

Financial Results for the 1st Half of Fiscal Year 2018

(April 1, 2018 – September 30, 2018)

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SEIKAGAKU CORPORATION

(TSE:4548)

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< Cautionary Notes >

This material contains forward-looking statements regarding future management strategies or performance forecasts. These statements are based on judgments derived from information that is currently available to Seikagaku and are subject to risk and uncertainty. Actual results and developments may differ significantly from these forward-looking statements due to various factors.

Information about pharmaceutical products or medical devices (including products currently in development) included in this material is not intended to constitute an advertisement or medical advice.

Overview for 1H of FY2018

(Millions of Yen)	1H FY2018 Results	Year-on-Year		(Reference) FY2018 Full Year Forecasts	
		Change	% of Change	FY 2018 Forecasts	Degree of Progress
Net sales	14,256	-1,239	-8.0%	28,100	50.7%
Operating Income	963	-1,255	-56.6%	400	241.0%
Ordinary Income	2,475	-2,319	-48.4%	2,250	110.0%
Net Income	1,912	-1,638	-46.1%	1,700	112.5%
R&D Expenses (Ratio to net sales)	3,287 (23.1%)	+82 (+2.4pt)	+2.6%	7,050 (25.1%)	46.6%
Average Exchange Rate (1US\$)	¥110.27	-¥0.80		¥105.00	

	1H FY2018 Results	1H FY2017 Results	(Reference) FY2018 Forecasts
Net Income per Share	¥ 33.85	¥ 62.73	¥ 30.11

Net sales by Business Segment (1H of FY2018)

(Millions of Yen)	1H FY2018 Results	Year-on-Year	% of Change
Net sales	14,256	-1,239	-8.0%
Pharmaceuticals	10,939	-1,620	-12.9%
Domestic Pharmaceuticals	6,974	-1,478	-17.5%
Overseas Pharmaceuticals	3,429	-157	-4.4%
Bulk Products	535	+16	+3.1%
LAL Business	3,317	+380	+13.0%
(Overseas sales)	6,224	+203	+3.4%

*Foreign exchange impact on overall net sales:
approx. -100 million yen

Domestic Pharmaceuticals

➤ ARTZ (Joint-function improving agent)

- Sales down sharply, reflecting the impact of NHI drug price reductions implemented in April 2018 (-14.3%)



ARTZ:
Joint function improving agent with hyaluronic acid as its main ingredient

➤ OPEGAN series (Ophthalmic surgery aid)

- Sales at the prior-year level, with continued growth from SHELLGAN compensating for NHI drug price reductions (approx. -9%)



SHELLGAN:
OPEGAN series product used in cataract surgery (launched July 2016)

➤ MucoUp

(Submucosal injection agent for endoscopic surgery)

- Sales up, thanks to sales expansion measures by the sales partner

➤ HERNICORE

(treatment for lumbar disc herniation)

- Launched in August 2018
- Seikagaku sales small since it is the launch year

Net sales by Business Segment (1H of FY2018)

(Millions of Yen)	1H FY2018 Results	Year-on-Year	% of Change
Net sales	14,256	-1,239	-8.0%
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*Foreign exchange impact on overall net sales:
approx. -100 million yen

Overseas Pharmaceuticals

*Foreign exchange impact on Overseas Pharmaceuticals:
approx. -10 million yen

➤ Gel-One in the U.S. (Single injection)

- Both local sales and Seikagaku sales up
- Growth rate trending down in an increasingly adverse market environment



Gel-One:
Single-injection joint function
improving agent

➤ ARTZ (Multiple injection)

● SUPARTZ FX in the U.S.

Seikagaku sales down sharply, reflecting soft local sales and a decline in shipments from a high level in 1H FY2017

● ARTZ in China

- Local sales on an upward trend
- Seikagaku sales up, partly reflecting a rebound from a local inventory adjustment implemented in 1H FY2017

Net sales by Business Segment (1H of FY2018)

(Millions of Yen)	1H FY2018 Results	Year-on-Year	% of Change
Net sales	14,256	-1,239	-8.0%
Pharmaceuticals	10,939	-1,620	-12.9%
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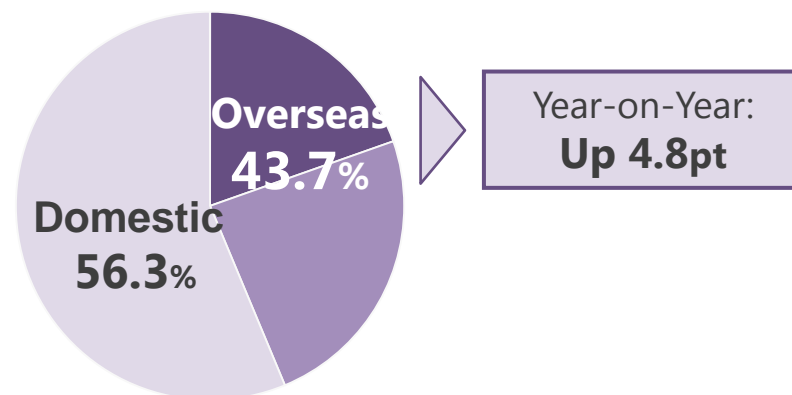
Bulk Products

- Sales of hyaluronic acid down
 - Overseas sales of chondroitin sulfate up
- *Bulk Products : High-purity, high-quality hyaluronic acid and chondroitin sulfate for pharmaceuticals

LAL Business

- *Foreign exchange impact on LAL Business: approx. -90 million yen
- Strong sales of endotoxin-detecting reagents and other products in Japan and overseas
- *LAL Business : The manufacturing and sales of Endotoxin detection reagents used in the quality control of pharmaceuticals

Overseas Sales Ratio



Income for 1H of FY2018 (Year-on-Year)

(Millions of Yen)	1H FY2018 Results	Year-on-Year	% of Change
Net sales	14,256	-1,239	-8.0%
Cost of Sales (Cost of Sales ratio)	6,518 (45.7%)	+0 (+3.6pt)	+0.0%
SGA expenses	6,774	+14	+0.2%
R&D Expenses (to Net sales ratio)	3,287 (23.1%)	+82 (+2.4pt)	+2.6%
Operating Income (to Net sales ratio)	963 (+6.8%)	-1,255 (-7.5pt)	-56.6%
Ordinary Income	2,475	-2,319	-48.4%
Net Income	1,912	-1,638	-46.1%
Depreciation	1,446	-21	-1.5%

Operating Income

Cost of Sales Ratio (+3.6pt):

Increase due to the impact of NHI drug price reductions

SGA Expenses (+14):

- Decrease at Seikagaku due to expense cutting
- Increase at the overseas subsidiary accompanying stepping up of overseas sales activities in the LAL business
- At the prior-year level on a consolidated basis

Net Income

Non-operating Income / Expenses (-1,064)

- Increase in gain on sale of investment securities (+576)
- Year-on-year decrease in royalty income (-1,491)

Income Taxes (Tax Rate: 22.7%):

Impact of a tax decrease in the U.S. (-3.2pt)

Overview of Forecasts in FY2018

* There is no change in forecast announced on May 11, 2018.

(Millions of Yen)	FY2018 Forecasts	FY2017 Results			(Reference) Degree of 1H progress
		Results	Change	% of Change	
Net sales	28,100	30,175	-2,075	-6.9%	50.7%
Operating Income	400	1,421	-1,021	-71.9%	241.0%
Ordinary Income	2,250	5,327	-3,077	-57.8%	110.0%
Net Income	1,700	3,922	-2,222	-56.7%	112.5%
R&D Expenses (to Net sales ratio)	7,050 (25.1%)	8,408 (27.9%)	-1,358 (-2.8pt)	-16.2%	46.6%
Average Exchange Rate (1US\$)	¥105.00	¥110.86	¥-5.86		

	FY2018 Forecasts	FY2017 Results
Net Income per share	¥30.11	¥69.30
Dividend per share	¥26.00	¥26.00
Dividend Payout ratio	86.4%	37.5%

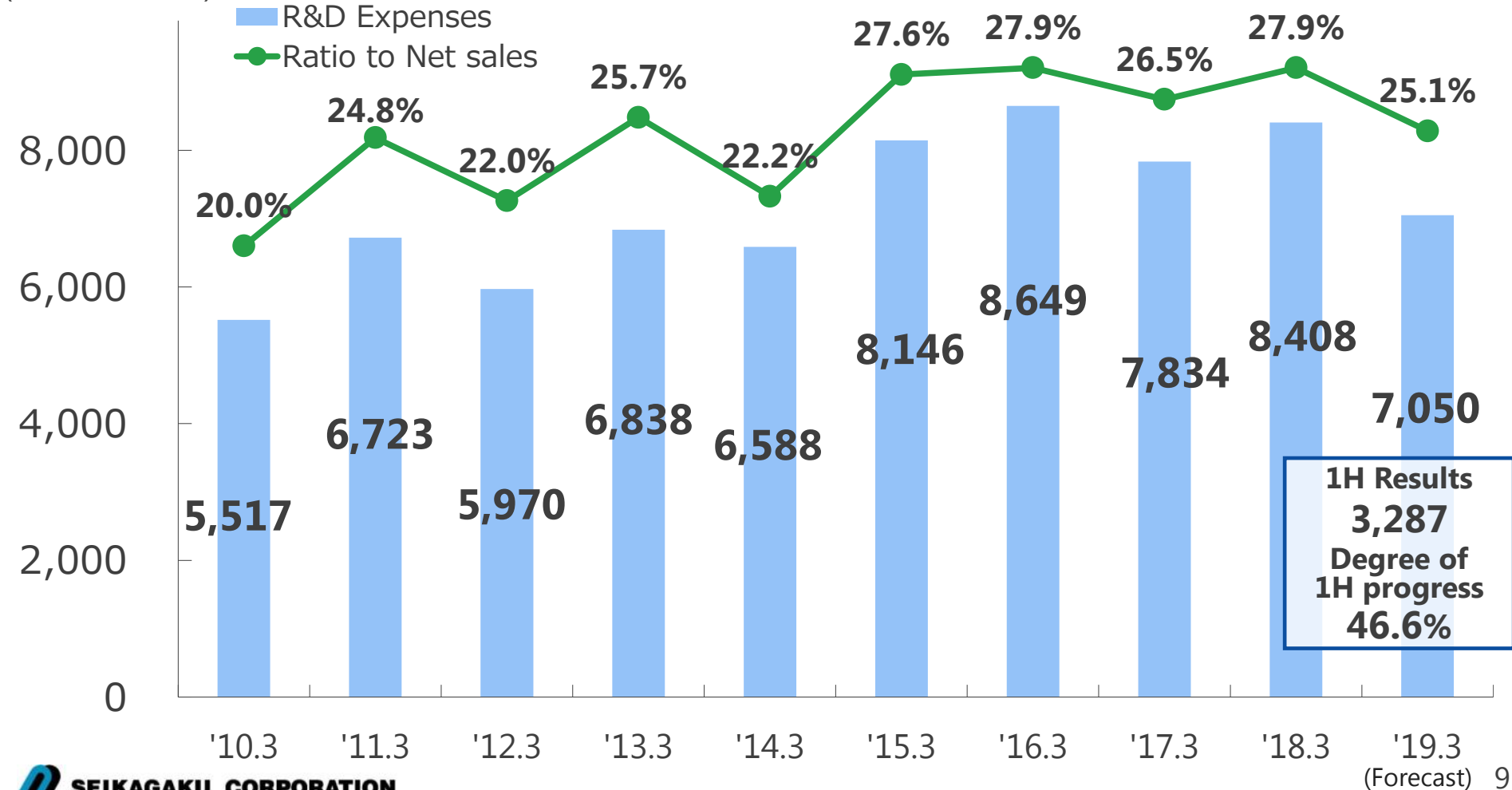
Exchange Rate Sensitivity (Impact of a change of ¥1 against the US\$)	
Net sales	Approx. ¥110 million
Operating income	Approx. ¥55 million

Trend in R&D Expenses

* There is no change in forecast announced on May 11, 2018.



