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Sawai Pharmaceutical to Acquire the Generics Business of Upsher-Smith Laboratories (US)

Building a Global Trusted Generics Company

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Sawai Pharmaceutical Co., Ltd.

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Transaction Details

Target Company	Upsher-Smith Laboratories, Inc. (“USL”)
Rationale	Realize Sawai’s goal of establishing itself as a recognized global generics company
Acquisition Price	USD 1.05 Billion (JPY 115.5 Billion)
Funding	The transaction will be financed by bank loans and available cash
Schedule	The transaction is expected to close by the end of June 2017, subject to customary regulatory approvals.

FX: USD1=JPY110

Objective, Background, & Strategic Rationale (1)

Realizing Sawai's Medium Term Business Plan "M1 TRUST 2018"
of Becoming a Globally Recognized Generics Company

One Focus Area of "M1 TRUST 2018"

Build an operating foundation
for future growth

U.S. as top priority market

- First Japanese Generics Company to obtain Paragraph IV
- Plan for 5 product lineup including 2 applications

U.S. Market Challenges

- Experience with FDA for gaining Paragraph IV approval
- Limited sales and revenue upside due to lack of production and sales capabilities in the U.S.

Explore M&A options in order to establish U.S. business platform

Our M&A Imperatives

Management Philosophy

Contribution To Growth And
Expansion

Establish and Strengthen
Market Presence

Leverage combined human
resources and expertise

Fair Acquisition Price

Objective, Background, & Strategic Rationale (2)

Five Reasons Sawai Chose USL

1

Earned trust through rich history of nearly 100 years in the US generic business, R&D, manufacturing and sales

2

Stable supply and delivery of high-quality pharma products,
A true focus on patient needs

3

High profile in the US generic market with strong infrastructure,
leveraging its long history in the business

4

High profitability and growth expected due to USL's product line-up,
strong pipeline and commercial relationships

5

Numerous similarities with Sawai, including corporate values

Objective, Background, & Strategic Rationale (3)

Full-fledged US Market Entry through USL

US Market



Provide high-quality and high-value generic pharma products to patients both in Japan and US

Objective, Background, & Strategic Rationale (4)

**Accelerate growth in the U.S. market as a second pillar,
based on growth in the Japanese market**

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Japan

Maintain Leadership Position, Further Grow and Expand

- While Japan's population is declining, those over 65, heavy pharmaceutical consumers, are increasing
- Aim to be the undisputed leader in the Japanese generic market, leaving room for growth

U.S.

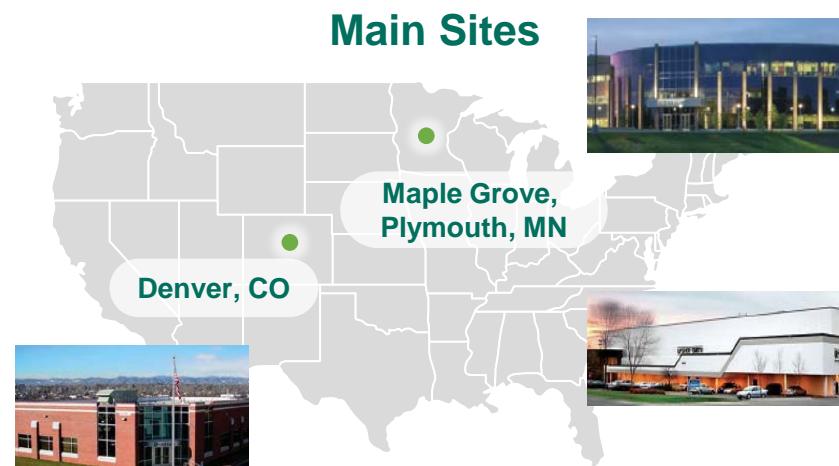
Sawai's Second Pillar

- Sawai's growth driver will be this advance into the U.S., the world's largest generic market
- Together with USL, demonstrate the strengths of both companies to increase market share and expand business in the U.S.

Aiming to build a second pillar for Sawai that accelerates both companies' growth and expansion, both internationally and domestically

About USL (1)

Headquarters	Maple Grove, Minnesota, U.S.A
Established	1919
CEO	Mark Evenstad
Main Business	Manufacture and sales of generic pharmaceuticals
Shareholders	ACOVA Inc. (100%)
Reporting period	Year to December
Number of Employees	Approx. 600, as of April 2017
Production Facilities	Plymouth, MN Denver, CO (Capacity : 4 billion doses per annum)



Past 2 Years Performance (Only Generic Business)

(USD Million)	Dec 2015	Dec 2016
Net Assets	90.1	83.8
Total Assets	257.6	236.6
Net Revenue	446.0	397.2
Operating Profit	203.6	150.9
Net Profit	201.4	142.4

NOTE: Certain parts of USL will be carved out before completion of this acquisition, therefore these financials only reflect the business being acquired.

