

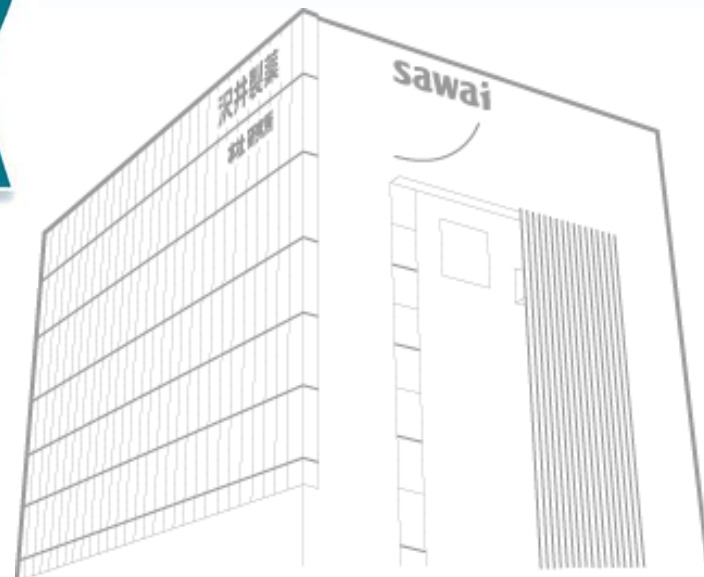
# Medium-Term Business Plan

Year ending March 31, 2016 ~ Year ending March 31, 2018



May, 2015

**sawai**




# Medium-term Business Plan

## Table of Contents

---

- 1. Overview of the Medium-term Business Plan**
- 2. Review of Previous Medium-term Business Plan**
- 3. Recognition of Market Conditions**
- 4. Medium- to Long-term Vision**
- 5. Medium-term Business Plan**
- 6. Financial Targets**

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1. **Overview of the Medium-term Business Plan**
  2. **Review of Previous Medium-term Business Plan**
  3. **Recognition of Market Conditions**
  4. **Medium- to Long-term Vision**
  5. **Medium-term Business Plan**
  6. **Financial Targets**

# Overview of the Medium-term Business Plan

## Overview of “M1 TRUST 2018”

### Vision

To transform into a company that can continue to grow in the midst of rapidly changing market conditions

