

# 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

Nov. 15, 2017

# 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		
<b>Net Sales</b>	65,416	<b>70,758</b>	<b>66,555</b>	<b>4203</b>	5,341	8.2%
<b>Operating Income</b>	11,360	<b>11,144</b>	<b>11,596</b>	<b>-452</b>	-216	-1.9%
<b>Operating Income (excluding extraordinary factors)※</b>	11,360	12,457	11,596	861	1,097	9.7%
<b>Ordinary Income</b>	11,326	11,801	—	—	475	4.2%
<b>profit attributable to owners of parent</b>	8,565	<b>8,791</b>	—	—	226	2.6%

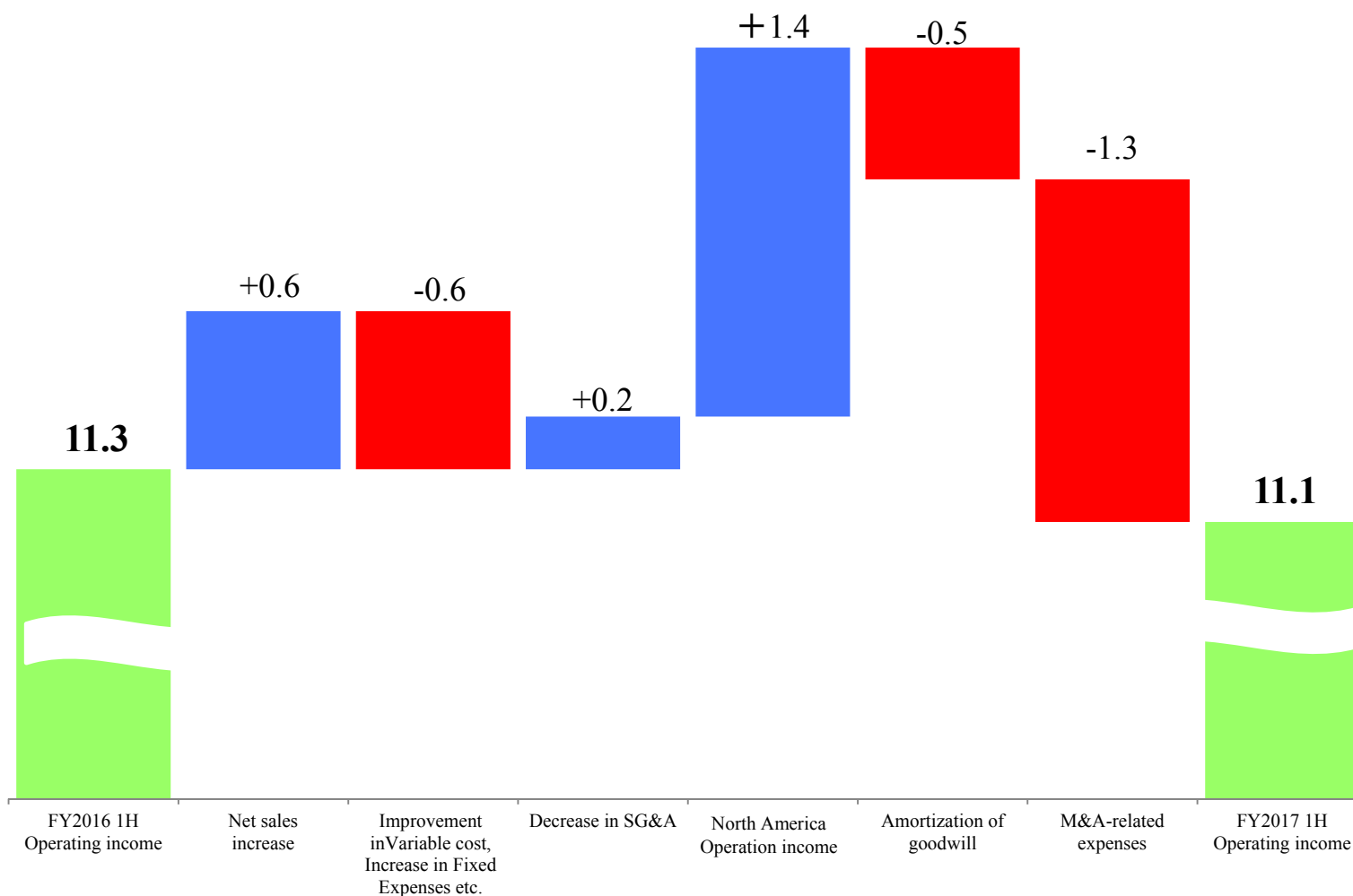
\*1. A goodwill amortization expense of 535 million yen associated with the USL acquisition was recorded in the North America segment