About USL (2)

Upsher-Smith has a diversified product portfolio of over 30 pharmaceutical products, mainly oral solid preparations, and strong pipeline of over 30 products.

Main Products

Klor-Con®



- Klor-Con® (potassium chloride) is indicated for the prevention or treatment of hypokalemia
- No. 1 Market Share : About 55%
- In May 2014, Sandoz entered into an agreement with USL to be the sole distributor for all Klor-Con® product forms

Chlorpromazine



- Chlorpromazine is indicated for the management of manifestations of psychotic disorders
- No. 1 Market Share : About 67%

1% Testosterone



- Testosterone is indicated for testosterone replacement therapy in males for conditions associated with a deficiency or absence of endogenous testosterone, including primary hypogonadism and hypogonadotropic hypogonadism
- Market Share : About 17%

Baclofen



- Baclofen is indicated for the alleviation of signs and symptoms of spasticity resulting from multiple sclerosis, particularly for the relief of flexor spasms and concomitant pain, clonus, and muscular rigidity
- Market Share : About 12%

About USL (3)

Strategic Expertise and Capabilities Sawai will Gain

Capabilities

Product Development

- CDO with significant experience in both generic and original pharmaceuticals leads an 80-person team
- Able to develop complex and sustained-release pharmaceuticals
- Approx. 30 items in pipeline developed internally and with external resources

Application

- VP with significant experience in both generic and original pharmaceuticals leads a 20-person team
- Expertise in liaising and working with the FDA
- Experience with Paragraph IV

Production

- VP with long experience in pharmaceutical distribution industry distribution leads a 200-person team
- Manufacture of complex and sustained-release pharmaceuticals
- Many years of passing FDA inspections, deep understanding of production facilities for high quality pharmaceuticals and strong relationships with the FDA

Sales

- SVP with experience in several senior positions in the generics industry, leads a 15-person generic sales team together with a VP in charge of sales strategy who leads a dedicated team of 20-person generic marketing team
- Sell to the big 3 wholesalers, pharmacies and retailers
- Approximately 40% of products hold a No. 1 or 2 market share

Management

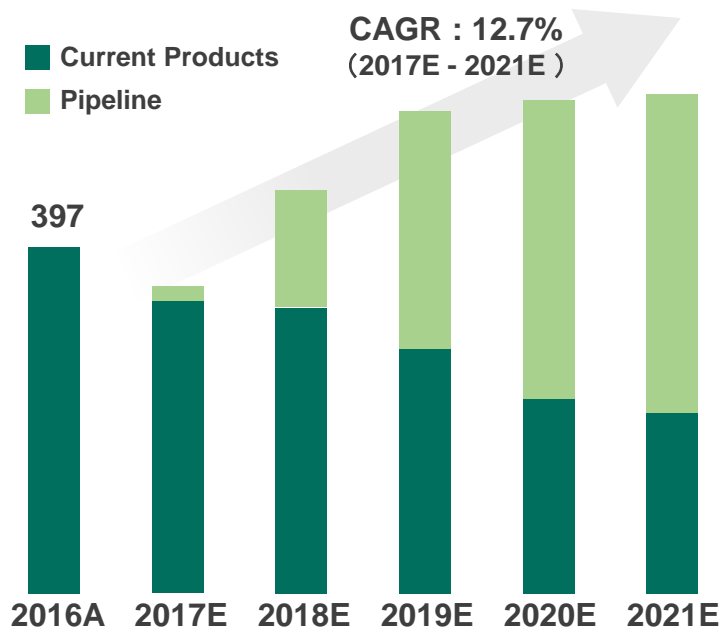
- The management team consists of the President, who is a leader in the generics industry in the U.S., with experience in major positions in the industry, and a management team of 13 experienced VPs.

About USL (4)

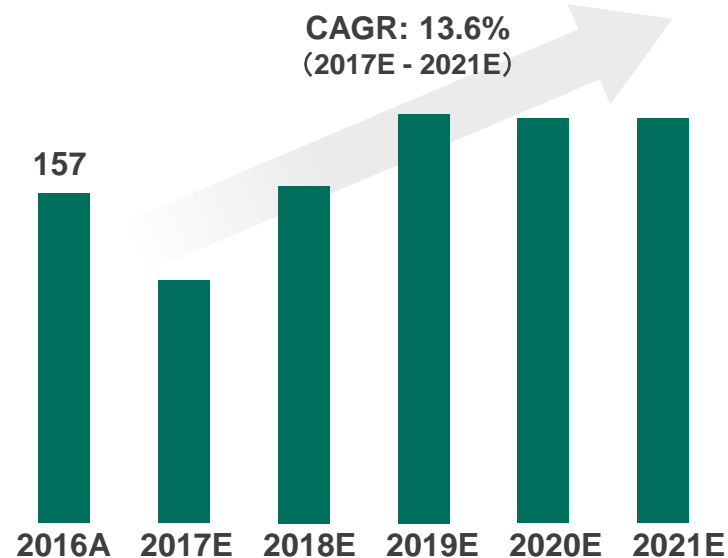
Leverage Diverse Pipeline, Anticipate Continuing Revenue, Profit Growth