### Period Covered

April 2015 ~ March 2018

### Financial targets for the year ending March 31, 2018

Net sales: ¥147 billion

Operating income: ¥25 billion



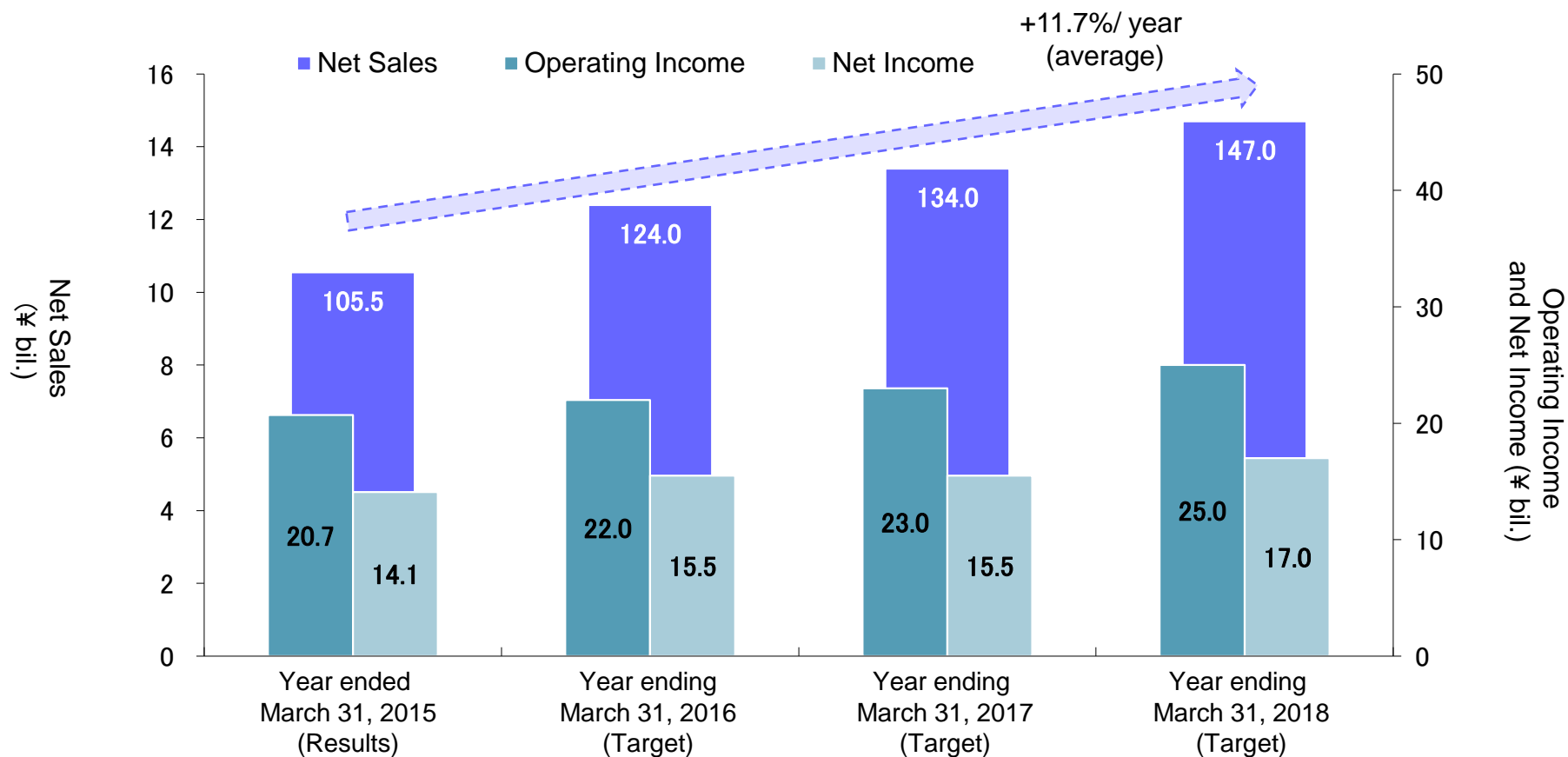
### What “M1 TRUST 2018” Will Achieve

- (1) Firmly maintain the No. 1 market share in the generics industry
  - Increase of share within the generics market: 13.6% → 15.3% (on a volume basis)
  - Revenue growth rate: Annual average of 11.7%
- (2) Strengthen stable supply and cost control capabilities in response to changing market conditions.
  - Production capacity: 10 billion tablets → 15.5 billion tablets
  - Capital investment: Carry out ¥44 billion in capital investments
  - Reduce raw material procurement costs
- (3) Build an operating foundation for future growth through new business fields
  - Build a foundation for overseas business
  - Review potential business models aimed at building the biosimilar business

# Overview of the Medium-term Business Plan

## Financial Targets (Consolidated)

During the term of this Business Plan, sales are targeted to exceed ¥140 billion, with operating income increasing by approximately 20%



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1. **Overview of the Medium-term Business Plan**
  2. **Review of Previous Medium-term Business Plan**
  3. **Recognition of Market Conditions**
  4. **Medium- to Long-term Vision**
  5. **Medium-term Business Plan**
  6. **Financial Targets**

# Review of Previous Medium-term Business Plan Numerical Targets

Net sales broke through the ¥100 billion mark, achieving our initial target.  
Operating income settled almost on target.

(¥ million)

|                                              | Year ended<br>March 31, 2013 |                   | Year ended<br>March 31, 2014 |                   | Year ended<br>March 31, 2015 |                   |
|----------------------------------------------|------------------------------|-------------------|------------------------------|-------------------|------------------------------|-------------------|
|                                              | Target                       | Results           | Target                       | Results           | Target                       | Results           |
| Net sales                                    | 82,000                       | 80,502            | 90,000                       | 89,823            | 104,000                      | 105,454           |
| Cost of sales                                | 44,000                       | 42,510            | 47,500                       | 48,352            | 57,000                       | 60,047            |
| Gross profit                                 | 38,000<br>(46.3%)            | 37,991<br>(47.2%) | 42,500<br>(47.2%)            | 41,470<br>(46.2%) | 47,000<br>(45.2%)            | 45,406<br>(43.1%) |
| SG&A expenses                                | 21,500                       | 20,607            | 23,500                       | 22,380            | 26,000                       | 24,718            |
| Operating income<br>(Operating income ratio) | 16,500<br>(20.1%)            | 17,384<br>(21.6%) | 19,000<br>(21.1%)            | 19,090<br>(21.3%) | 21,000<br>(20.2%)            | 20,688<br>(19.6%) |
| Ordinary income<br>(Ordinary income ratio)   | 16,600<br>(20.2%)            | 17,601<br>(21.9%) | 19,000<br>(21.1%)            | 19,091<br>(21.3%) | 21,000<br>(20.2%)            | 20,619<br>(19.6%) |
| Net income<br>(Net income ratio)             | 10,300<br>(12.6%)            | 12,022<br>(14.9%) | 11,800<br>(13.1%)            | 12,192<br>(13.6%) | 13,500<br>(13.0%)            | 14,053<br>(13.3%) |

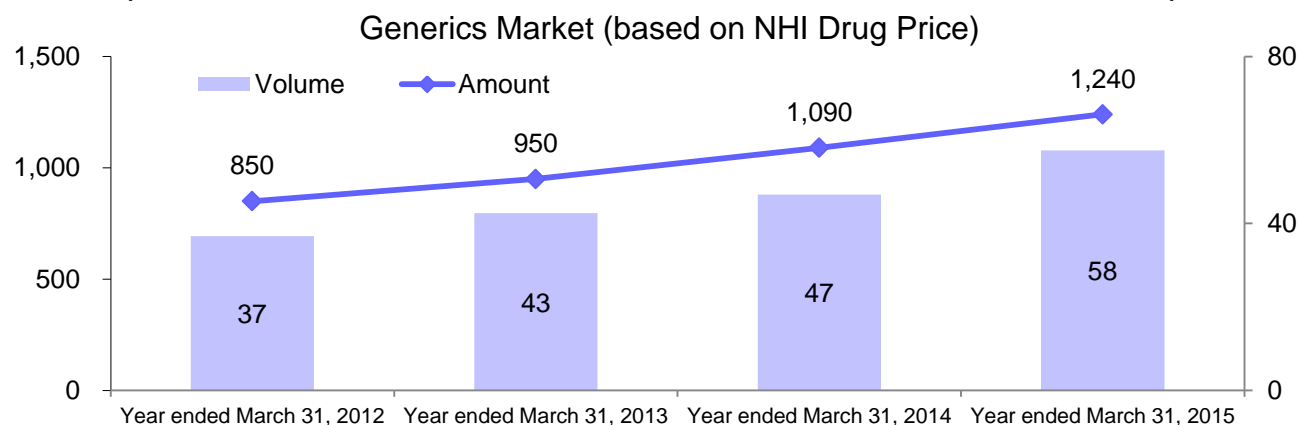
# Review of Previous Medium-term Business Plan