\*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

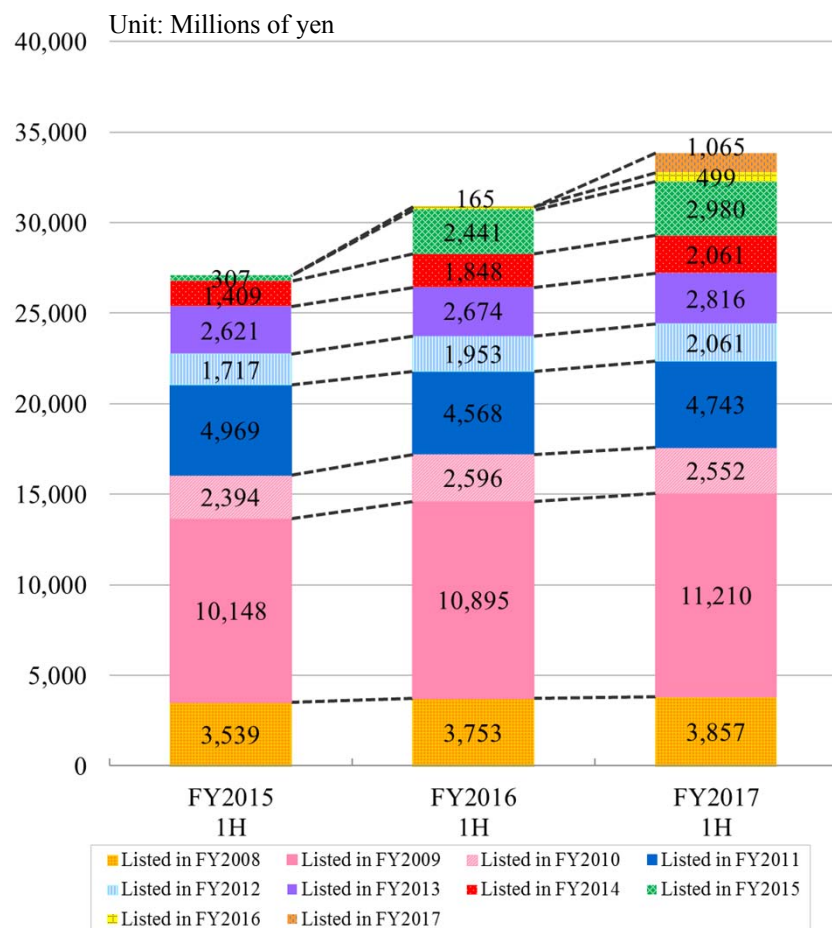
(Unit: Number of Medical Institution)

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>NetProfit</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

