basis	Mil. yen	Core basis
<b>Net Sales</b>	<b>168,800</b>	—	<b>168,800</b>
Cost of Sales	-100,700	3,200	-97,500
<b>Gross Profit</b>	<b>68,100</b>	<b>3,200</b>	<b>71,300</b>
SG&A Expenses	-29,100	—	-29,100
R&D Expenses	-11,700	—	-11,700
Amortization of intangible assets and Impairment loss	-3,600	3,600	—
Other income( expenses)	±0	±0	—
<b>Operating Income</b>	<b>23,700</b>	<b>6,800</b>	<b>30,500</b>
Finance income (costs)	-400	—	-400
<b>Profit before tax</b>	<b>23,300</b>	<b>6,800</b>	<b>30,100</b>
<b>Net Profit</b>	<b>17,300</b>	<b>4,400</b>	<b>21,700</b>

- (1) Cost-of-sales increase due to inventory step-up  
> 3.2 billion yen
- (2) Amortization of intangible assets  
>3.6 billion yen  
(3.1 billion yen for USL)
- (3) Other income/expense adjustment  
> 0.0 billion yen  
(500 million yen extraordinary loss, “other” -500 million yen)

- Assumed exchange rate: 110 yen/dollar

# PPA Relating

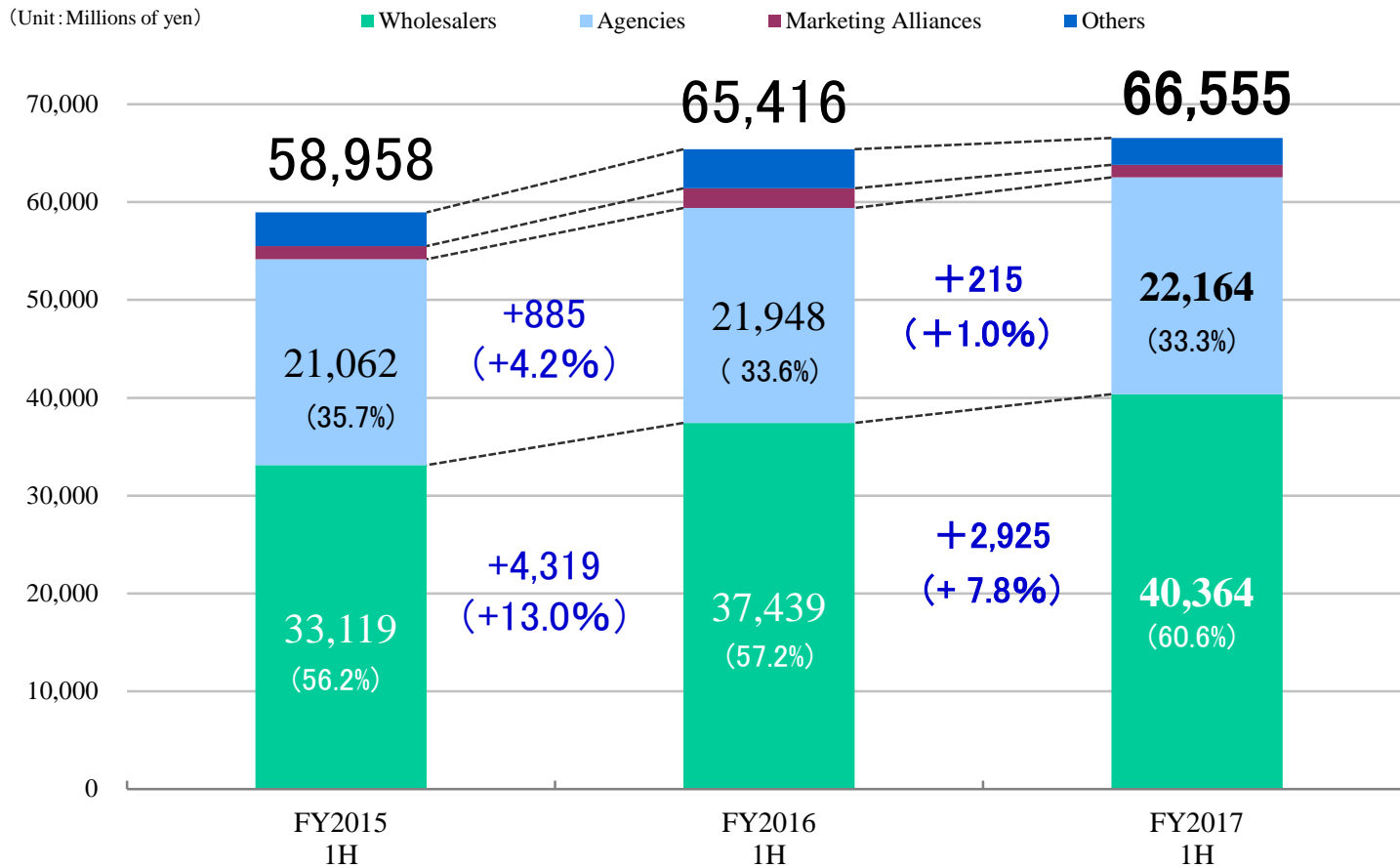
(Unit: Billion yen)