## Growth Rate Comparison

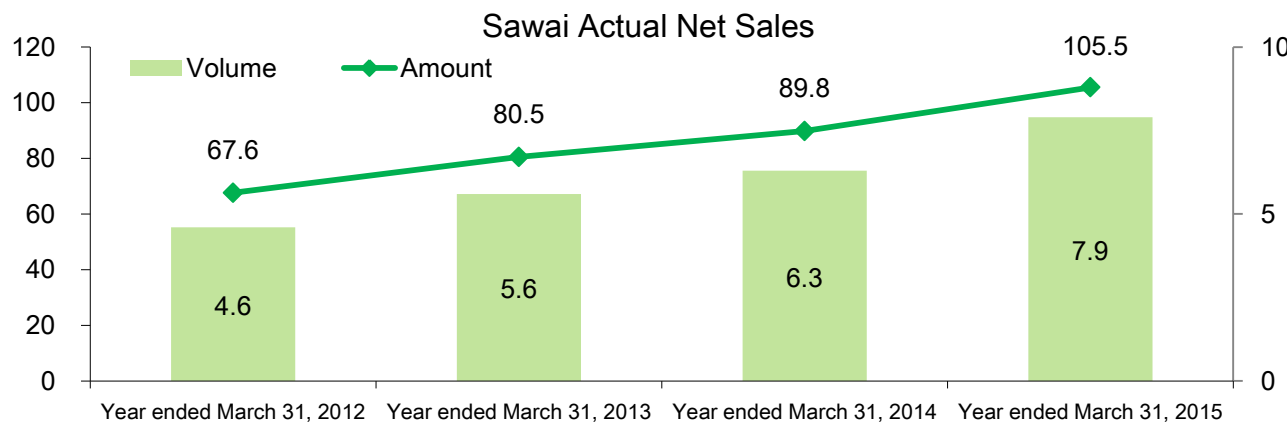
Average expansion rate for net sales and volume during the previous Medium-term Business Plan significantly exceeded those of the generics market

(Value : ¥ billion)

(Volume : billion tablets)



Average expansion rate  
Value: 13.4% /year  
Volume: 16.2% /year



Average expansion rate  
**Value: 15.8% /year**  
**Volume: 19.8% /year**



# Review of Previous Medium-term Business Plan

## Return to Shareholders and Capital Policy

The goal of an ROE of 16.7% was not achieved due to the conversion of ¥30.0 billion in convertible bonds to stock, but the dividend was increased in line with the growth in net income

|                                                                    | Year ended<br>March 31, 2012 | Year ended<br>March 31, 2013 | Year ended<br>March 31, 2014 | Year ended March 31, 2015 |              |
|--------------------------------------------------------------------|------------------------------|------------------------------|------------------------------|---------------------------|--------------|
|                                                                    | Results                      | Results                      | Results                      | Target                    | Results      |
| Net income                                                         | ¥9,026 mil.                  | ¥12,022 mil.                 | ¥12,192 mil.                 | ¥13,500 mil.              | ¥14,053 mil. |
| ROE                                                                | 16.5%                        | 20.1%                        | 15.0%                        | 16.7%                     | 13.2%        |
| EPS<br>(Before adjustment of<br>residual securities)* <sup>1</sup> | ¥285.25                      | ¥386.71                      | ¥365.18                      | ¥426.50                   | ¥382.26      |
| Dividend per share* <sup>2</sup>                                   | ¥70                          | ¥85                          | ¥95                          | —                         | ¥105         |
| Dividend payout ratio                                              | 24.5%                        | 22.0%                        | 26.0%                        | Around 30%                | 27.5%        |

\*1 EPS revised to reflect stock split

\*2 Dividend per share amount revised to reflect stock split

# Review of Previous Medium-term Business Plan

## Basic Policies and Key Strategies

### Basic Policies

### Key Strategies

### Achievement Status

1. Establishment of overwhelming No. 1 presence in the generics market

- a. Solid launching of new products and capture of market share
- b. Strengthening of stable supply system for high quality products through increased production capacity
- c. Further expansion of sales in health insurance pharmacy market
- d. Improved quality of sales to core hospitals and further penetration of the Sawai brand among prescribing physicians
- e. Strengthening of partnerships with wholesalers and distributors

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2. Thorough company-wide cost control through strengthening of management foundation

- a. Cost reductions through optimization of both raw material purchasing and production methods
- b. Improvements in new product development process, aimed at maximizing profits throughout the entire product lifecycle
- c. Optimum allocation of SG&A expenses through strengthening of business administration system

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3. Strategic investment in new fields

- a. Begin building foundation for overseas expansion
- b. Review for realization of hybrid business model
- c. Review of possible entry into the biosimilar market

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1. **Overview of the Medium-term Business Plan**
  2. **Review of Previous Medium-term Business Plan**
  3. **Recognition of Market Conditions**
  4. **Medium- to Long-term Vision**
  5. **Medium-term Business Plan**
  6. **Financial Targets**