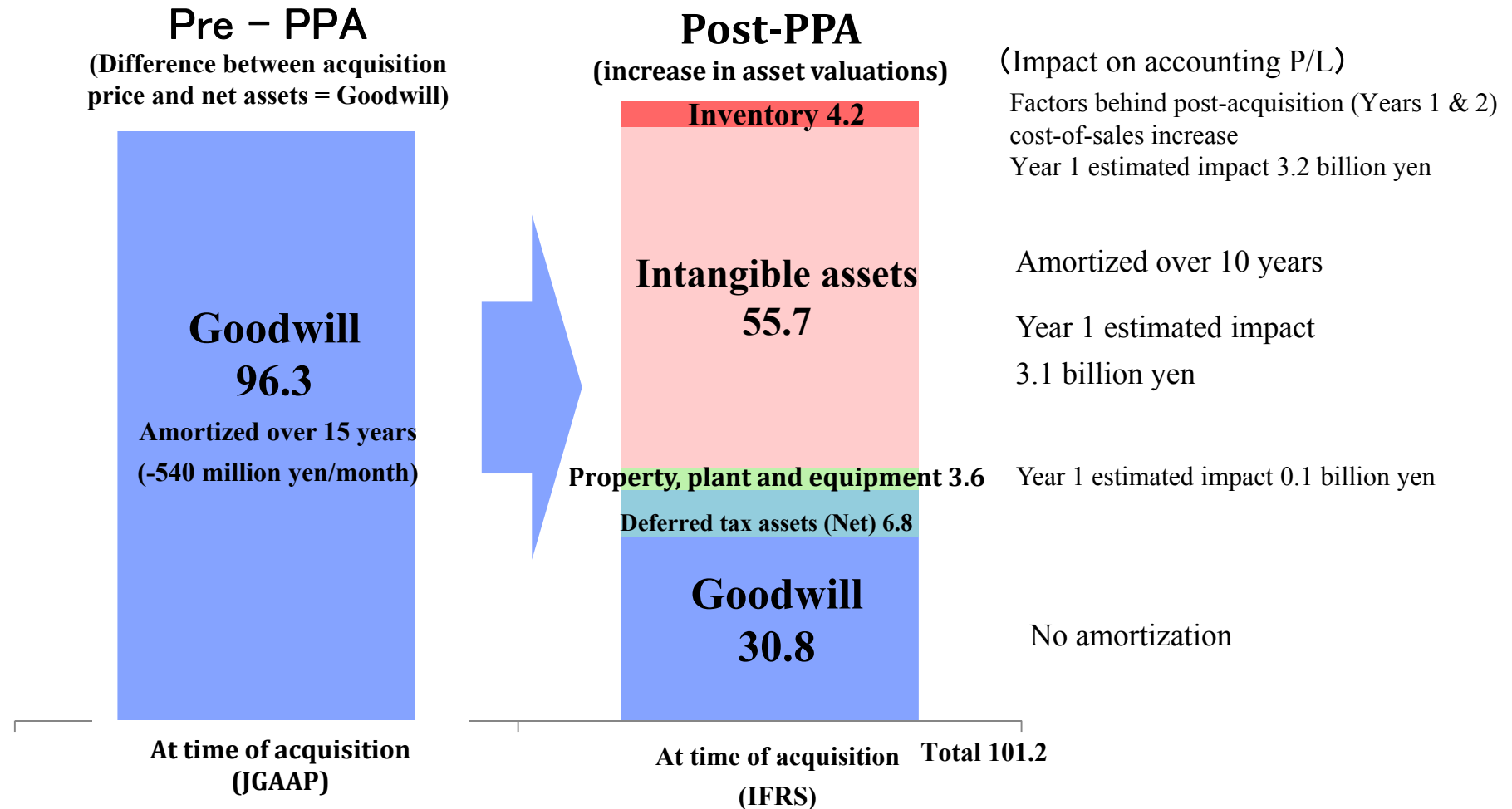
(2) Amortization of intangible assets  
>3.6 billion yen  
(3.1 billion yen for USL)

(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)