Specializing in glycoscience and engaging in prioritized, efficient R&D

(Millions of Yen)



Domestic Pharmaceuticals

(Unit deliveries to medical institutions/Year-on-Year)

Joint-function improving agent ARTZ	1H FY2018 Results	FY2018 Forecasts	
	<ul style="list-style-type: none"> ● Market contraction due in part to an increase in treatment options, such as the emergence of concomitant medications ● Only a slight decline in sales of ARTZ thanks to sales partner sales promotion measures 	<ul style="list-style-type: none"> ● Introduction of a improved syringe formulation in October ● Aim for a further market share increase <p>*ARTZ Dispo drug price revision rate: -14.3%</p>	
	ARTZ growth rate: -1.1% (Market growth rate: -2.5%) Market share: 59.2% (+0.9pt)	ARTZ growth rate +0.8% (forecast)	Market share 59.0% (forecast)
Ophthalmic surgical aids OPEGAN (including SHELLGAN)	1H FY2018 Results	FY2018 Forecasts	
	<ul style="list-style-type: none"> ● Further market penetration for SHELLGAN due to vigorous sales promotion activities ● Market share expansion 	<ul style="list-style-type: none"> ● Publicize SHELLGAN's product features ● Aim to capture share from competitors by continuing targeted sales promotion activities <p>*OPEGAN series price reduction rate: Approx. -9%</p>	
	OPEGAN growth rate: +9.4% (Market growth rate: +3.9%) Market share: 43.9% (+2.2pt)	OPEGAN growth rate +7.2% (forecast)	Market share 44.5% (forecast)

Physician and Facilities Requirements for HERNICORE Use

Setting of physician and facility requirements for HERNICORE use to promote appropriate use and ensure safety

Physician requirements

(As of November 2018)

Physicians to whom any of 1 to 3 below applies and who have experience in performing lumbar puncture

1. Japanese Society for Spine Surgery and Related Research or Neurospinal Society of Japan accredited supervisory physician
2. Physician under the direction of a Japanese Society for Spine Surgery and Related Research or Neurospinal Society of Japan accredited supervisory physician
3. Physician who has participated in a HERNICORE clinical trial

Facility requirements Facilities that meet all of the conditions below

(As of November 2018)

1. Facilities equipped with an X-ray fluoroscopic system (C-arm, etc.) capable of administering HERNICORE using clean technique
2. Facilities capable of treating shock and anaphylaxis
3. Facilities capable of performing urgent spine surgery or facilities that cooperate with facilities capable of performing spine surgery

▶ **We plan to review these requirements with the consent of PMDA* approximately six months to one year after launching, following collection and careful examination of post-marketing safety information etc.**

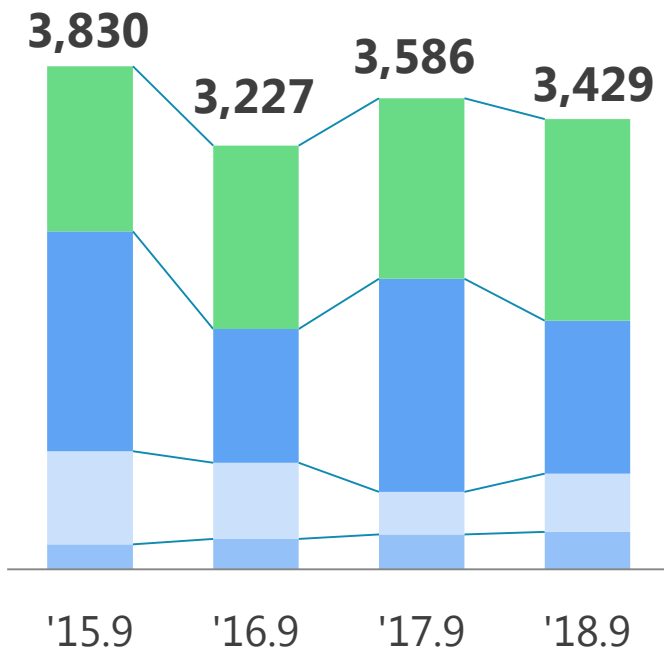
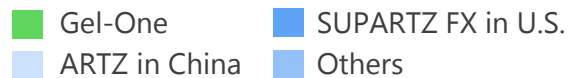
*PMDA: Pharmaceuticals and Medical Devices Agency

Overseas Pharmaceuticals (1H FY2018 Results Year-on-Year / value basis)

Overseas Pharmaceuticals Sales trend

(Millions of Yen)

<Breakdown>



1H FY2018 Results

-4.4%

(Foreign exchange impact
-0.2%)

Decrease on lower sales of SUPARTZ FX in the U.S., despite increases in Gel-One sales and exports of ARTZ to China

***Foreign exchange impact: approx. -¥10million**

Gel-One (Single injection)

- **Sales in the U.S.:** Growth of approx. 3% (volume basis)

➤ Seikagaku exports:

Increase accompanying a local sales increase

ARTZ (Multiple injection)

● SUPARTZ FX in the U.S.

Local sales down sharply due to the strong impact of intensification of competition and suspension of reimbursement for HA* injectable treatments by some insurance companies (approx. -11%, volume basis)

● ARTZ in china

Increase due to successful strengthening of sales expansion activities targeting not only urban areas, but also surrounding areas

➤ Seikagaku exports

Sharp decrease due to softening of sales of SUPARTZ FX in the U.S. and a decline in shipments from a high level in 1H FY2017, despite an increase in exports to China

*HA: Hyaluronic acid

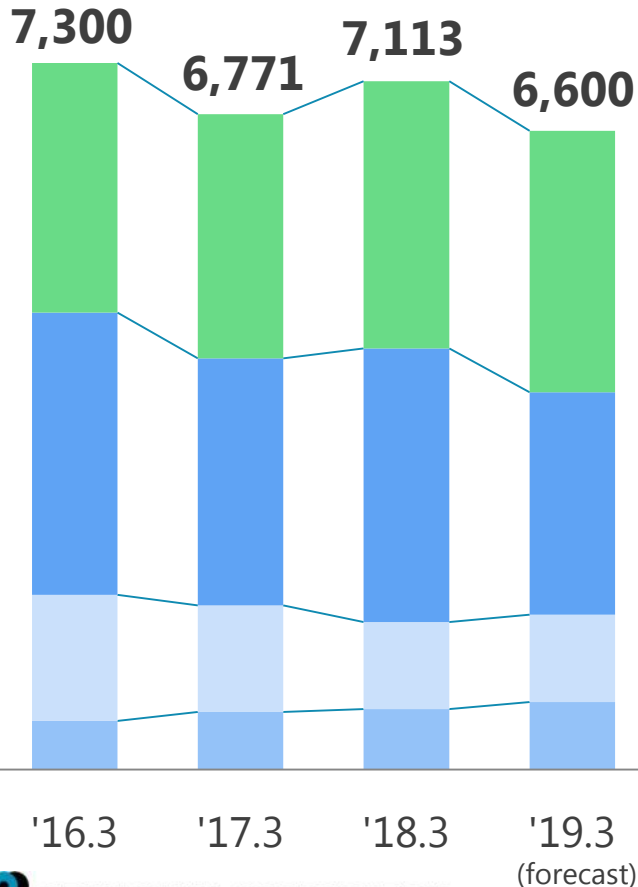
Overseas Pharmaceuticals (FY2018 Forecast Year-on-Year / value basis)

Overseas Pharmaceuticals Sales trend

(Millions of Yen)

<Breakdown>

■ Gel-One ■ SUPARTZ FX in U.S.
■ ARTZ in China ■ Others



**FY2018
Forecasts
-7.2%**

Expected decrease due to the impact of suspension of reimbursement for HA* injectable treatments by some insurance companies in the U.S.

Gel-One (Single injection)

● Sales in the U.S.:

Revision of projected growth rate from +7% to +3% (volume basis)

➤ Seikagaku exports:

Slight strengthening due to the positive impact of exchange rates due to yen depreciation exceeding the assumption at the beginning of the fiscal year

ARTZ (Multiple injection)

● SUPARTZ FX in the U.S.

Forecast revised downward (from -5% to -11%, volume basis) due to an uphill battle for local sales in an increasingly adverse market environment

● ARTZ in China

Forecast of a continued increase, with sales in line with the assumption at the beginning of the fiscal year

➤ Seikagaku exports

Exports weakening due to a decline in sales of SUPARTZ FX in the U.S. exceeding the assumption at the beginning of the fiscal year

*HA: Hyaluronic acid

Sales of LAL Business (value basis/year-on-year)

LAL Business Sales trend

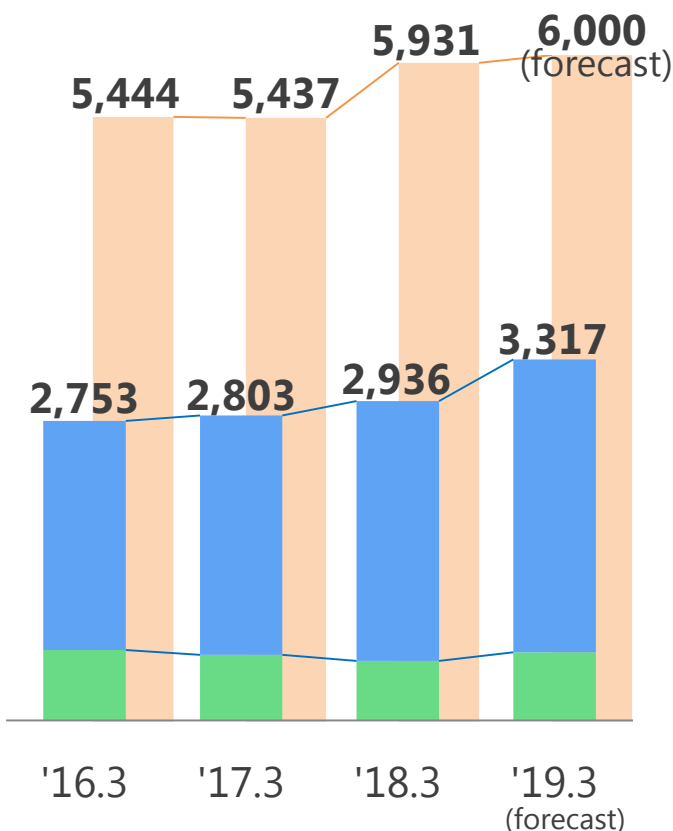
(Millions of Yen)

■ Full year

<1H Breakdown>

■ Overseas

■ Domestic



1H FY2018 Results: +13.0% (Year-on-Year)

Overseas

*Foreign exchange impact: approx. - ¥90million

Growth in sales of endotoxin-detecting reagents and glucan-detecting in-vitro diagnostic reagents (Products which are used for the diagnosis of fungal infections)

Domestic

Increase in sales of endotoxin detection equipment

FY2018 Forecast: +1.2% (Year-on-Year)

Overseas

Continue the switch to direct selling in Europe from selling through distributors, and additional reinforcement of sales operations

Domestic

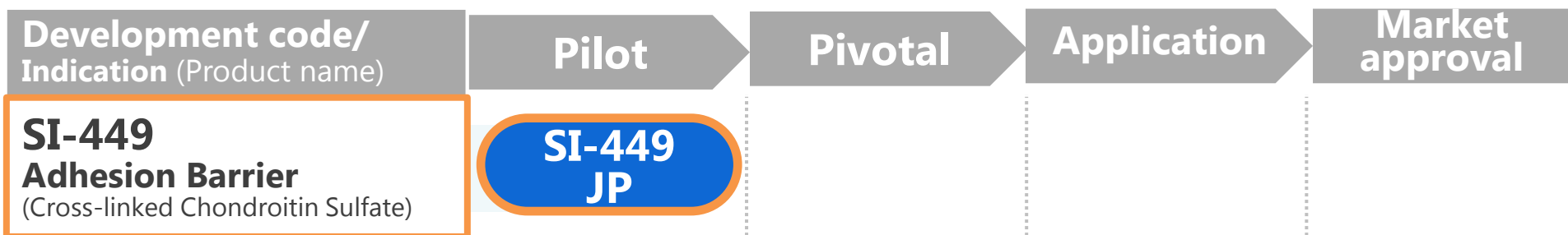
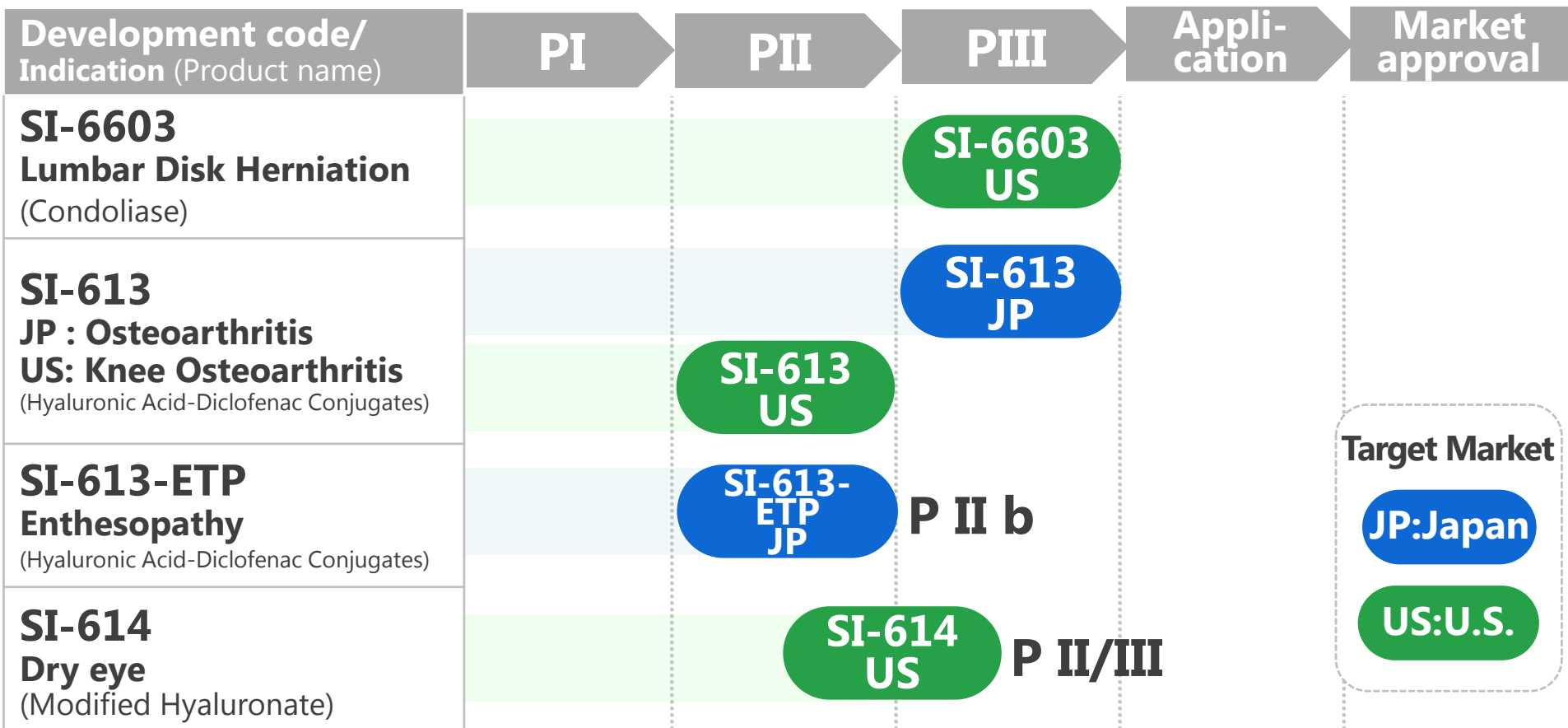
Forecast of sales at roughly the prior-year level

LAL Business :

The manufacturing and sales of Endotoxin detection reagents* used in the quality control of pharmaceuticals

*Endotoxin detection reagents are reagents whose main ingredient is Limulus Amebocyte Lysate (LAL).