- From 2017 to 2021, Expected Sales Growth Rate is 12.7% (before synergies)
- While some of USL's major products have faced downward pricing pressure because of the extremely competitive market environment, after the next fiscal year, anticipate the positive impact of products now in the pipeline coming to market
- Maximize synergy through the development of Sawai's domestic and future Paragraph IV-approved products in the U.S.

USL : Revenue (\$million)



USL : EBITDA (\$million)



※The above forecasts (Sales, EBITDA) do not take into account synergies

Expected Impact

USL's Strengths & Challenges

Strengths	<ul style="list-style-type: none">■ High market share, many profitable products■ FDA compliance capability (expertise and experience with high quality manufacturing facilities)■ Ability to develop complex products with high barriers to entry■ Strong relationships with domestic sales channels in the U.S.■ Strong brand supported by its nearly 100 year heritage
Challenges	<ul style="list-style-type: none">■ Need to enhance intellectual property strategy and formulation technology■ Expansion of product lineup



Sawai's Strengths & Challenges

Strengths	<ul style="list-style-type: none">■ Approx 700 product lines, drug development capabilities with more than 250 in pipeline■ Top class, stable domestic supply capabilities■ Intellectual property expertise (patent search/litigation response)■ Strong Brand Recognition
Challenges	<ul style="list-style-type: none">■ No overseas production sites■ Accumulating experience with FDA

- Accelerate development of overseas business, in particular the U.S. business, which is the largest pharmaceutical market
- Through USL's firm business base in the U.S., Sawai will be able to develop its lines of products approved in Japan that could be distributed in the U.S. and Paragraph IV-approved products in the U.S.
- Cost savings due to the sharing of knowhow

Financial Impact

P/L Impact

- Will be consolidated from 2H FY2018
- Current expectation for EPS enhancement in the first FY
- More details to be disclosed following PPA

Shareholder Returns

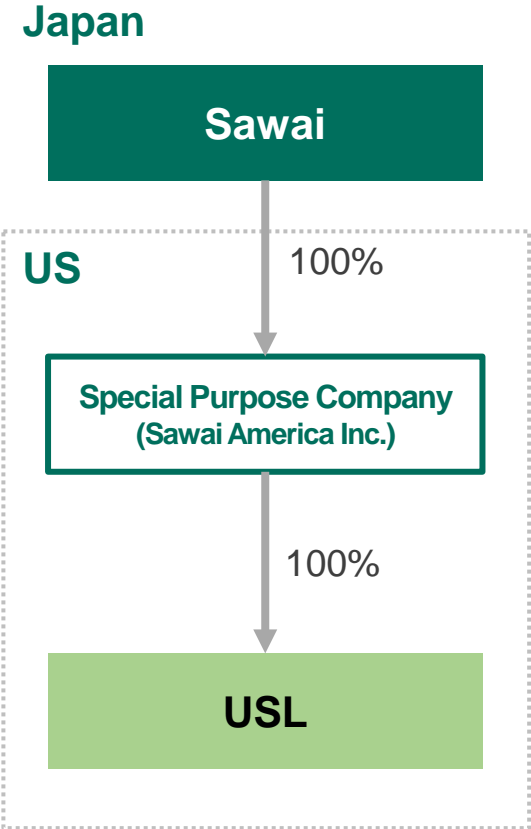
- No plans to change Sawai's stable and continuous dividend policy with payout ratio of about 30%
- Plan to realize shareholder returns through enhanced corporate value and stable dividend payout

Financial Soundness

- Increase of debt in short term, however expected to return to current levels in mid-to-long term

Structure and Timeline

Establish Special Purpose Company (SPC) to Acquire USL



Acquisition Price	<ul style="list-style-type: none"> ■ USD 1.05 Billion (approx. JPY 115.5 Billion)
Acquisition Scheme	<ul style="list-style-type: none"> ■ Established a new SPC in Delaware, U.S. ■ Acquire all stakes in USL through SPC, once it becomes LLC
Financing	<ul style="list-style-type: none"> ■ Bank loans and available cash
Schedule Going Forward	<ul style="list-style-type: none"> ■ Closing expected by the end of June, 2017 ■ Subject to merger clearance and fulfillment of preconditions pursuant to the provision of the Purchase and Sale Agreement

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.
 - 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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