# Recognition of Market Conditions

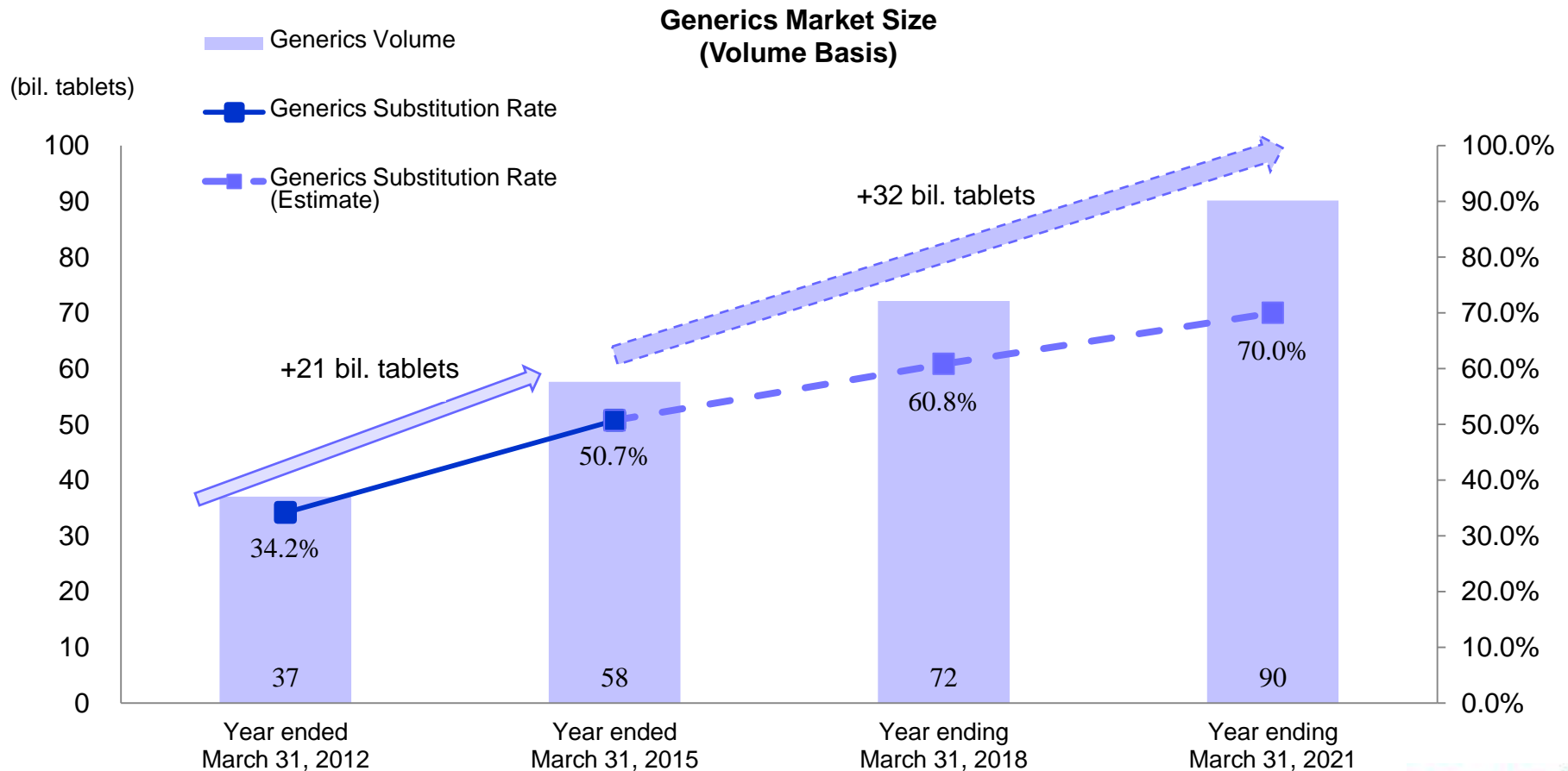
## Changes in Conditions Surrounding Generics Market

|                              | Year ended March 31, 2012                                                   | Year ended March 31, 2015 (current)                                 | Year ending March 31, 2018 ~ |
|------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------------------------|------------------------------|
| Generics Share by Volume     | 34.2%                                                                       | 50.7%                                                               | 60%~                         |
| Market size (NHI drug price) | ¥850 billion                                                                | ¥1,240 billion                                                      | ¥1,630~ billion              |
| Market Size (Volume)         | 37 billion tablets                                                          | 58 billion tablets                                                  | 72~ billion tablets          |
| System<br>Market<br>Customer | Change in NHI drug price system for initial listing of generics             |                                                                     |                              |
|                              | Consolidation of prices for already-listed generics into three price ranges |                                                                     |                              |
|                              | Increased use of generics in the pharmacy market                            |                                                                     |                              |
|                              | Expanded adoption of generics by DPC and other core hospitals               |                                                                     |                              |
|                              | Promotion of generic prescriptions by insurers                              |                                                                     |                              |
| Competition                  | Increase in number of firms entering generics market                        | Intensifying price competition among firms entering generics market |                              |
|                              | First domestic appearance of AGs                                            | Increase in manufacturers competing to market AGs                   |                              |
|                              |                                                                             |                                                                     | Positive factor              |
|                              |                                                                             |                                                                     | Negative factor              |