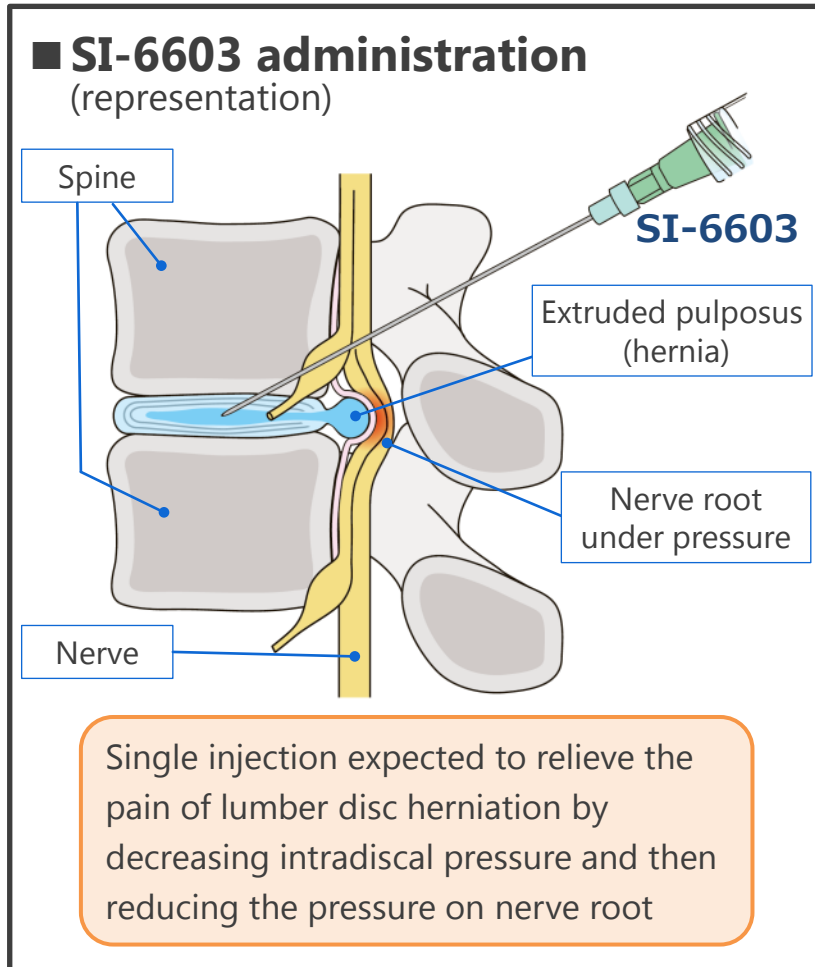
Pipeline List (Research and Development themes)



 : changes from FY2017

SI-6603 Outline (Treatment for Lumbar Disc Herniation)

Initiated a Phase III additional study in the U.S. in Feb 2018
Consider expansion to countries where approval data from Japan can be used in NDA



- Development code: SI-6603
(Product name in Japan : HERNICORE)
- Generic name: Condoliase
- Indication: Lumbar disc herniation
- Method of use: Injection into lumbar disc
(under X-ray observation)

U.S. : P III

November 2017: Announcement of PIII (previous) study results

No statistically significant improvement in the primary endpoint found

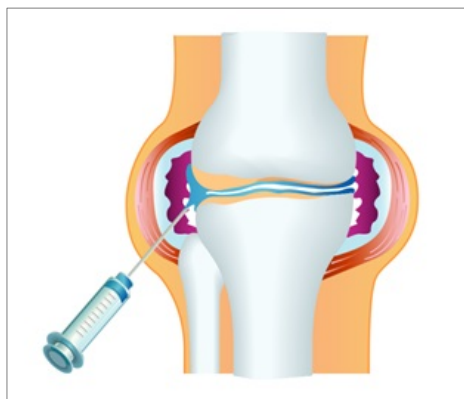
February 2018: PIII additional study initiated

► Increase the probability of success by making changes from the previous study

- Decrease the number of cases. (385 ⇨ approx. 320 cases)
- Shorten the follow-up period. (2 years ⇨ 1 year)
- Introduce a more objective hernia evaluation and confirmation method at the pre-enrollment stage
- Change the local CRO (contract research organization)

SI-613 Outline (Treatment of Osteoarthritis/Enthesopathy)

Aiming at prompt and sustained relief of the pain and inflammation associated with osteoarthritis or Enthesopathy



- Substance: Hyaluronic Acid-Diclofenac Conjugates
- Formulation: Injection into the joint cavity or near the tendon or ligament enthesis

Japan: P III (Indication: Osteoarthritis) P IIb (Indication: Enthesopathy)

- February 2017: Phase III study initiated (3 studies conducted)
 - Knee confirmatory study, study for four sites, long-term administration study
- September 2017: Definitive agreement on co-development and marketing collaboration in Japan concluded with Ono Pharmaceutical Co., Ltd.
- September 2017: Late-stage Phase II clinical trial for enthesopathy initiated

U.S. : P II (Indication: Knee osteoarthritis)

- June 2017: Phase II study initiated

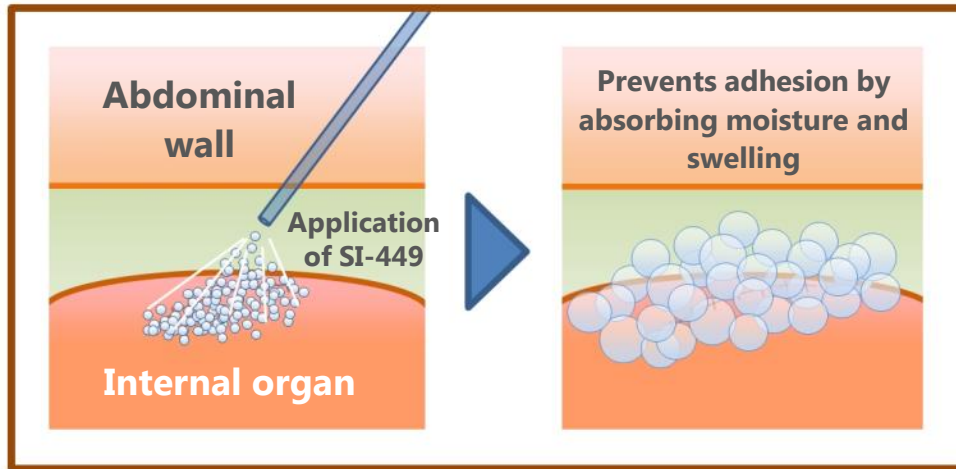
Expected Features

- Provision of prompt and sustained relief of the pain and inflammation associated with osteoarthritis and enthesopathy by combining hyaluronic acid with Diclofenac (Anti-Inflammatory Drug) using a proprietary technology, and designing the formulation for sustained release* of the Diclofenac
- Mitigation of NSAID (Non-Steroidal Anti-Inflammatory Drug) side effects reported in oral or topical administration

* Sustained release: Gradual release of active ingredients to achieve a sustained therapeutic effect

SI-449 Outline (Adhesion Barrier / Medical Device)

Powdered formulation for preventing or mitigating post-operative adhesions by forming a barrier between the surgical wound site and surrounding tissues



- Substance: Cross-linked chondroitin sulfate
- Description: Adhesion barrier
- Method of use: Intra-abdominal application (powdered formulation)

Japan: Pilot study

May 2018: Pilot study initiated

- Proceed with development with a view to global development

Expected Features:

- By absorbing moisture and swelling, SI-449 forms a barrier between the surgical wound site and the surrounding tissues and is expected to prevent or mitigate post-operative adhesions
- It consists of substances naturally present in the body, including the cross-linking agent, and is highly biocompatible
- Since SI-449 is a powdered formulation, it adheres well to uneven tissue surfaces and is thought to offer excellent utility in laparoscopic surgery, a common surgical procedure

Basic Policy on Profit Distribution

Aim to enhance shareholder returns and realize sustained growth by engaging in well-balanced business investment

Shareholder Return Policy

- Aim for stable and continuous dividends from a medium to long term perspective
 - Continue to pay **an annual dividend of ¥26 per share**
- Consider purchases of treasury stock, as appropriate, taking into account future business development and the total return ratio
 - **Treasury stock purchases in June-July 2018** (200,000 shares / ¥302 million)

Business Investment

- Business investment in R&D, production system development, and other areas

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 (Forecast)
Net Income per share	¥83.55	¥64.27	¥45.39	¥31.55	¥69.30	¥30.11
Annual Total Dividend	¥26.00	¥26.00	¥26.00	¥31.00*	¥26.00	¥26.00
Dividend Payout Ratio	31.1%	40.5%	57.3%	98.3%	37.5%	86.4%

* including a 70th anniversary commemorative dividend of ¥5 per share

Toward the Next Mid-term Management Plan

■ Changes in the market environment

- Deteriorating profitability of existing products accompanying drug price system reform in Japan
- Intensification of competition for hyaluronic acid formulations and tightening of insurance reimbursement in the U.S

■ Earnings structure improvement

- Clear identification of high-priority research and development themes
- Rigorous cost-cutting, including product cost reduction

■ Business development in preparation for a new growth trajectory

- Cultivation of growth drivers
(HERNICORE, SI-613 in Japan, SI-6603 in the U.S.)
- Expansion of existing products into other countries

■ Consideration of capital policy

Appendix

A decorative graphic consisting of several overlapping, wavy blue lines that sweep across the middle of the page from left to right.

Forecasts (Net sales) in FY2018

* There is no change in forecast announced on May 11, 2018.

(Millions of Yen)	FY2018 Forecasts	Year-on-Year	
		Change	% of Change
Net sales	28,100	-2,075	-6.9%
Pharmaceuticals	22,100	-2,144	-8.8%
Domestic Pharmaceuticals	14,550	-1,575	-9.8%
Overseas Pharmaceuticals	6,600	-513	-7.2%
Bulk Products	950	-55	-5.5%
LAL Business	6,000	+68	+1.2%
(Overseas sales)	11,650	-401	-3.3%

*Foreign exchange impact on overall net sales:
approx. -660 million yen

Net Sales

Forecast of lower sales due to NHI drug price reductions of domestic pharmaceuticals and the impact of yen appreciation

*Forecast of a small amount of sales in Japan for HERNICORE in its launch year

Pharmaceuticals Business

Domestic Pharmaceuticals:

- Sales decrease due to NHI drug price reductions (-13% in the second half), despite volume growth

Overseas Pharmaceuticals:

- Higher shipments of Gel-One
- Forecast of lower sales of SUPARTZ FX in the U.S. and the impact of yen appreciation

Bulk Products:

- Lower sales of hyaluronic acid

LAL Business

Slight increase due to sales expansion at U.S. subsidiary ACC, despite the impact of yen appreciation

Forecasts (Income) in FY2018

* There is no change in forecast announced on May 11, 2018.

(Millions of Yen)	FY2018 Forecasts	Year-on-Year	
		Change	% of Change
Net sales	28,100	-2,075	-6.9%
Operating Income (to Net sales ratio)	400 (1.4%)	-1,021 (-3.3pt)	-71.9%
Ordinary Income	2,250	-3,077	-57.8%
Net Income	1,700	-2,222	-56.7%
Cost of Sales ratio	46.9%	+3.8pt	
R&D Expenses (to Net sales ratio)	7,050 (25.1%)	-1,358 (-2.8pt)	-16.2%
Depreciation	2,950	+24	+0.8%

Income

Decrease in income due to decreases in sales and royalty income, despite lower R&D expenses

Operating Income

Cost of Sales Ratio (+3.8pt):

- Increase due to NHI drug price reductions and the impact of yen appreciation

SGA Expenses (approx. -1,250):

- R&D expenses (-1,358):
Decrease due to the backlash, among other things, for the non-recurrence of substantial expenses associated with the open-label trial for SI-6603 in the U.S. and pre-clinical development themes recorded in FY2017
- Other SGA expense (approx. +100):
HERNICORE post-marketing surveillance study expenses

Net Income

Non-operating Income /Expenses (approx. -2,050):