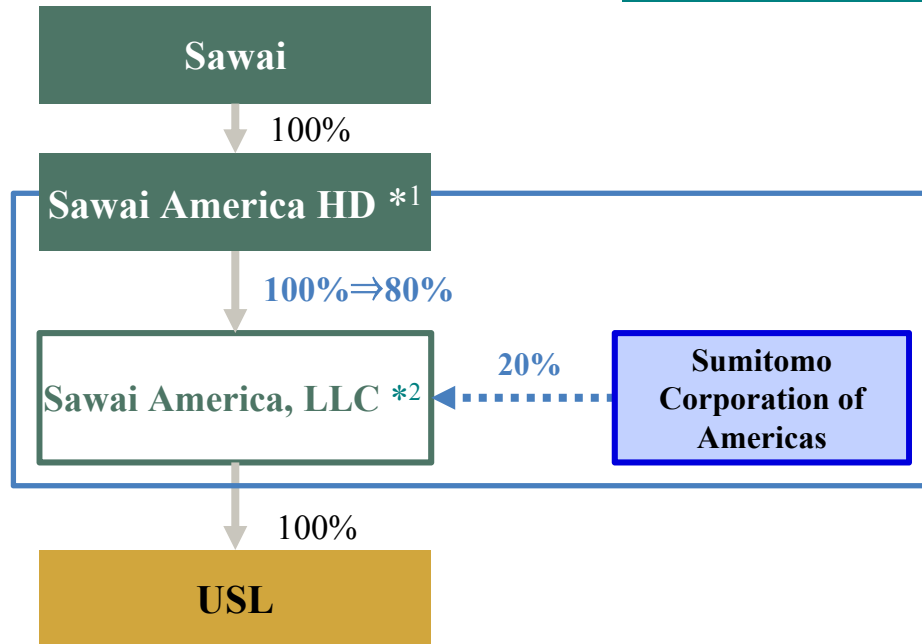


- Pre-audit basis PPA
- Amortization months for this fiscal year: June 2017 to March 2018 (10 months)
- Assumed exchange rate: 110 yen/dollar

# Partial Assignment of Sawai America Equity Interests to Sumitomo Corporation of Americas (1)

## Sawai Pharmaceutical Forms Strategic Alliance with Sumitomo Corp in the US Generics Market

### Structure and Outline



Method	Partial Transfer
Disposition Price to SCOA	\$211 million
Investment ratio	20% of equity interests of Sawai America, LLC*1
Schedule	Agreement on Nov. 13, 2017 Completion by March, 2018

\*1 Sawai will establish SAWAI AMERICA HOLDINGS INC., the interim holding company in the U.S., which will be the parent company of SAL by the time the Transaction is executed.

\*2 Sawai America Inc. will be converted into Sawai America, LLC before ACOA acquires the equity assignment