# Recognition of Market Conditions

## Volume Forecast in Generics Market for Achieving Roadmap

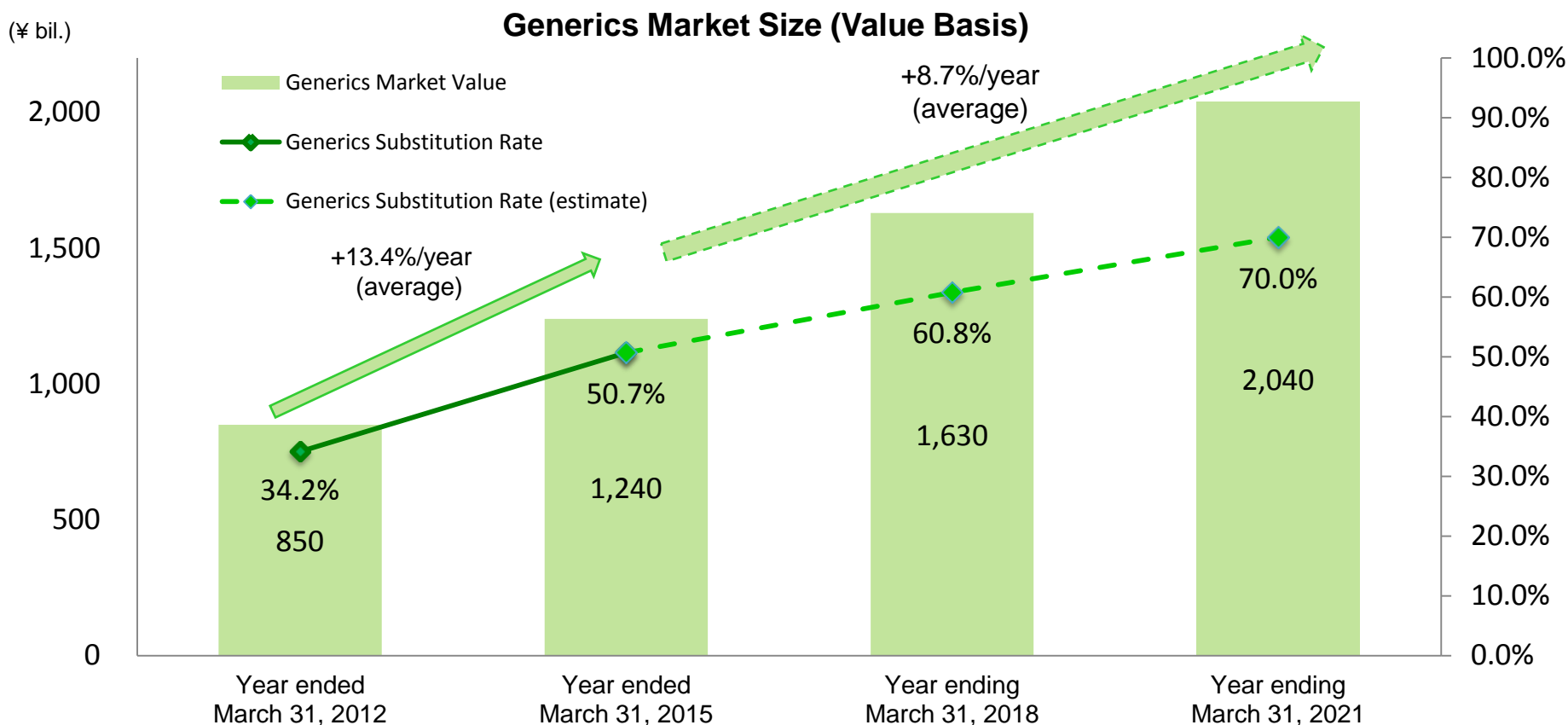
We forecast that the volume share of generics will be 60% in the year ending March 2017, and reach 70% in the year ending March 2021. To achieve stable supply will require establishing capacity to produce 32 billion tablets within six years




# Recognition of Market Conditions

## Forecast of Generics Market Size (Value Basis)

During the term of the Medium-term Business Plan, the generics market will grow at a pace of 8.7% per year for six years, supported by major new products



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1. **Overview of the Medium-term Business Plan**
  2. **Review of Previous Medium-term Business Plan**
  3. **Recognition of Market Conditions**
  4. **Medium- to Long-term Vision**
  5. **Medium-term Business Plan**
  6. **Financial Targets**

# Medium- to Long-Term Vision

## Medium- to Long-Term Vision

Target net sales of ¥200 billion in the year ending March 31, 2021

Globally recognized generic drug company

*M1 TRUST*

*M1 TRUST*  
2015

*M1 TRUST*  
2018

Capture a leading position for the generics business

Year ended March 31, 2012

- Net sales ¥67.6 bil.
- Operating income ¥15.0 bil.

Further expansion of and investment in the generics business

Year ended March 31, 2015

- Net sales ¥105.5 bil.
- Operating income ¥20.7 bil.

Foundation building for a greater jump forward

Year ending March 31, 2018


- Net sales ¥147.0 bil.
- Operating income ¥25.0 bil.

Achieving dramatic growth

Year ending March 31, 2021

- Net sales ¥200 bil.



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1. **Overview of the Medium-term Business Plan**
  2. **Review of Previous Medium-term Business Plan**
  3. **Recognition of Market Conditions**
  4. **Medium- to Long-term Vision**
  5. **Medium-term Business Plan**
  6. **Financial Targets**

# Medium-term Business Plan

## Issues to Address During Current Plan Period

### Market conditions

Pressure to lower prices due to falling NHI drug prices and intensified competition

Continued expansion of volume demand

Diversification/intensification of competitive environment due to expansion of market players, entry of AGs, etc.

### Initiatives not completed under previous plan

Further growth in sales to hospitals  
Strengthening of partnerships with wholesalers and distributors

Improvement of new product development process

Further reduction in manufacturing costs

Building an operating foundation for new fields

### Issues to Address During Current Plan Period

#### ■ Strengthen sales and development capabilities to survive intensifying competition

- ✓ Expand generics market and become capable of establishing a presence in the midst of intensifying competition, including AG players.

#### ■ Improve production capacity by bolstering production facilities and continue to strengthen and maintain a company-wide system for lower costs

- ✓ Ensure the company is able to respond to volume demand in a continually-expanding generics market
- ✓ Ensure profitability even in the face of pressure to lower prices resulting from falling NHI drug prices and intensifying competition

#### ■ Build an operating foundation for new business fields

- ✓ Establish a firm foundation and roll out business in new fields

# Medium-term Business Plan

## Basic Policies and Key Strategies

### Basic Policies

① Firmly maintain the No. 1 share of the generics market

② Strengthen stable supply and cost control capabilities in response to changing market conditions.

③ Build an operating foundation for future growth through new business fields

### Key Strategies

- Expand market share by investing resources in line with marketability
- Strengthen coalition with wholesalers and distributors
- Ensure first-to-market status for new, high value-added products

- Boost production capacity and improve reliability to strengthen stable supply system
- Improve productivity through more efficient capacity utilization
- Establish a raw material purchasing system that balances both stable procurement and cost reductions

- Build a foundation for overseas business
- Review potential business models aimed at building the biosimilar business

# Medium-term Business Plan

## Sales Policy

### ———— Key Strategies ————

- **Expand market share by investing resources in line with marketability**
- **Strengthen coalition with wholesalers and distributors**

### ———— Action Items ————

**Roll out area marketing  
through optimum  
allocation of resources**

### ———— Key Initiatives ————

- Improve MR productivity through more clarified targeting
- Increase sales by establishing sales teams in specialized fields (cancer, biosimilars, etc.)
- Strengthen ability to provide information by building a multi-marketing system that integrates MR activity with the web and call centers, etc.