- Pre-audit basis PPA
- Amortization months for this fiscal year: June 2017 to March 2018 (10 months)
- Assumed exchange rate: 110 yen/dollar

# Sales by Distribution Channels

◆ Sales through wholesalers expanded, with nationwide distribution network in the area of pharmacy and hospital markets.



# Consolidated Financial Highlights-1

(Unit: Millions of Yen)

	FY2016		FY2017		
	1H	/Sales(%)	1H	/Sales(%)	YoY(%)
<b>Key Income Statements Data</b>					
Net Sales	65,416	100.0	<b>70,758</b>	100.0	8.2
Cost of Sales	38,794	59.3	<b>41,578</b>	58.8	7.2
Gross Profit	26,622	40.7	<b>29,179</b>	41.2	9.6
SG&A Expenses	15,261	23.3	<b>18,035</b>	25.5	18.2
Operating Income	11,360	17.4	<b>11,144</b>	15.7	-1.9
Ordinary Income	11,326	17.3	<b>11,801</b>	16.7	4.2
Net Profit	8,565	13.1	<b>8,791</b>	12.4	2.6
<b>Key Balance Sheets Data</b>					
Total Assets	221,538	*2	<b>345,920</b>		-
Net Assets	137,600	*2	<b>144,148</b>		-
Capital Adequacy Ratio(%)	62.0	*2	<b>41.6</b>		-20.4

	FY2017 Forecast (IFRS)		FY2017 Forecast (JGAAP)	
	Full Year	Full Year	Full Year	YoY(%)
<b>Key Income Statements Data</b>				
Net Sales	<b>168,800</b>		<b>160,400</b>	-
Cost of Sales	<b>100,700</b>		<b>96,100</b>	-
Gross Profit	<b>68,100</b>		<b>64,300</b>	-
SG&A Expenses	<b>29,100</b>		<b>43,600</b>	-
Operating Income	<b>23,700</b>		<b>20,700</b>	-
Core Operating Income	<b>30,500</b>			-
Profit before tax	<b>23,300</b>		<b>20,800</b>	-
Net Profit	<b>17,300</b>		<b>15,300</b>	-
EBITDA *1	<b>41,200</b>			-

	FY2016		FY2017	
	1H		1H	YoY(%)
<b>Amounts Per Common Share</b>				
Net Income per Share	232.33		<b>238.45</b>	2.6
Diluted Net Income per Share	232.20		<b>238.30</b>	2.6
Shareholders' Equity	3,722.90	*2	<b>3898.50</b>	-
Dividend (interim)	65.0		<b>65.0</b>	-

	FY2017 Forecast (IFRS)	
	Full Year	
<b>Amounts Per Common Share</b>		
Net Income per Share	469.22	
Diluted Net Income per Share	-	
Shareholders' Equity	-	
Dividend (interim)	130.0	

\*1. Core operating income + amortization and depreciation expenses included in core operating income + impairment charges