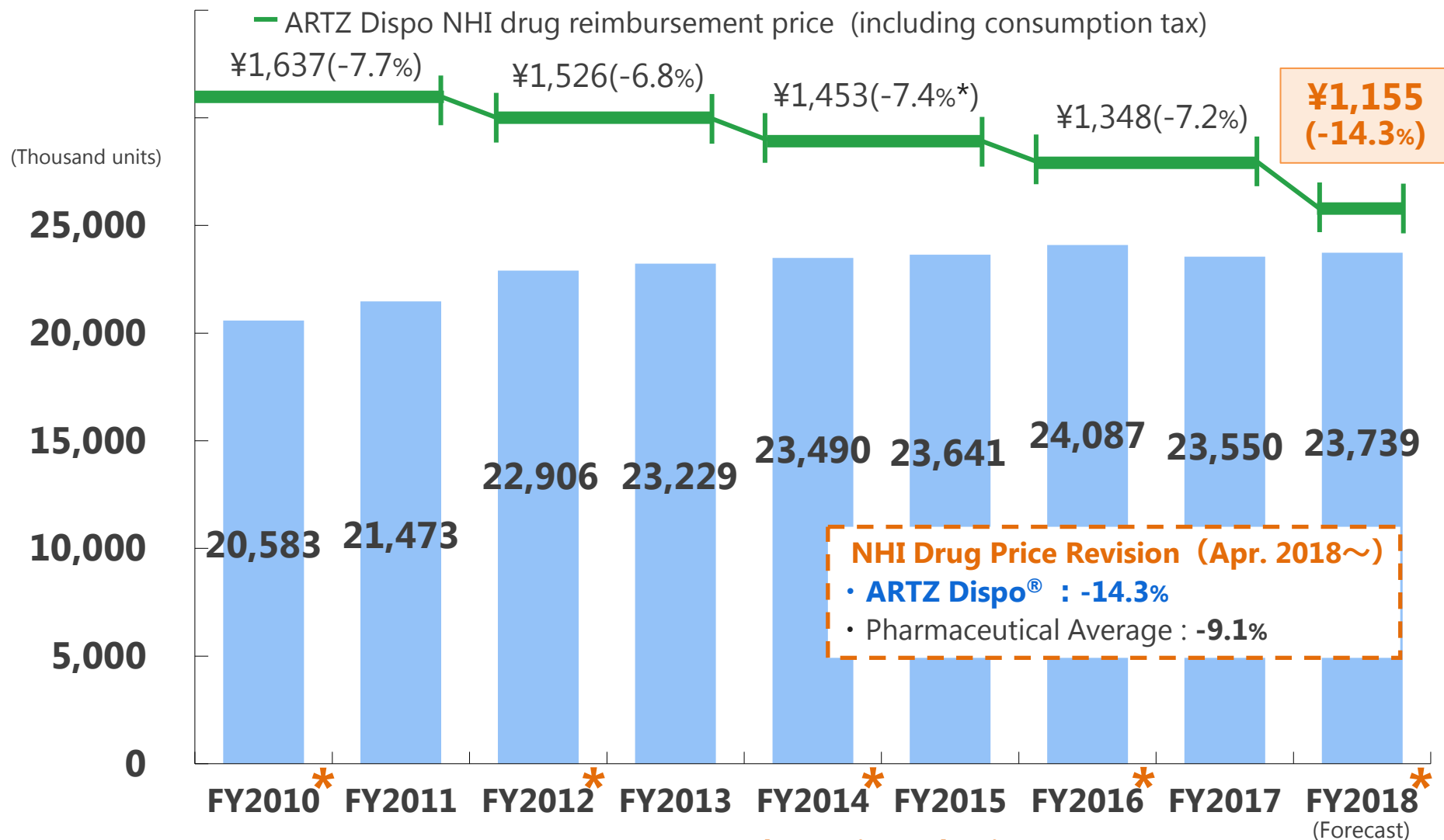
- Forecast decrease in royalty income etc.

Trend in NHI Reimbursement Price and Trend in Deliveries of ARTZ to Domestic Medical Institutions

* There is no change in forecast announced on May 11, 2018.

■ Deliveries of ARTZ to medical institutions

— ARTZ Dispo NHI drug reimbursement price (including consumption tax)



NHI Drug Price Revision (Apr. 2018~)

- ARTZ Dispo® : -14.3%
- Pharmaceutical Average : -9.1%

* NHI drug price reduction

* excluding the impact of consumption tax hike

Trend in Deliveries of ARTZ / OPEGAN to Domestic Medical Institutions

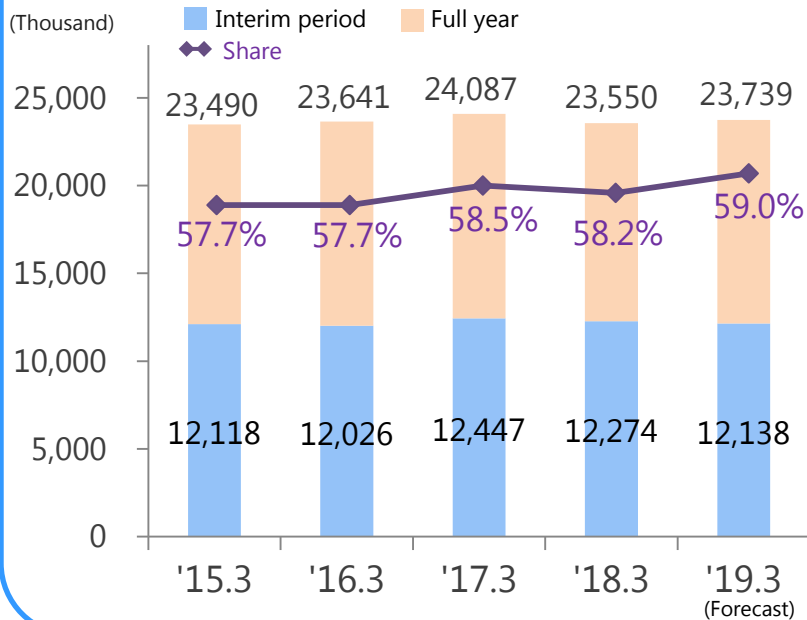
Joint-function improving agent

ARTZ



- The first HA joint function improving agent in the world
- Knee osteoarthritis (OA) pain relief
- Distributor: Kaken Pharmaceutical

Trend in unit deliveries to medical institutions



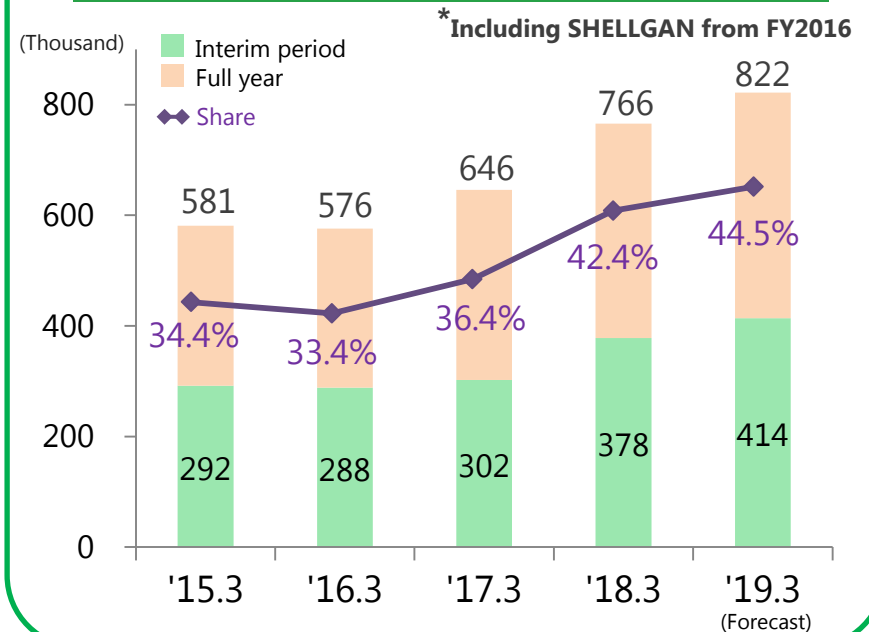
Ophthalmic surgical aids

OPEGAN



- The first domestically HA formulation
- Used in cataract surgery to anterior chamber expansion
- Distributor: Santen Pharmaceutical

Trend in unit deliveries to medical institutions



Ophthalmic Surgical Aid SHELLGAN (Launched July 2016)

眼科手術補助剤

薬価基準収載

シェルガン® 0.5眼粘弾剤

精製ヒアルロン酸ナトリウム/コンドロイチン硫酸エステルナトリウム

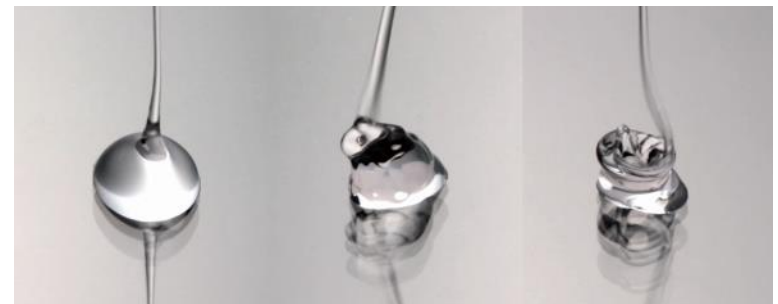


Product SHELLGAN Outline

- Suited to a surgical procedure that has become more pervasive in recent years
- Can be stored at room temperature
 - A product feature unavailable from competitors
- Strengthening of the OPEGAN series product line
 - Seven-product line up provides a wider range of options appropriate to symptoms and physician needs



The OPEGAN series, used mainly in cataract surgery



OPEGAN OPEGAN Hi SHELLGAN

The OPEGAN series viscoelasticity comparison

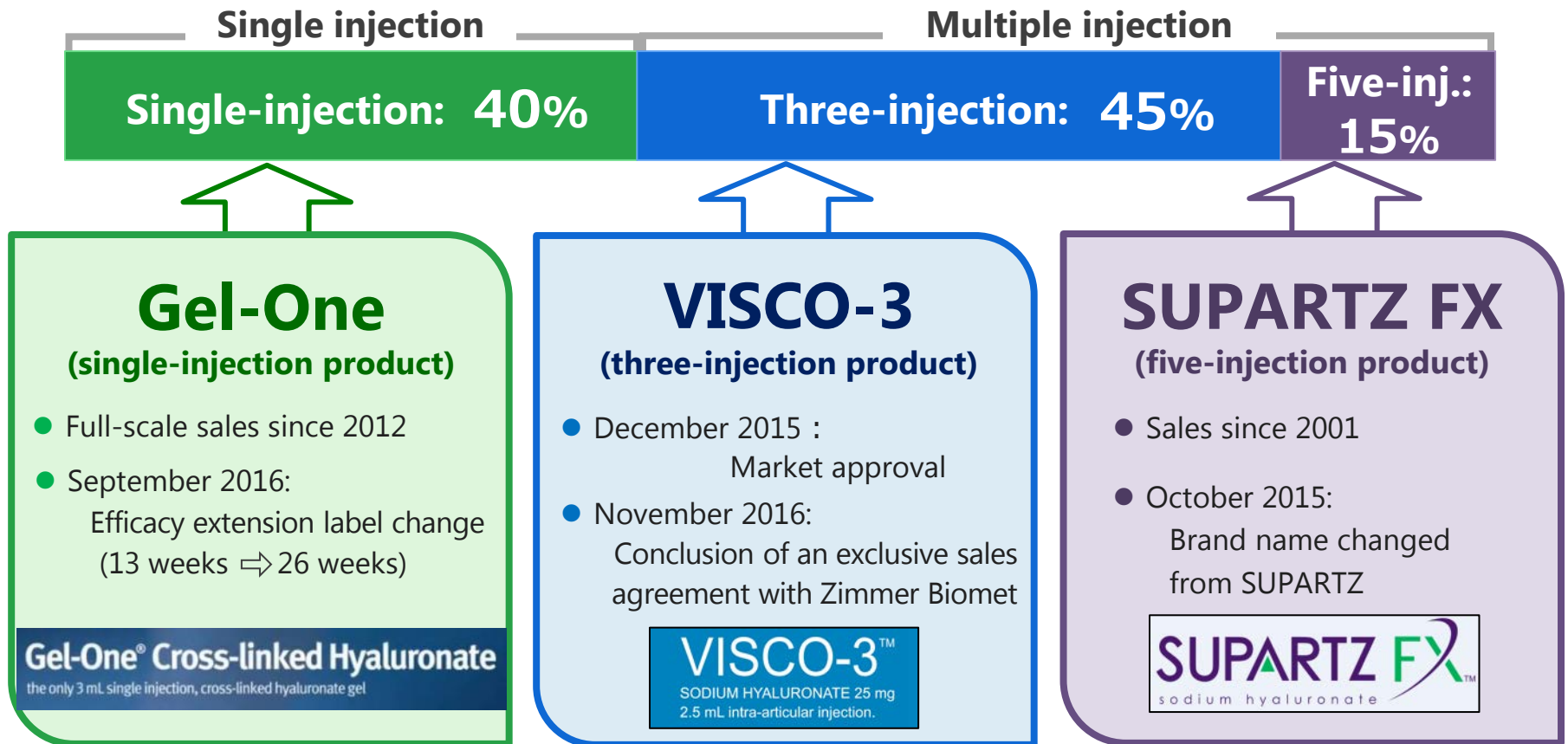
Market Situation of Hyaluronic Acid Products in the U.S.

Market size of US\$1,070 mil. in 2017

The market can be segmented according to the number of injections.