**Improve the Sawai brand  
among wholesalers and  
distributors**

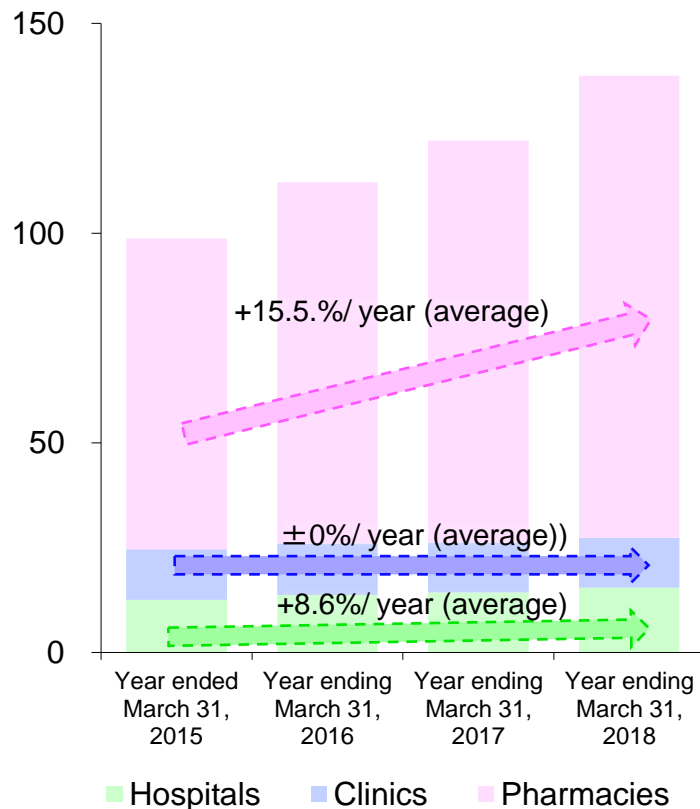
- Carry out effective strategies that keep valued local clients in mind
- Improve communication between MRs and MSs, and strengthen support system through wholesaler and distributor staff

# Medium-term Business Plan

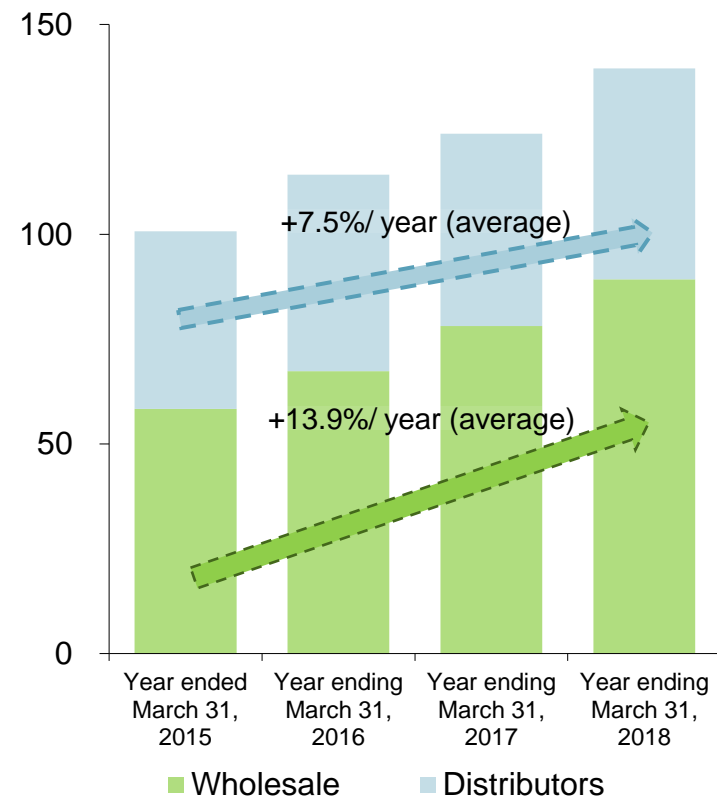
## Sales Targets by Type of Facility/Sales Channel

Work to capture share primarily in the hospital and pharmacy markets, where growth is expected to continue. In sales channels, continue to strengthen alliances with both wholesalers and distributors

Adopted Amount by Facility Type (¥ bil.)



Net Sales by Sales Channel (¥ bil.)



# Medium-term Business Plan

## Research and Development Policy

### ———— Key Strategy ————

**Ensure first-to-market status for new, high value-added products**

### ———— Action Items ————

### ———— Key Initiatives ————

#### **Make further improvements in development process**

- Streamline development process by strengthening cross-departmental ties
- Establish bioequivalency assessments utilizing new pharmacokinetic prediction methods

#### **Establish proprietary technology**

- Consider proprietary technology for use in development of high value-added products
- Systematize drug formulations to match specific drug characteristics

#### **Bring a greater cost awareness to product development**

- Streamline formulation review process by standardizing manufacturing methods
- Implement cost management from the development phase