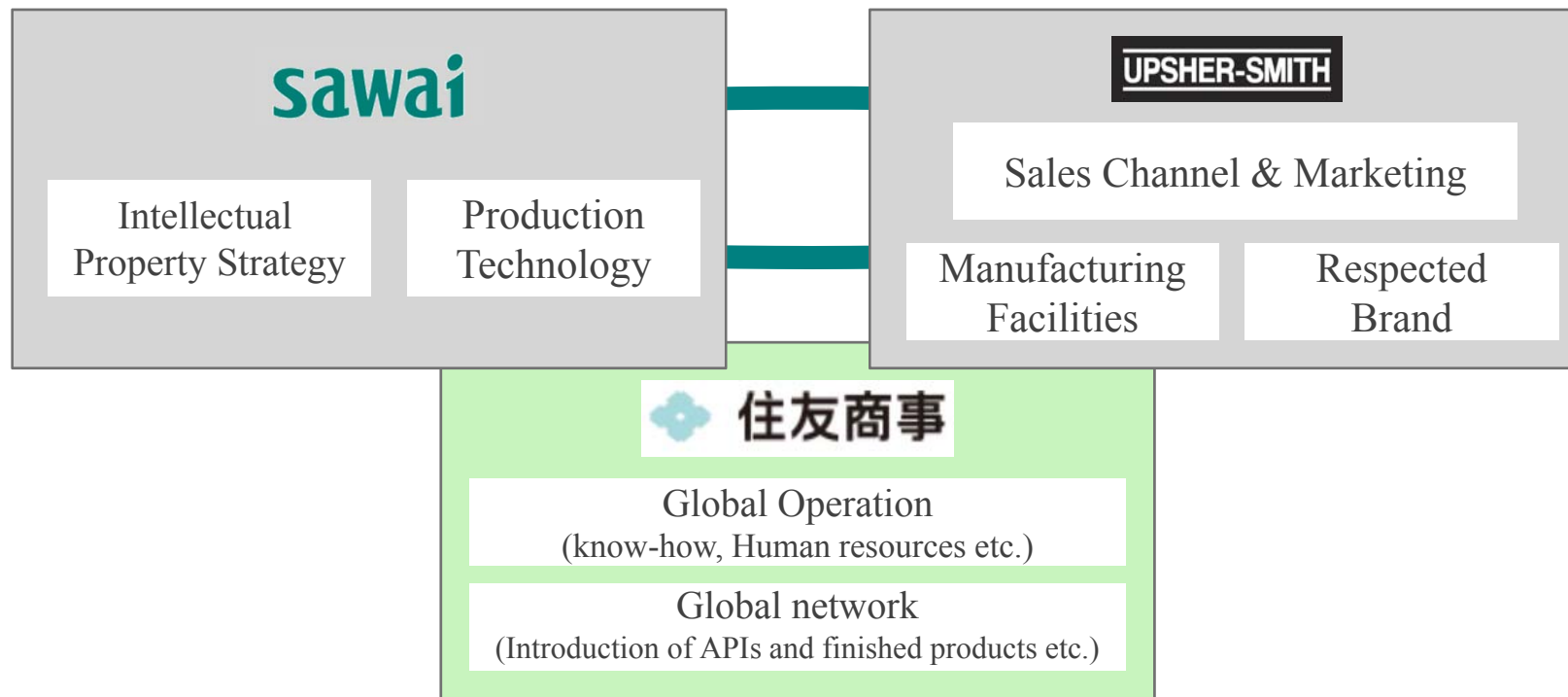
Goal

By utilizing broad experiences, know-hows and network of Sumitomo group's global business operation, we realize further growth of USL and global expansion centered on North America.

# Partial Assignment of Sawai America Equity Interests to Sumitomo Corporation of Americas (2)



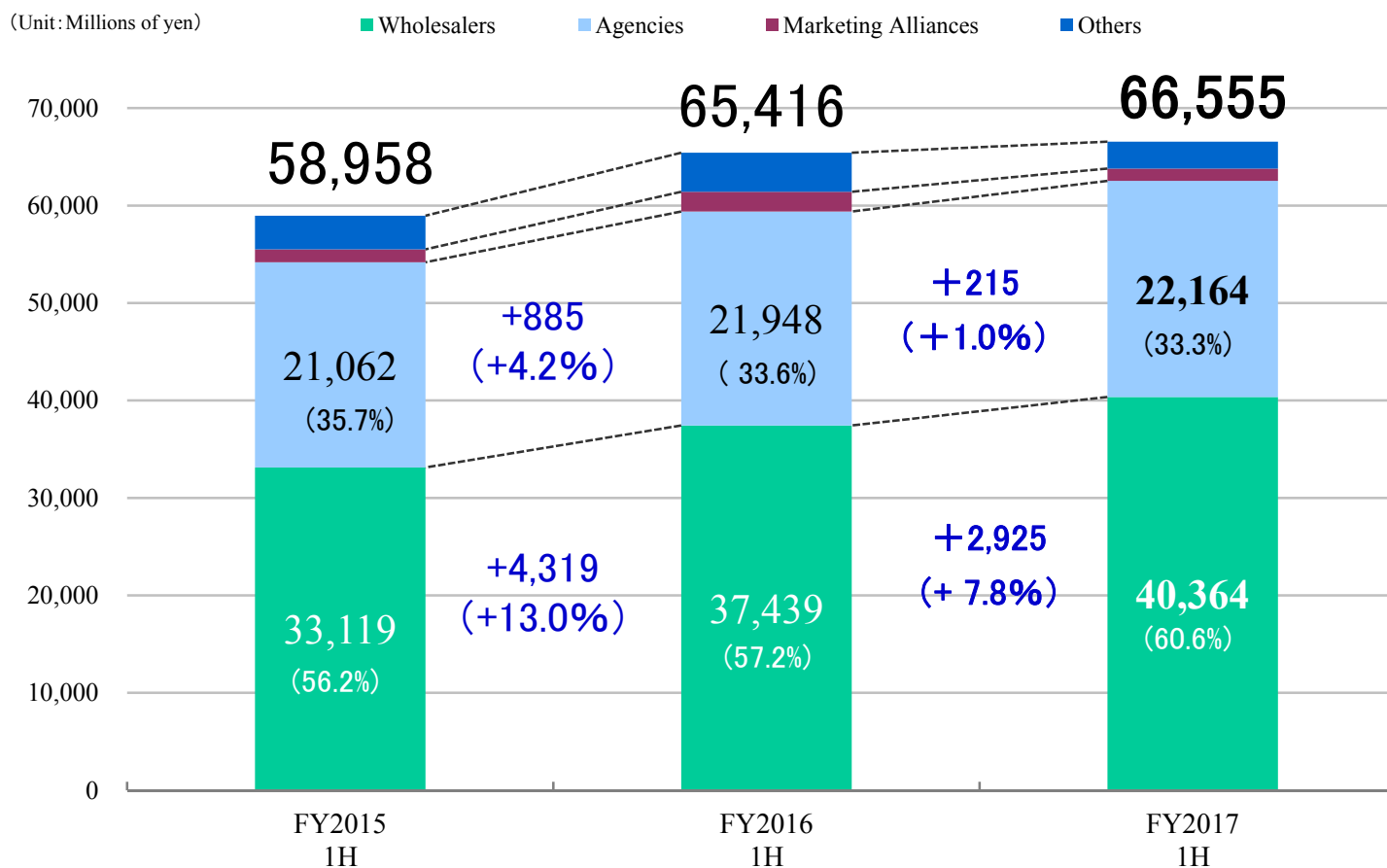
In addition of the cooperation of Sawai and USL, we utilize operating resources and global networks of Sumitomo Group