■ U.S. market share by number of injections

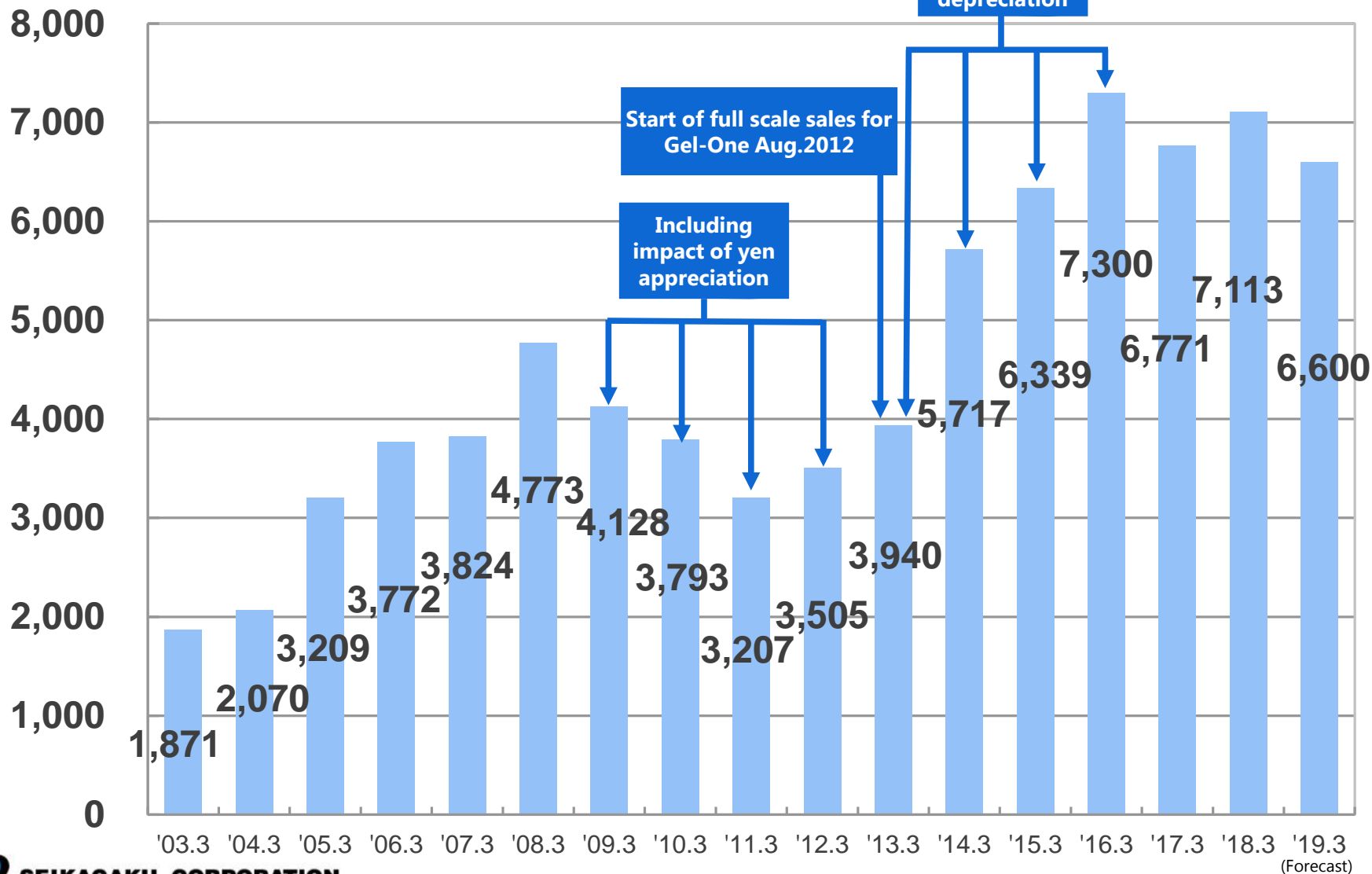
(value basis, 2017 figures, including competitors. Seikagaku estimates)



Trend in Overseas Sales of Hyaluronic Acid Products

* There is no change in forecast announced on May 11, 2018.

(Millions of Yen)



The LAL Business

What is the LAL business?

The manufacturing and sale of reagents used in the quality control of pharmaceuticals and in water quality Control in dialysis at hospitals

*Endotoxin detection reagents are reagents whose main ingredient is Limulus Amebocyte Lysate (LAL).

*Endotoxins are substances derived from bacteria. Since they cause fever even in minute amounts, testing for endotoxin contamination in pharmaceuticals is compulsory

➤ **Size of the global market: Approx. ¥25.0 billion**
(Seikagaku estimate, including associated equipment)

Associates of Cape Cod, Inc. (ACC)

- U.S. subsidiary of Seikagaku Corporation (established in 1974, acquired by Seikagaku in 1997)
- Developed the world's first endotoxin detection reagent and obtained FDA approval in 1977
- A sales network spanning 80 countries
- Solid business performance in recent years



Endotoxin detection reagents
(for quality control of pharmaceuticals and medical devices)



Exterior of the ACC offices

PYROCHROME®

Growth Strategy for ACC (U.S. Subsidiary)

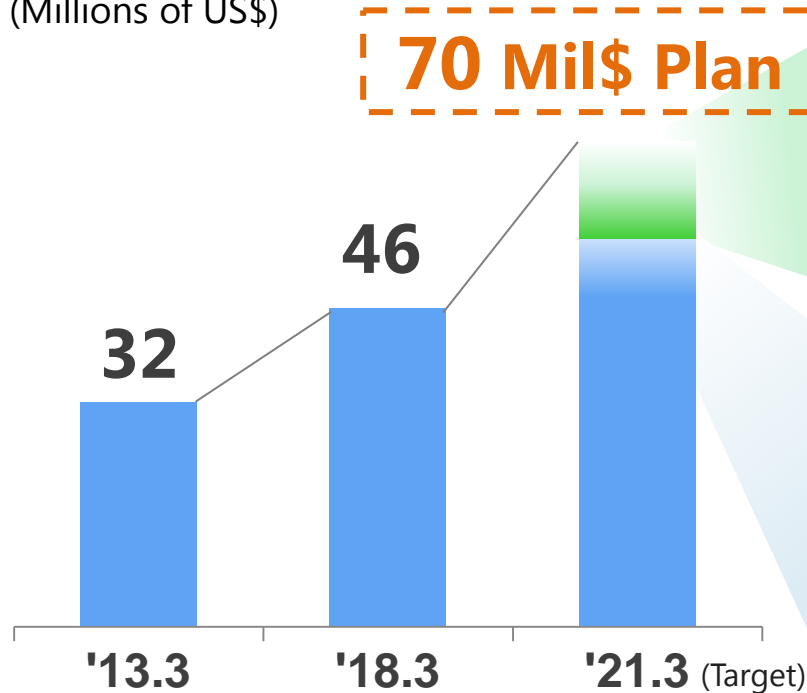


ASSOCIATES OF
CAPE COD
INCORPORATED

Specialists in Endotoxin and Glucan Detection

Acceleration of sales channel expansion at ACC,
the core of the LAL Business

(Millions of US\$)



Sales trend and medium-term sales
plan for ACC (U.S. subsidiary)

■ Opening up of new sales channels and new business sectors

- ✓ Opening up and expansion of new sales channels (Shift from selling through distributors to a direct sales structure)
- ✓ Collaborative business start-ups with partners from different industries

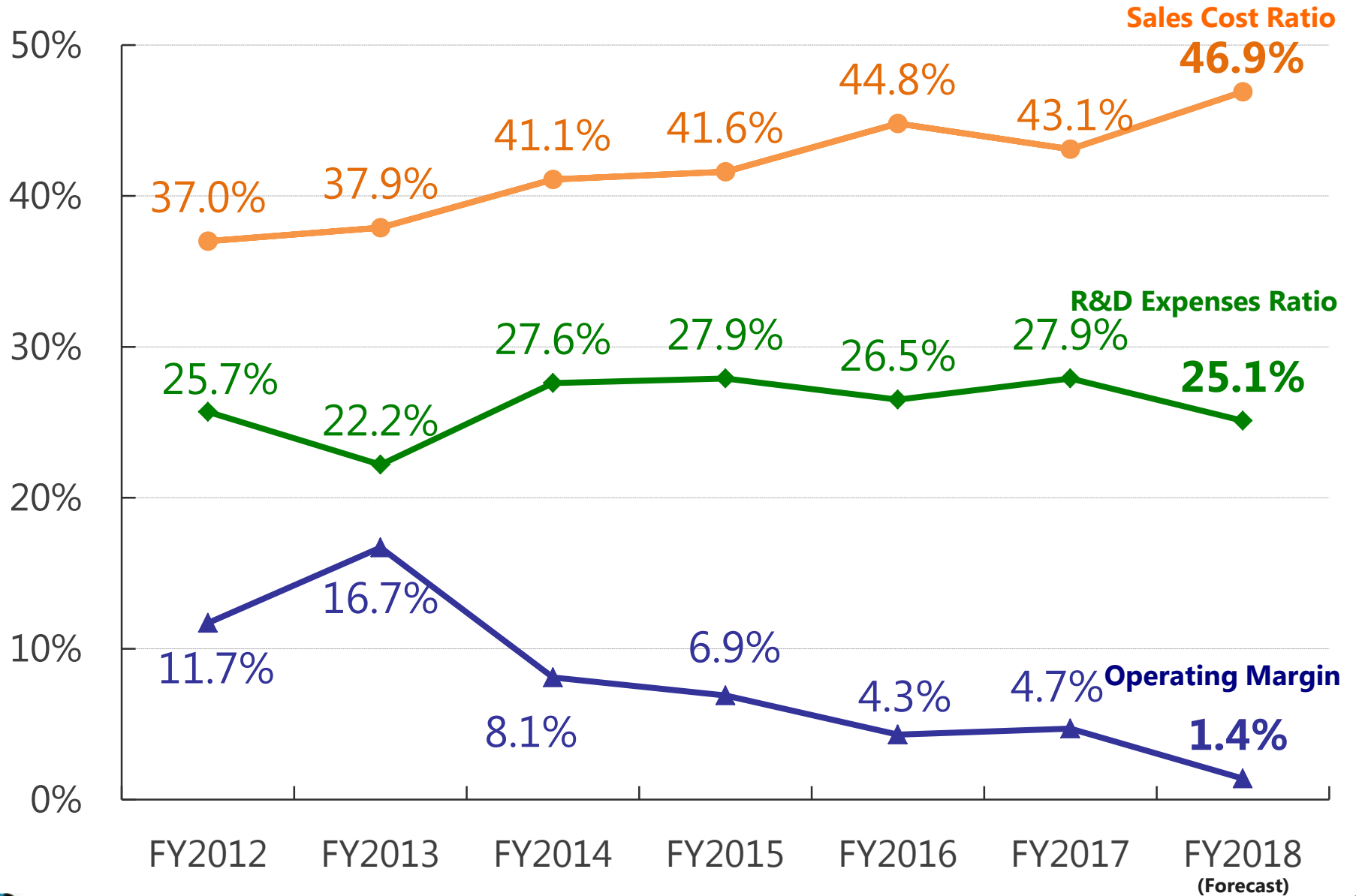
■ Strengthening of existing businesses

- ✓ Retaking of share from competitors through the introduction of new products and improved products
- ✓ Augmentation of sales capabilities through recruitment of sales representatives
- ✓ Expansion and enhancement of contract test services

LAL Business: The manufacturing and sales of endotoxin detection reagents and other products used in the quality control of pharmaceuticals and medical devices
ACC: Associates of Cape Cod, Inc. (U.S. subsidiary)

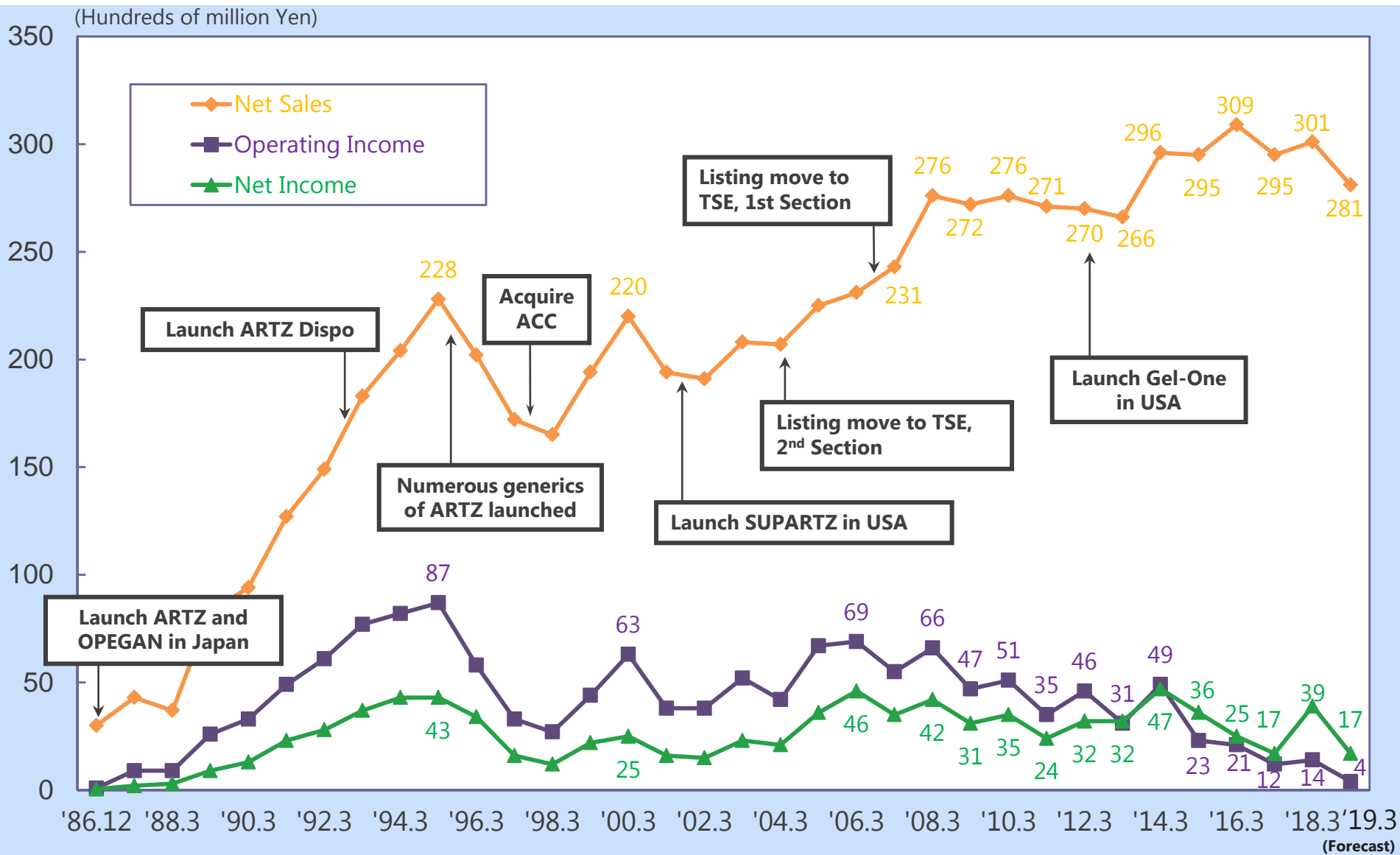
Trend in Financial Index

* There is no change in forecast announced on May 11, 2018.