# Medium-term Business Plan

## New Product Development Targets

Approximately 30 ingredients scheduled to be launched over three years

|                                                | Year ending March 31, 2016                 | Year ending March 31, 2017                   | Year ending March 31, 2018                           |
|------------------------------------------------|--------------------------------------------|----------------------------------------------|------------------------------------------------------|
| Major drugs scheduled to go off patent         | Plavix<br>Exforge<br>Jzoloft<br><br>others | Zyprexa<br>Tracleer<br>Mirapex<br><br>others | Crestor<br>Kipres/Singulair<br>Olmetec<br><br>others |
| Estimated total market size for original drugs | Approx. ¥280 bil.                          | Approx. ¥120 bil.                            | Approx. ¥550 bil.                                    |
|                                                | Total approx. ¥950 bil.                    |                                              |                                                      |
| Number of newly-listed ingredients             | 9                                          | 6                                            | 14                                                   |

# Medium-term Business Plan

## Production Policy (1/3)

### ———— Key Strategy ————

**Boost production capacity and improve reliability to strengthen stable supply system**

### ———— Action Items ————

### ———— Key Initiatives ————

**Systematic capital investment  
Establish a new  
production system**

- Formulation and execution of an investment plan that takes a long-range view
- Smooth transfer of products to Kashima Factory
- Establish shift system after introduction of two-shift work schedule

**PIC/S compatibility  
Strengthen system for  
monitoring and supervision  
of factories**

- Establish internal system compatible with PIC/S
- Establish training program to strengthen factory supervision



# Medium-term Business Plan

## Production Policy (2/3)

———— Key Strategy ————

**Improve productivity through more efficient capacity utilization, etc.**

———— Action Items ————

———— Key Initiatives ————

### Improve productivity

- Review and implement manufacturing process improvements with the goal of enhancing yield
- Consider improvements to achieve optimal production lot size

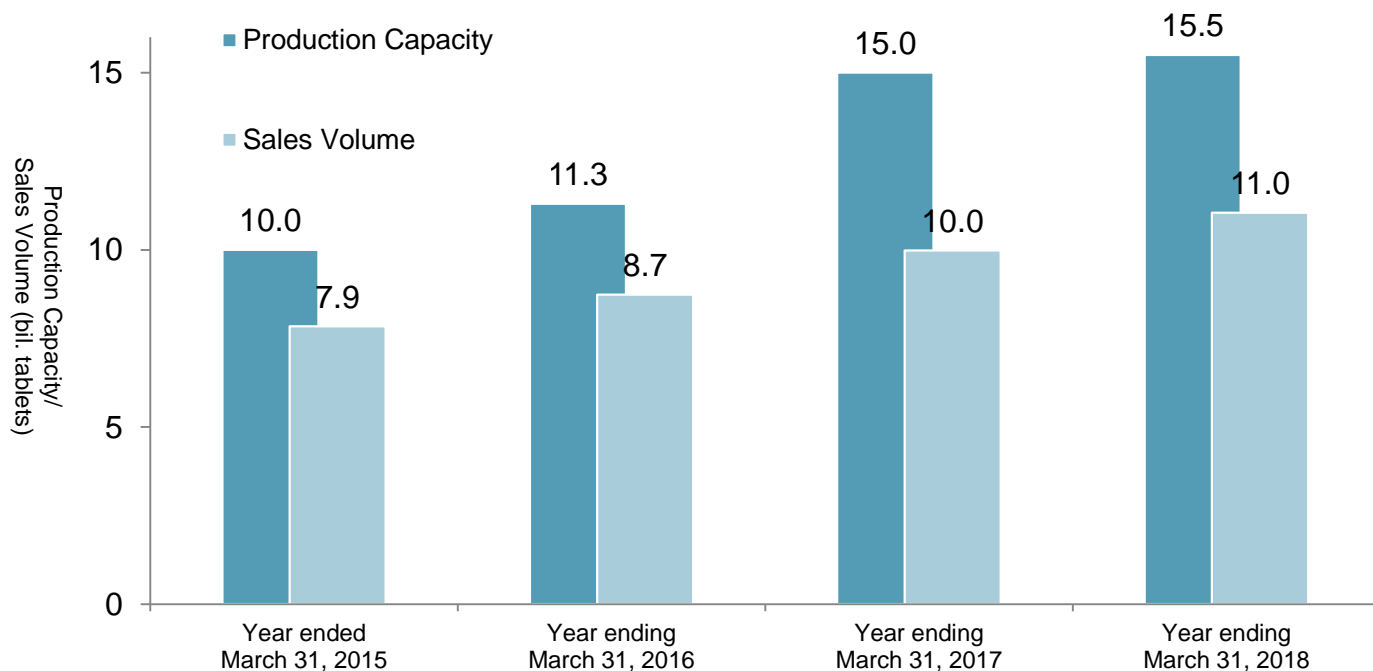
### Improve capacity utilization rate

- Improve production equipment utilization rate by reducing equipment cut-over time and frequency
- Expand manpower-saving processes

# Medium-term Business Plan

## Production Policy (3/3)

Achieve production capacity of 15.5 billion tablets within the period of the Medium-term Business Plan  
Execute ¥44.0 billion in production facility investments over three years



— **Capital Investment** —  
¥44.0 bil./3 years

- Achieve stable supply by boosting production facilities in anticipation of increased volume demand

# Medium-term Business Plan

## Purchasing Policy

### ———— Key Strategy ————

**Establish a raw material purchasing system that balances both stable procurement and cost reductions**

### ———— Action Items ————

### ———— Key Initiatives ————

#### **Stable procurement of raw materials**

- Strengthen management and assessment of suppliers
- Strengthen auditing of suppliers and achieve greater efficiency

#### **Reduction in purchasing cost of raw materials**

- Further promote purchasing of pharmaceutical ingredients from multiple sources
- Promotion of use of common packaging materials

# Medium-term Business Plan

## Policy for New Business Fields


### ———— Key Strategies ————

- **Build a foundation for overseas business**
- **Review potential business models aimed at building the biosimilar business**