\*2. Comparison with 4Q of FY2016

\*3. FY2017 forecast (IFRS): earnings forecasts for 12 months of Japan operations + 10 months of North America operations (June 2017 to March 2018)

\*4. FY2017 forecast (JGAAP): earnings forecasts for 12 months of Japan operations + 7 months of North America operations (June 2017 to December 2017)

# Consolidated Financial Highlights-2

## Sales and Operating Income by Area

### Japan

(Unit: Millions of Yen)

	FY2016		FY2017		FY2017 Forecast (IFRS)		
	1H		1H	/Sales (%)	YoY (%)	Full Year	YoY (%)
<b>Key Income Statements Data</b>					<b>Key Income Statements Data</b>		
Net Sales	65,416		<b>66,555</b>	100.0	1.7	<b>137,100</b>	-
Cost of Sales	38,794		<b>39,872</b>	59.9	2.8	<b>84,300</b>	-
Gross Profit	26,622		<b>26,682</b>	40.1	0.2	<b>52,800</b>	-
SG&A Expenses	15,261		<b>15,085</b>	22.7	-1.2	<b>19,800</b>	-
Operating Income	11,360		<b>11,596</b>	17.4	0.0	<b>24,000</b>	-
						<b>24,700</b>	-
						<b>34,600</b>	-

### North America

	FY2016		FY2017		FY2017 Forecast (IFRS)		
	1H		1H	/Sales (%)	YoY (%)	Full Year	YoY (%)
<b>Key Income Statements Data</b>					<b>Key Income Statements Data</b>		
Net Sales	-		<b>4,203</b>	100.0	-	<b>31,700</b>	-
Cost of Sales	-		<b>1,705</b>	40.6	-	<b>16,400</b>	-
Gross Profit	-		<b>2,497</b>	59.4	-	<b>15,300</b>	-
SG&A Expenses	-		<b>2,949</b>	70.2	-	<b>9,300</b>	-
Operating Income	-		<b>-452</b>	-10.8	-	<b>-300</b>	-
						<b>5,800</b>	-
						<b>6,600</b>	-

\* 1. Core operating income + amortization and depreciation expenses included in core operating income + impairment charges

# Consolidated Financial Data

(Unit: Millions of Yen)

Selling General and Administrative Expenses		FY2016 1H			FY2017 1H			FY2017 Forecast (IFRS)	
		/Sales (%)	YoY (%)		/Sales (%)	YoY (%)	Full Year	/Sales (%)	
R&D Expenses	Japan	4,815	7.4	41.6	5,085	7.6	5.6	8,300	4.9
	North America	-	-	-	342	8.1	-	3,400	2.0
	<b>Total</b>	4,815	7.4	41.6	5,428	7.7	12.7	11,700	6.9
Advertisemet Expenses	<b>Total</b>	1,061	1.6	-5.2	635	0.9	-40.1	1,500	0.9

Capital Expenditure & Depreciation and Amortization		FY2016 1H	FY2017 1H	FY2017 Forecast (IFRS) Full Year
Capital Expenditure	Japan	7,776	4,588	15,700
	North America	0	93	879
	<b>Total</b>	7,776	4,681	16,579
Depreciation and Amortization	Japan			
	Manufacturing Division	2,915	3,738	7,800
	R&D Division	654	700	1,400
	Administration Div. & Business Div.	460	268	600
	North America	-	93	800
<b>Total</b>	4,030	4,800	0	

※ We expect to record 2,000 million yen of the R&D costs to intangible fixed assets.

Personnel Information	FY2016		FY2017	
	1H	Comp.(%)	1H	Comp.(%)
Number of Employees				
Japan				
Manufacturing Division	1,460	62.3	1,767	54.6
R&D Division	224	9.5	248	7.7
Administration Div. & Business Div.	661	28.2	652	20.1
(MRs)	501		500	
North America	-		571	17.6
<b>Total</b>	2,345	100.0	3,238	100.0

## Disclaimer

- The plans, forecasts, strategies and other information regarding the Sawai Group contained in this presentation are based on the Company's assumptions and judgments using information available at the time of publication. Therefore, due to potential risks and uncertainties, there is no guarantee as to the accuracy of this information.
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