Business Progress & Highlights

* There is no change in forecast announced on May 11, 2018.



Trend in Capital Investments

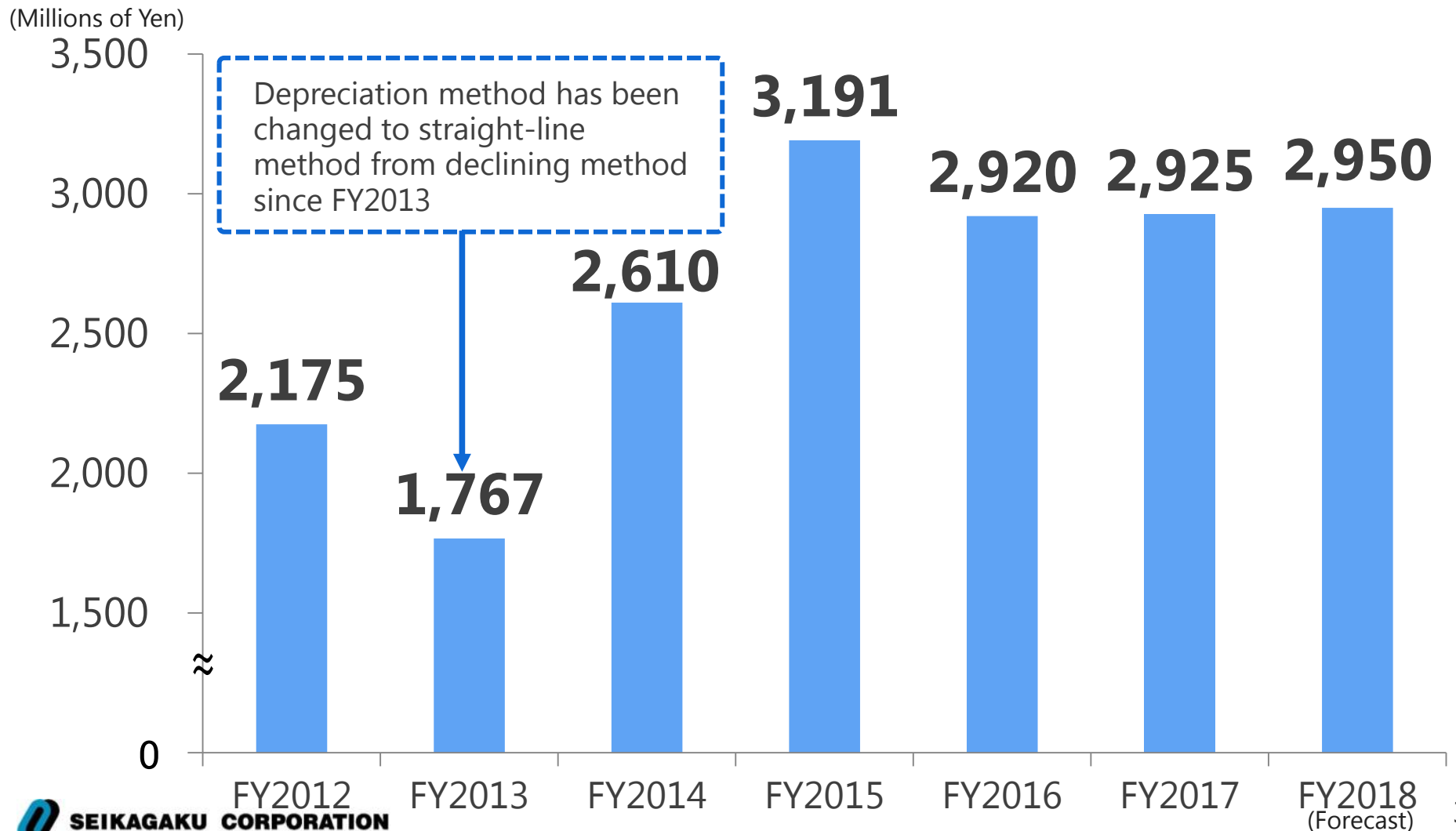
* There is no change in forecast announced on May 11, 2018.

Facilities	Amounts (¥ bill.)	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 (Forecast)
SI-6603 Bulk Production Facilities	1.1				Start '14.10				
No. 5 Production Building (for ARTZ Dispo)	9.6	Start '12.3				Operation '15.1			
Hyaluronic Acid Bulk Production Facilities	3.1	Start '12.1			Operation '14.2				
Production Facilities for Gel-One	3.0	Start '11.12			Operation '13.10				
Chondroitin Sulfate Bulk Production Facilities	1.2		Operation '12.7						
Amounts (Millions of Yen)		5,718	9,164	7,222	2,095	1,975	1,173	1,591	2,000

Trend in Depreciation

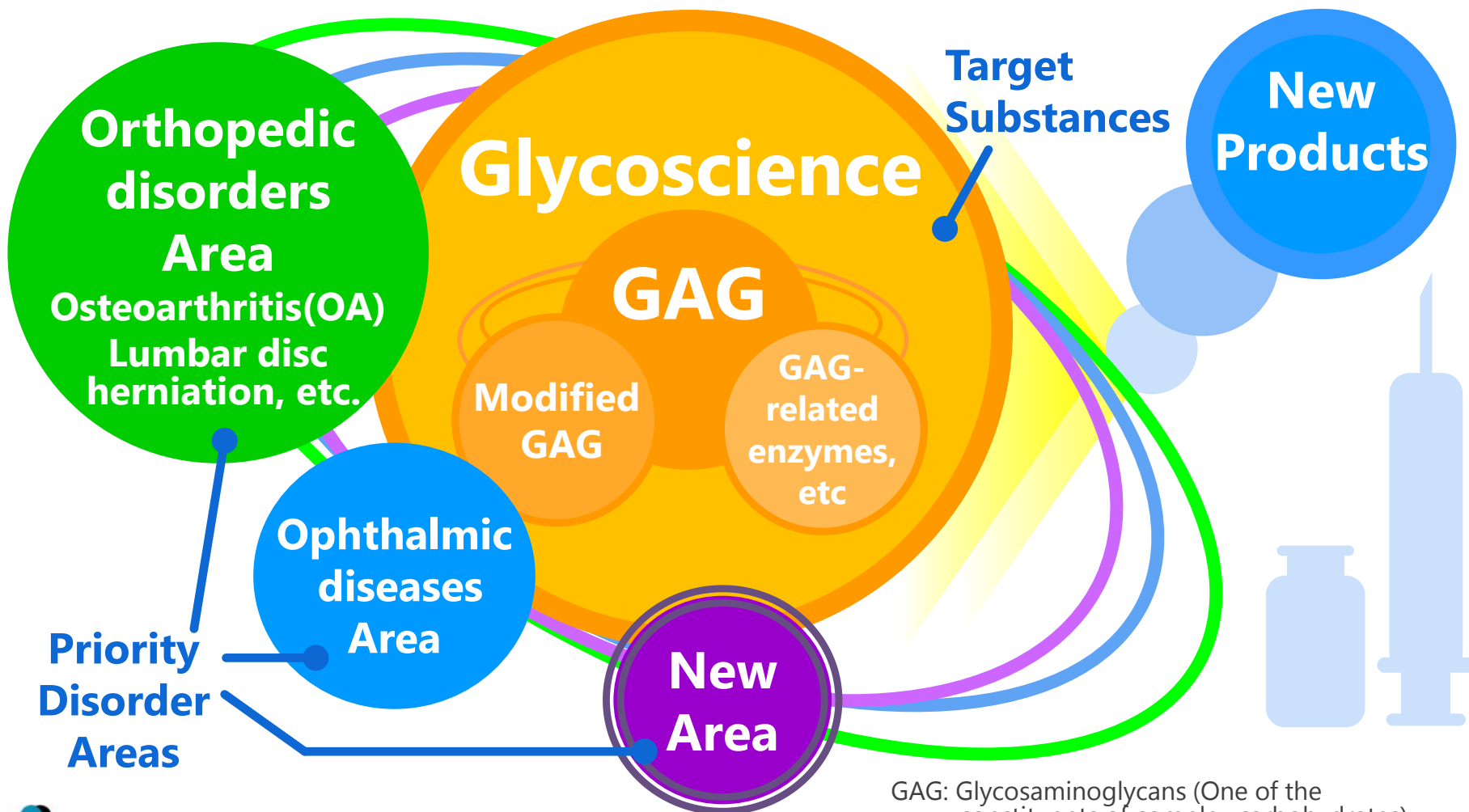
* There is no change in forecast announced on May 11, 2018.

Depreciation peaked out at FY2015 and anticipate the level of ¥3,000 million from now on



Basic Policy on Research and Development

Aiming for the early, continuous introduction of new products that meet high treatment needs, focusing on glycoscience as an area of specialization



GAG: Glycosaminoglycans (One of the constituents of complex carbohydrates)

HERNICORE (SI-6603, a treatment for lumbar disc herniation) Product Outline

The first therapeutic agent for lumbar disc herniation in Japan To aim for a phased rollout with promoting appropriate use

Product name	HERNICORE® 1.25 Units for Intradiscal Injection	Generic name	Condoliase
Efficacy and effects	Lumbar disc herniation by prolapse of the posterior longitudinal ligament for which sufficient improvement cannot be obtained through conservative treatment		
Usage and dosage	For adults, 1.25 units of condoliase are administered by a single injection in the intervertebral disc that is the source of the symptoms.		
NHI drug price	81,676 yen (1 bottle containing 1.25 units)	Launch date	August 1, 2018

腰椎椎間板ヘルニア治療剤

薬価基準収載



ヘルニコア® 椎間板注用1.25単位

HERNICORE® 1.25units for Intradiscal inj.
注射用コンドリアーゼ

処方箋医薬品 (注意—医師等の処方箋により使用すること)

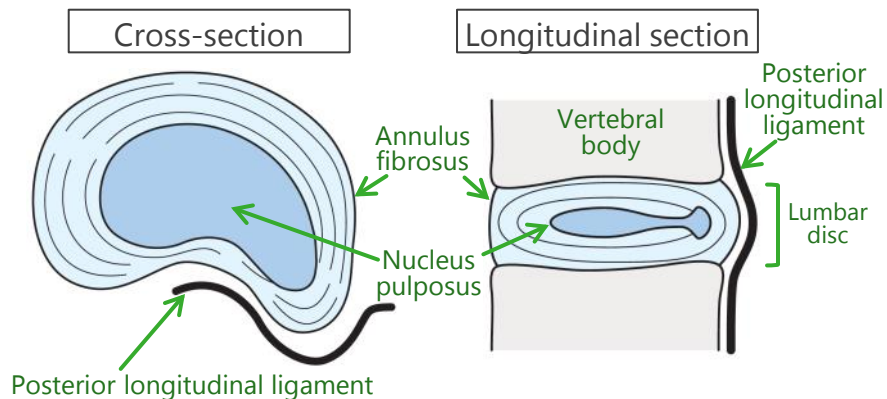


<Photograph of the HERNICORE>

Four types of lumbar disc herniation

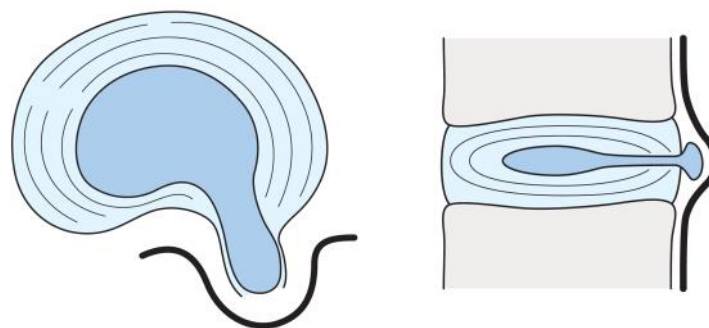
1. Protrusion

The hernia does not extend beyond the outermost layer of the annulus fibrosus



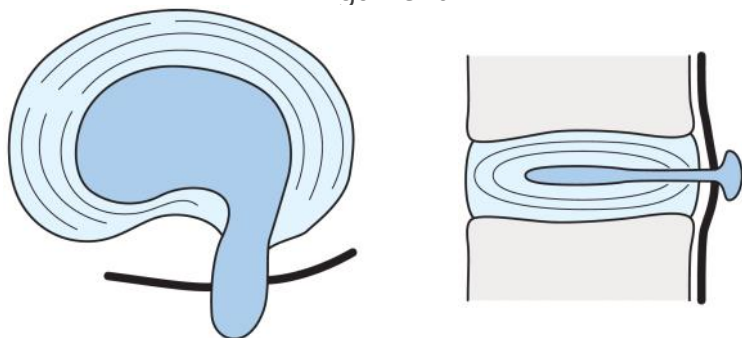
2. Subligamentous extrusion

Although the hernia extends beyond the outermost layer of the annulus fibrosus, it is covered by the posterior longitudinal ligament