### ———— Action Items ————

### ———— Key Initiatives ————

|                                                           |                                                                                                                                                                                                                                                |
|-----------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Build a foundation for business in the U.S. market</b> | <ul style="list-style-type: none"><li>■ Build organizational management structure and formulate sales strategy for Sawai USA</li><li>■ Strengthen internal development structure to ensure ability to file applications with the FDA</li></ul> |
| <b>Consider other overseas business</b>                   | <ul style="list-style-type: none"><li>■ Research and consider entry into overseas markets aside from the U.S.</li><li>■ Research and consider overseas production sites</li></ul>                                                              |
| <b>Rollout biosimilar business</b>                        | <ul style="list-style-type: none"><li>■ Review possible directions for full rollout of business</li></ul>                                                                                                                                      |

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- 1. Overview of the Medium-term Business Plan**
  - 2. Review of Previous Medium-term Business Plan**
  - 3. Recognition of Market Conditions**
  - 4. Medium- to Long-term Vision**
  - 5. Medium-term Business Plan**
  - 6. Financial Targets**

# Financial Targets

## Investment Plan

We invest aggressively with the goal of achieving dramatic growth in the medium to long term

**Research and development  
investment**

**¥23.5 bil./3 years**

- Accelerate development to ensure being first to market
- Develop more medicines oriented toward patients and medical institutions

**Capital investment in  
production**

**¥44.0bil./3 years**

- Achieve stable supply by boosting production facilities in anticipation of increased volume demand

# Financial Targets

## Returns to Shareholders and Capital Policy

In accordance with the basic policy noted below, which calls for a balance between securing investment funds and providing returns to shareholders, our goal is to maintain an ROE of greater than 12%.

### Basic Policy

- Proactively secure investment funds for future growth
- Implement stable distribution aimed at a dividend payout ratio of 30%

|            | Year ended<br>March 31, 2015<br>(Results) | Year ending<br>March 31, 2018<br>(Target) | Ratio to year ended<br>March 31, 2015 |
|------------|-------------------------------------------|-------------------------------------------|---------------------------------------|
| Net income | ¥14.1 bil.                                | ¥17.0 bil.                                | +21%                                  |
| ROE        | 13%                                       | 12%                                       | —                                     |
| EPS        | ¥382                                      | ¥461                                      | +21%                                  |

# Financial Targets

## Financial Targets (Consolidated)

(¥million)

|                                                     | Year ended<br>March 31, 2015 | Year ending<br>March 31, 2016 | Year ending<br>March 31, 2017 | Year ending<br>March 31, 2018 |
|-----------------------------------------------------|------------------------------|-------------------------------|-------------------------------|-------------------------------|
|                                                     | Results                      | Target                        | Target                        | Target                        |
| <b>Net sales</b>                                    | 105,454                      | 124,000                       | 134,000                       | 147,000                       |
| <b>Cost of sales</b>                                | 60,047                       | 71,900                        | 79,500                        | 89,000                        |
| <b>Gross profit</b>                                 | 45,406<br>(43.1%)            | 52,100<br>(42.0%)             | 54,500<br>(40.7%)             | 58,000<br>(39.5%)             |
| <b>SG&amp;A expenses</b>                            | 24,718                       | 30,100                        | 31,500                        | 33,000                        |
| <b>Operating income</b><br>(Operating income ratio) | 20,688<br>(19.6%)            | 22,000<br>(17.7%)             | 23,000<br>(17.2%)             | 25,000<br>(17.0%)             |
| <b>Ordinary income</b><br>(Ordinary income ratio)   | 20,619<br>(19.6%)            | 21,700<br>(17.5%)             | 22,600<br>(16.9%)             | 24,500<br>(16.7%)             |
| <b>Net income</b><br>(Net income ratio)             | 14,053<br>(13.3%)            | 15,500<br>(12.5%)             | 15,500<br>(11.6%)             | 17,000<br>(11.6%)             |



# Financial Targets

## SG&A Expenses, Number of Personnel, Capital Investment (Consolidated)

(¥ million)

| Breakdown of SG&A Expenses | Year ended March 31, 2015<br>(Results) | Year ending March 31, 2016<br>(Target) | Year ending March 31, 2017<br>(Target) | Year ending March 31, 2018<br>(Target) |
|----------------------------|----------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|
| Personnel expenses         | 8,146                                  | 8,500                                  | 9,000                                  | 9,500                                  |
| R&D expenses               | 6,109                                  | 7,500                                  | 7,800                                  | 8,200                                  |
| (Ratio to sales)           | (5.8%)                                 | (6.0%)                                 | (5.8%)                                 | (5.6%)                                 |
| Advertising expenses       | 2,102                                  | 2,400                                  | 2,400                                  | 2,400                                  |

(people)

| Number of Personnel       | Year ended March 31, 2015<br>(Results) | Year ending March 31, 2016<br>(Target) | Year ending March 31, 2017<br>(Target) | Year ending March 31, 2018<br>(Target) |
|---------------------------|----------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|
| Total number of personnel | 2,142                                  | 2,770                                  | 2,880                                  | 3,050                                  |
| Number of MRs             | 488                                    | 490                                    | 500                                    | 510                                    |

(¥ million)

| Capital Investment Plan | Year ended March 31, 2015<br>(Results) | Year ending March 31, 2016<br>(Target) | Year ending March 31, 2017<br>(Target) | Year ending March 31, 2018<br>(Target) |
|-------------------------|----------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|
| Capital expenditure     | 12,452                                 | 25,500                                 | 10,500                                 | 8,000                                  |
| Depreciation expenses   | 5,863                                  | 6,700                                  | 7,700                                  | 8,800                                  |

- 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. Therefor, due to potential risks and uncertainties, there is no guarantee as to the accuracy of this information.
- Potential risks and uncertainties may include, but are not limited to, the economic environment for prescription drugs, which is the main operating domain of the Sawai Group, market competition and services offered by the Group.



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