**Taking advantage of strengths and distinctions of three parties will accelerate the growth to be “a globally recognized generic pharmaceutical company”, which is the vision we share with USL.**

# Sales by Distribution Channels

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



# New Products (planned)

◆ 7 ingredients and 16 products will be listed in December

Major Products	Brand Drugs	Therapeutic Category
Rosuvastatin calcium tablets, OD Tablets	Crestor Tablets, OD Tablets	Treatment of hypercholesterolemia or familial hypercholesterolemia
Olmesartan medoxomil OD Tablets	Olmetec OD Tablets	Treatment of hypertension
Irbesartan Tablets	Avapro Tablets, Irbetan Tablets	Treatment of hypertension
Famciclovir Tablets	Famvir Tablets	Treatment of herpes simplex and herpes zoster

# Consolidated Financial Highlights-1

(Unit: Millions of Yen)

	FY2016		FY2017			FY2017 Forecast(IFRS)		FY2017 Forecast(JGAAP)		
	1H	/Sales(%)	1H	/Sales(%)	YoY(%)	Full Year	Full Year	Full Year	YoY(%)	
<b>Key Income Statements Data</b>						<b>Key Income Statements Data</b>		<b>Key Income Statements Data</b>		
Net Sales	65,416	100.0	<b>70,758</b>	100.0	8.2	<b>168,800</b>	Net Sales	<b>160,400</b>	-	
Cost of Sales	38,794	59.3	<b>41,578</b>	58.8	7.2	<b>100,700</b>	Cost of Sales	<b>96,100</b>	-	
Gross Profit	26,622	40.7	<b>29,179</b>	41.2	9.6	<b>68,100</b>	Gross Profit	<b>64,300</b>	-	
SG&A Expenses	15,261	23.3	<b>18,035</b>	25.5	18.2	<b>29,100</b>	SG&A Expenses	<b>43,600</b>	-	
Operating Income	11,360	17.4	<b>11,144</b>	15.7	-1.9	<b>23,700</b>	Operating Income	<b>20,700</b>	-	
Ordinary Income	11,326	17.3	<b>11,801</b>	16.7	4.2	<b>30,500</b>	Core Operating Income			
Net Profit	8,565	13.1	<b>8,791</b>	12.4	2.6	<b>23,300</b>	Profit before tax	<b>20,800</b>	-	
						<b>17,300</b>	Net Profit	<b>15,300</b>	-	
						<b>41,200</b>	EBITDA *1			
<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					

	FY2016		FY2017		FY2017 Forecast(IFRS)	
	1H		1H	YoY(%)	Full Year	
<b>Amounts Per Common Share</b>					<b>Amounts Per Common Share</b>	
Net Income per Share	232.33		<b>238.45</b>	2.6	469.22	
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>	-	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>							
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>							
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.
- 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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