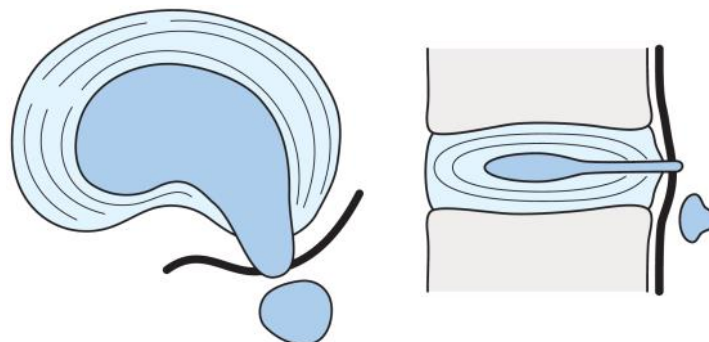
3. Transligamentous extrusion

The hernia perforates the posterior longitudinal ligament



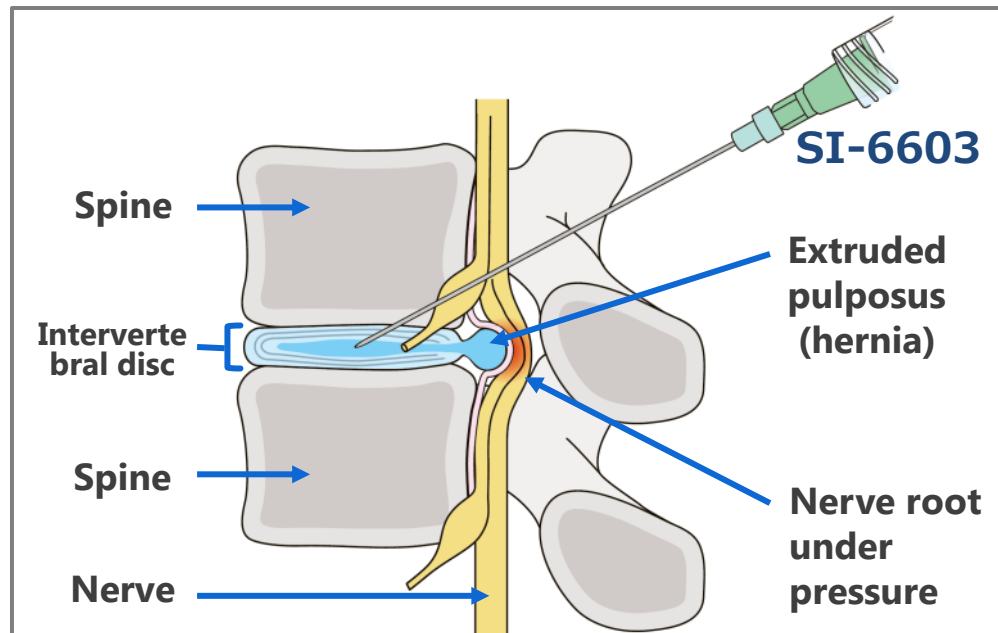
4. Sequestration

The hernia migrates outside the dura mater

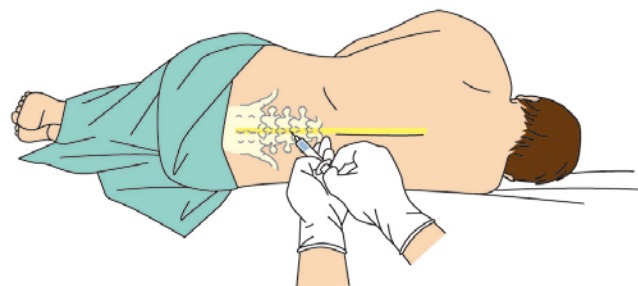


Outline of SI-6603 (Treatment for Lumbar Disc Herniation)

Single injection is to relieve pain by specifically degrading GAGs, the main components of the nucleus pulposus by decreasing intradiscal pressure and reducing the pressure on nerves



- Generic name: Condoliase
- Method of use: Injection into lumbar disc (under X-ray observation)



Expected Features:

- Single injection expected to relieve the pain of lumbar disc herniation
- Not required general anesthesia and less invasive to the patient than surgical treatment
- Expected to contribute to quality of life of the patient as new treatment option

GAG: Glycosaminoglycans (One of the constituents of complex carbohydrates)

Outline of SI-6603 Phase III Clinical Trial in the U.S.

Conducted following 2 clinical trials as phase III in the U.S.

Double Blind Study

(A Multicenter, Randomized, Double-blind, Controlled, Comparative Study)

- **Objective:**
to evaluate efficacy and safety
- **Primary end point:**
improvement of leg pain
at 13 weeks after administration
*VAS; change from baseline
- **Number of patients:** 385
(Planned number: 360)
- **Follow-up period** (after administration):
 - Efficacy : 13 weeks
 - Safety : 104 weeks (2 years)
- **FPI~LPO:**
Oct. 2013 ~ Aug. 2017

Open Label Study

(Un-blind study)

- **Objective:**
to evaluate safety and efficacy
(Primary objective was safety)
- **Primary end point:**
safety of administration
at 26 weeks after administration
- **Number of patients:** 1,011
(Planned number: 1,000)
- **Follow-up period** (after administration):
26 weeks
- **FPI~LPO:**
Apr. 2015 ~ Mar. 2017

*VAS : Visual Analogue Scale

*FPI : First Patient-in, LPO : Last Patient-out

Outline of Result for SI-6603 Phase III Clinical Trial in the U.S.

Significant improvement in the primary endpoint was demonstrated in Phase III study of Japan but it was not made in Phase III study in the U.S.

Pharmacological effect (Objective indicator)

- Statistically significant decrease in the intervertebral disc and herniation volume assessed with MRI: **Confirmed pharmacological effect of SI-6603**

Evaluation of safety

- No major concern such as adverse reactions was observed: **Confirmed safety of SI-6603**

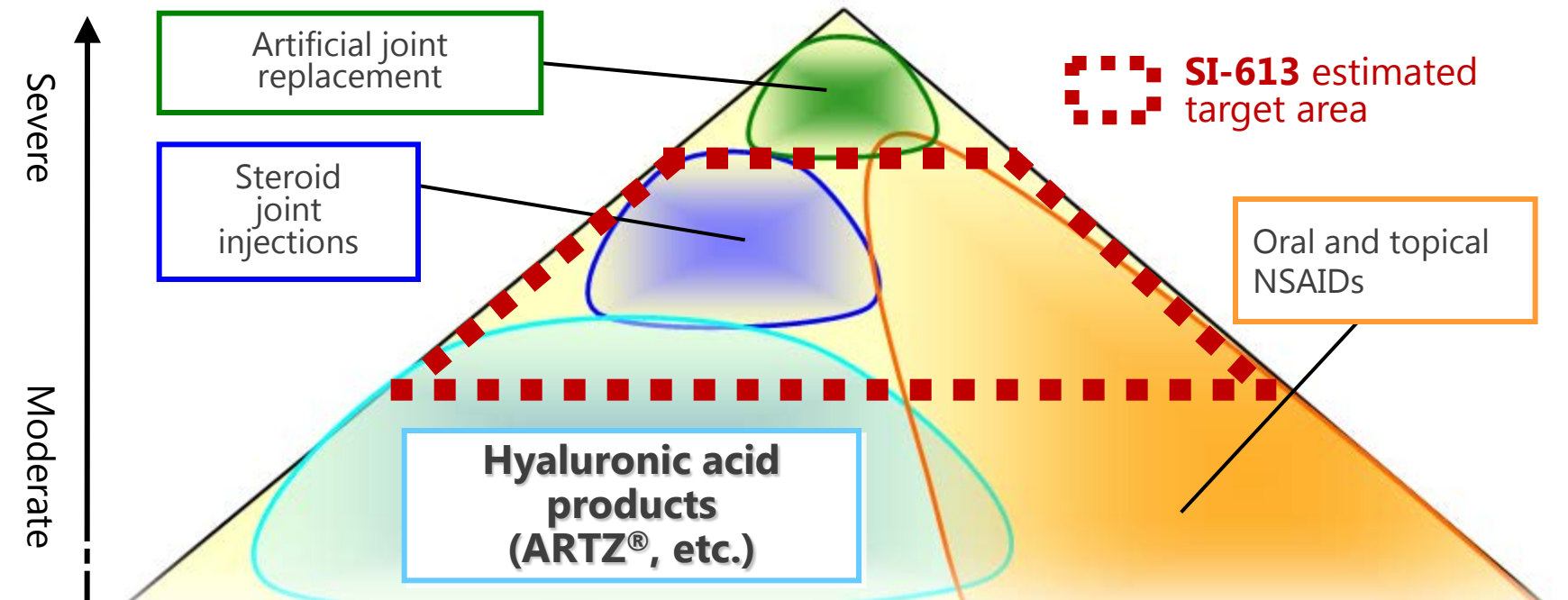
Improvement at alleviation of leg pain (Subjective indicator)

- Statistically significant improvement of leg pain at 13 weeks by VAS was not demonstrated
- ① **There is a guideline for diagnostic and pathology of lumbar disc herniation in Japan, however there is no widely used guideline in the U.S. Therefore, there is possibility that some patients out of Japanese guideline were included in the clinical trial in the U.S.**
- ② **There is possibility that some factors such as complications biased assessment of leg pain**

Increasing the certainty of success for the additional study by reflecting the knowledge and perception obtained from result of the study

SI-613 Estimated Target Patients

Estimated patients with pain and being treated with oral or topical NSAIDs or intra-articular steroid injection



SI-613 estimated target area

Target market size in Japan * Including applications outside the knee	Oral NSAIDs	¥88 billion
	Topical NSAIDs	¥157 billion
	HA injections	¥48 billion
	Steroid injections	¥12 billion

*Numbers in this slide are estimated by Seikagaku, as of March 31, 2017 41

Initiatives to maximize the product value of SI-613

Promote in co-development with Ono Pharmaceutical, the product that can be administered to greater numbers of patients

Osteoarthritis: PIII

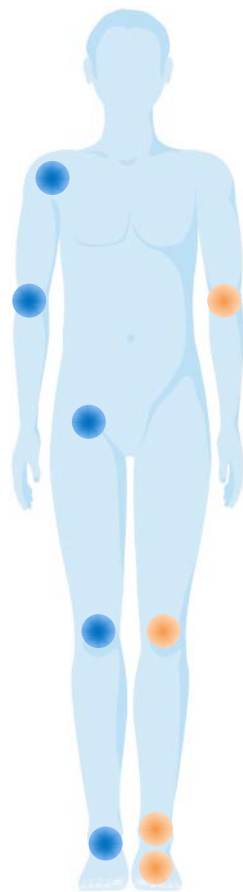
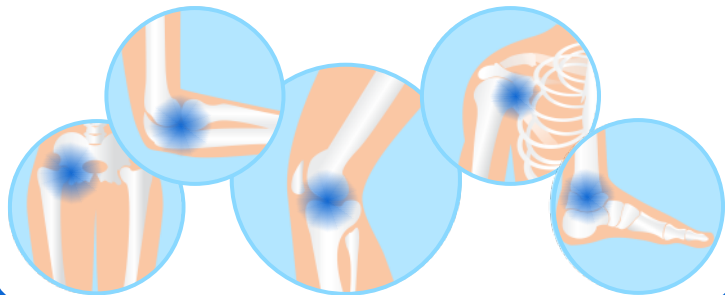
A disease in which joint tissue deteriorates due to abrasion of the articular cartilage, leading to inflammation and pain

Conduct of three clinical trials

- Confirmatory study (knee joint)
- Study for four sites (hip, ankle, elbow, shoulder)
- Long-term administration study (knee joint)

Number of patients examined per year : Approx. 8.7 million

(Seikagaku estimate for five main sites:
knee, hip, ankle, elbow, shoulder in Japan)



Enthesopathy: PII b

An inflammatory disease that occurs as a result of excessive load on sites of attachment of ligaments and tendons to other bone or muscle, such as the knee, elbow, heel

Typical examples

- Lateral epicondylitis (tennis elbow)
- Plantar fasciitis
- Patellar tendinitis (jumper's knee)
- Achilles tendonitis, etc.

Number of patients receiving drug therapy per year:

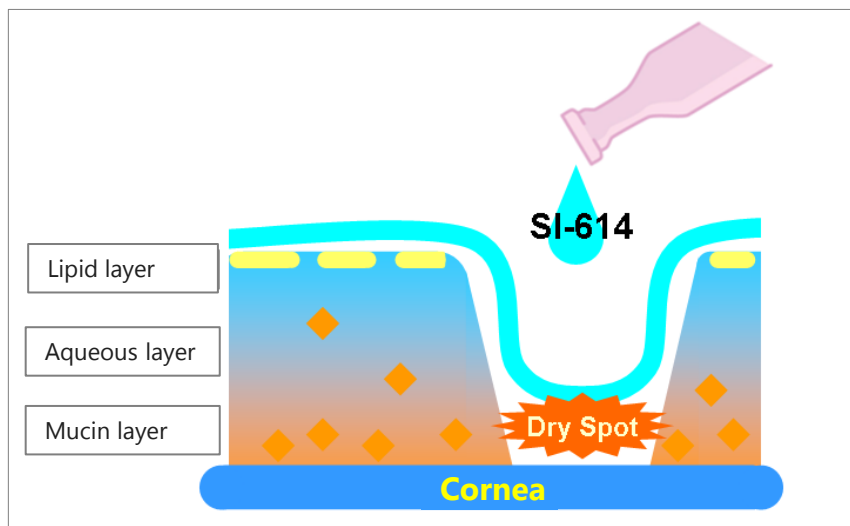
Approx. 0.9 million

(Seikagaku estimate for the above four diseases in Japan)



SI-614 Outline (Treatment of Dry Eye)

Aimed at improvement of symptoms of dry eye by protecting the ocular surface and promoting corneal epithelial wound healing



- Substance : SI-614(Modified Hyaluronate)
- Indication : Dry eye
- Formulation : Ophthalmic solution

U.S. : P II/III

- January 2015: Phase II/III clinical trials completed
- Plan to conduct a PIII trial after a sales partner has been decided

Expected Features :

- SI-614 is a modified hyaluronate produced by Seikagaku's proprietary technology
- It is expected to improve symptoms of dry eye by protecting the ocular surface and promoting corneal epithelial wound healing in dry eye patients
- Although dry eye is a multifactorial disease, only drugs with relatively strong is available in the U.S. currently. SI-614 will provide a new alternative to the treatment of dry eye through the promising mode of action

Clinical Study Information

Development code/ Indication	Develop- ment Location	Clinical Study Title (Study ID)	Target Enroll- ment	Estimated Period	Primary End Point (Primary Follow-up period)
SI-6603 Lumbar Disk Herniation	U.S.	Phase III additional study (NCT03607838)	320	May. 2018 – Nov. 2020	Leg pain (13 weeks)
SI-613 Osteoarthritis	Japan	Phase III Knee confirmatory study (JapicCTI-173537)	440	Feb. 2017 – Jan. 2019	WOMAC(Knee pain) (12 weeks)
		Phase III study for four sites (JapicCTI-173678)	280	Aug. 2017 – Jun. 2019	Daily pain diary (12 weeks)
		Long-term administration study (JapicCTI-183855)	160	Feb. 2018 – Sep. 2019	Safety (52 weeks)
SI-613-ETP Enthesopathy	Japan	Late-stage Phase II clinical study (JapicCTI-173758)	240	Oct. 2017 – Oct. 2018	Pain in motion (4 weeks)
SI-613 Knee Osteoarthritis	U.S.	Phase II clinical study (NCT03209362)	80	Oct. 2017 – Nov. 2018	WOMAC(Knee pain) (12 weeks)
SI-614 Dry eye	U.S.	Phase II / III clinical study (NCT02205840)	240	Jul. 2014 – Nov. 2014	Corneal staining score, Symptom score (28 days)
SI-449 Adhesion Barrier	Japan	Pilot study (UMIN000033294)	20	Jul. 2018 –	Safety, Manageability (–)

Note: The table shows data registered (or planned to be registered) on clinical trial information websites. The information is updated from time to time. Refer to the websites for details and the latest information. (The websites can be accessed from the trial ID links.)

- Japan Pharmaceutical Information Center(JAPIC) http://www.clinicaltrials.jp/user/cteSearch_e.jsp
- University hospital Medical Information Network (UMIN) Center <http://www.umin.ac.jp/ctr/index.htm>
- ClinicalTrials.gov <https://clinicaltrials.gov/ct2/search>

Note: Actual enrollments or trial periods may differ from targets and plans due to various factors.

Contract Status by R&D Theme

Planned receipt of milestone royalties in accordance with future progress in development and marketing

Development Code Indication	Development Location	Sales Partner	Total Amount of Milestone Royalties (of which, in upfront payment)
SI-6603 Lumbar Disk Herniation	U.S.	Ferring Pharmaceuticals (Switzerland)	Max. US \$95 million (US \$5 million)
SI-613 Japan: Osteoarthritis U.S. : Knee Osteoarthritis	Japan	Ono Pharmaceutical Co., Ltd.	Max. ¥10.0 billion (¥2.0 billion)
	U.S.	Searching	—
SI-613-ETP Enthesopathy	Japan	Ono Pharmaceutical Co., Ltd.	*included in the above
SI-614 Dry eye	U.S.	Searching	—
SI-449 Adhesion Barrier	Japan	—	—

Mid-term Management Plan (FY2016 to FY2018)

Ten-Year Vision "Global Category Pharma"
Focus research and development on glycoscience
Establishes global Competitiveness



Mid-term Management Plan: **Four High-Priority Strategies**

1.

Preparing for launch of SI-6603, a treatment for lumbar disc herniation

2.

Powering up as a leader in the knee osteoarthritis market

3.

Enhancement of the development pipeline

4.

Pursuit of an optimal production system

Achieving the Ten-Year Vision and Making a Further Leap Forward

Mid-term Management Plan: Numerical Targets (announced in May 2016)

(Unit : hundred million)

FY2018	Target (announced in May 2016)	Forecasts (announced in May 2018)
Net sales	320	281
Operating income	25	4
Ordinary income	45	22.5

《The main Factors of expected Shortfall》

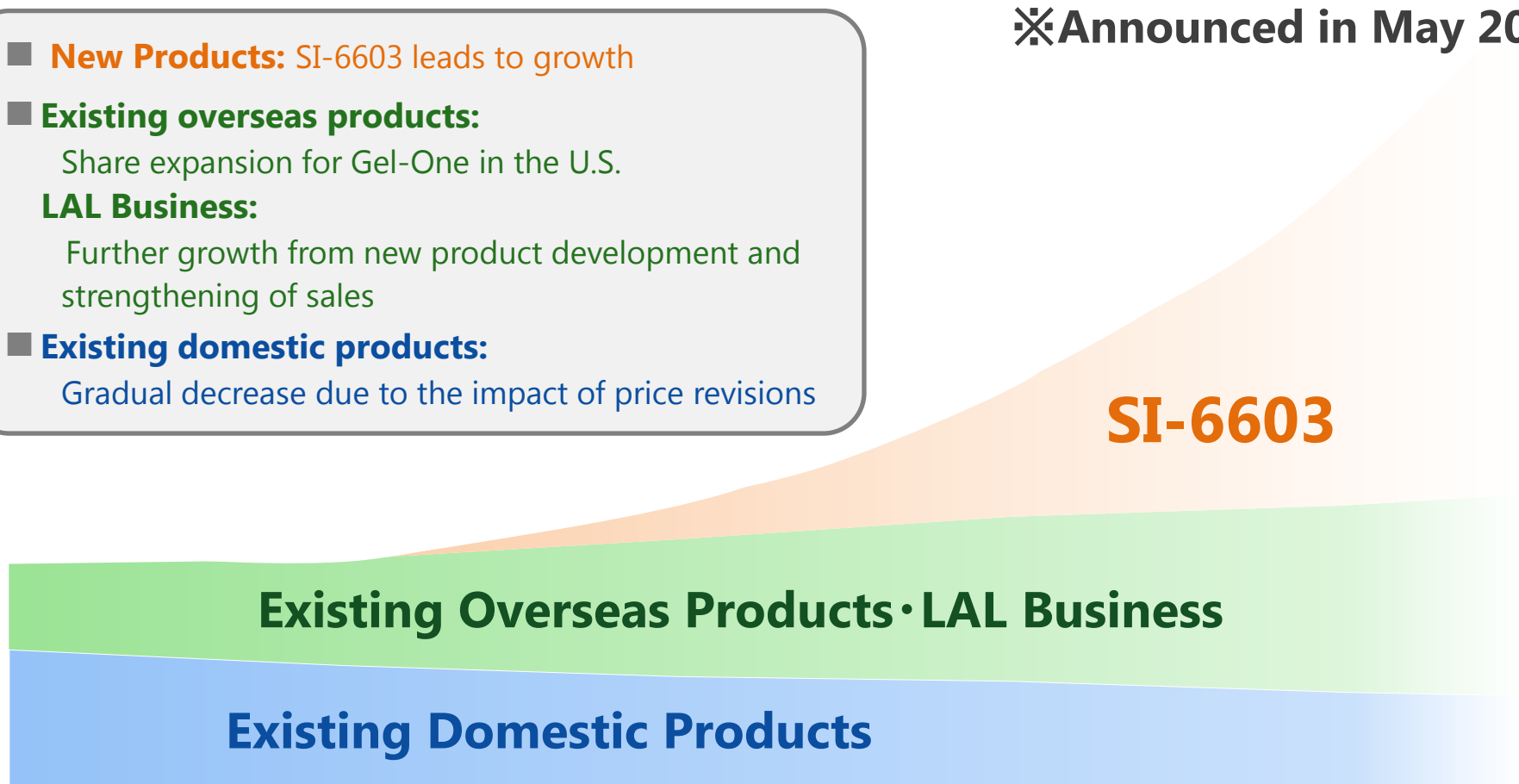
- Market penetration lag of Gel-One in U.S.
- Delayed launch of SI-6603(HERNICORE) in Japan and the U.S.
- Effect for NHI drug price reduction of long term listed drug by drastic reform of NHI structure
- Impact of foreign exchange (assumption ¥110 ⇔ ¥105)

▶ **Expected shortfall for numerical target, despite some progress on R&D pipeline**

Topics for Advancing to the Next Stage (Schematic Representation of Growth)

※Announced in May 2016

- **New Products:** SI-6603 leads to growth
- **Existing overseas products:**
Share expansion for Gel-One in the U.S.
- **LAL Business:**
Further growth from new product development and strengthening of sales
- **Existing domestic products:**
Gradual decrease due to the impact of price revisions



2016

2018

**Achieving the Ten-Year Vision and
Making a Further Leap Forward**

Special Profile

1

Specialization in glycoscience

- Niche field, market not big enough for the major pharmaceutical companies to penetrate
- Focusing on this field more than **70 years**

2

State-of-the-art technology related to GAG

- Drug discovery expertise using **modified-GAG, GAG-related enzymes**, etc.
- **Extraction, Purification, Fermentation**, etc. technology to manufacture GAG related products

3

Unique business model

- Concentration on **R&D** and **manufacturing**
- R&D staff comprising **one-third** of our total employees
- Allocation of **25% to 30%** of net sales to R&D investment

GAG: Glycosaminoglycans (A major component of complex carbohydrates)

Our Business Segment

Pharmaceutical Business

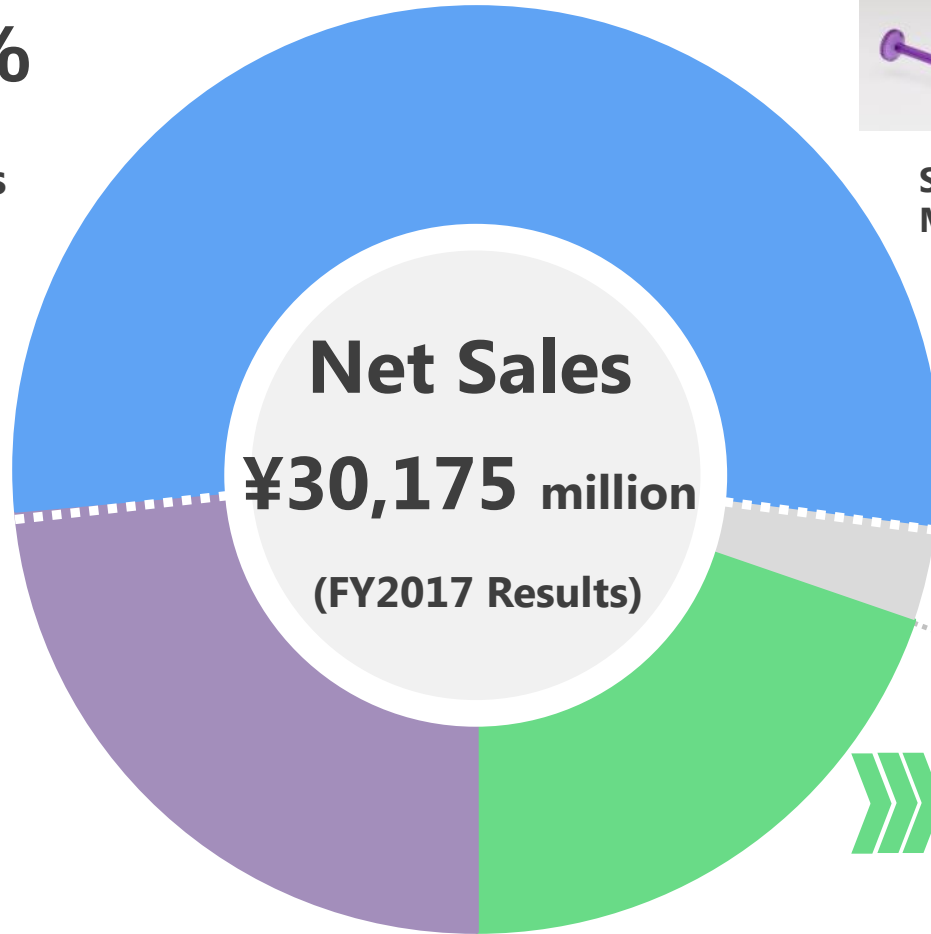
80.3%

Domestic
Pharmaceuticals
→ 53.4%

Joint Function
Improving Agents



Overseas
Pharmaceuticals
→ 23.6%



Ophthalmic Surgical Aids



Surgical Aids for Endoscopic Mucosal Resection



Bulk Products
→ 3.3%

Bulk Products



LAL Business

19.7%

Endotoxin-detecting reagents
(used mainly for quality control of pharmaceuticals and medical devices)



Main Hyaluronic Acid (HA) Products

ARTZ[®] Knee osteoarthritis (OA) pain relief by multiple injections

- The first HA joint function improving agent in the world

- Main distributors:

Kaken Pharmaceutical (Japan): ARTZ

Bioventus (U.S.): SUPARTZ FX

Kunming Baker Norton

Pharmaceutical (China): ARTZ



Gel-One[®] Knee OA pain relief by a single injection

- Requires only 3ml to be as effective as multiple injections
- Full-scale sales since August 2012
- Distributor: Zimmer (U.S.)



■ **Cautionary Notes**

This material contains forward-looking statements regarding future management strategies or performance forecasts. These descriptions are based on judgments derived from information that is currently available to Seikagaku and are subject to risk and uncertainty. Actual results and developments may differ significantly from these descriptions due to various factors.

Information about pharmaceutical products or medical devices (including products currently in development) contained in this material is not intended to constitute an advertisement or medical advice.



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