

February 4, 2020

SEIKAGAKU CORPORATION
Consolidated Financial Results (Japan GAAP) (Summary)
for the First Nine Months of Fiscal 2019
(Nine-Month Period Ended December 31, 2019)

Listed exchanges: Tokyo Stock Exchange (First Section)

Stock code number: 4548

URL: <https://www.seikagaku.co.jp/en/>

(All amounts have been rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Nine Months of Fiscal 2019

(from April 1, 2019 to December 31, 2019)

(1) Consolidated Financial Results

(Percentages indicate changes from the same period in the previous fiscal year)

	Net sales		Operating income		Ordinary income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
First nine months of fiscal 2019	23,240	7.7	3,265	141.6	3,868	31.0
First nine months of fiscal 2018	21,586	(7.8)	1,351	(56.8)	2,953	(49.9)

	Net income attributable to owners of parent		Net income per share	Diluted net income per share
	Millions of Yen	%	Yen	Yen
First nine months of fiscal 2019	(9,781)	-	(173.40)	-
First nine months of fiscal 2018	2,253	(48.2)	39.91	-

(Note) Comprehensive income:

First nine months of fiscal 2019: (9,083) million yen [- %]

First nine months of fiscal 2018: 689 million yen [(87.7)%]

(2) Consolidated Financial Position

	Total assets	Total equity	Equity ratio
	Millions of Yen	Millions of Yen	%
As of December 31, 2019	70,128	62,501	89.1
As of March 31, 2019	80,238	73,036	91.0

(Reference) Shareholders' equity:

As of December 31, 2019: 62,501million yen

As of March 31, 2019: 73,036million yen

2. Dividends

	Dividends per share				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal 2018	-	13.00	-	13.00	26.00
Fiscal 2019	-	13.00	-	-	-
Fiscal 2019 (Forecast)	-	-	-	13.00	26.00

(Note) Revision of the forecasts most recently announced: No

3. Forecast of Consolidated Financial Results for Fiscal 2019 (from April 1, 2019 to March 31, 2020)

(Percentages indicate changes from the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
Fiscal 2019	28,600	0.8	1,350	38.1	3,750	31.2	(11,000)	—	(194.99)

(Note) Revision of the forecasts most recently announced: No

* Notes

(1) Changes in the status of material subsidiaries during the period: No

(2) Application of specific accounting methods for preparing the quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates, and retrospective restatements

(a) Changes in accounting policies accompanying revisions in accounting standards: No

(b) Changes other than those in (a) above: No

(c) Changes in accounting estimates: No

(d) Retrospective restatements: No

(4) Number of shares issued (common stock):

(a) Number of shares at the end of the period (including treasury stock)

(b) Number of treasury stock at the end of the period

(c) Average number of shares issued during the period (nine months)

As of December 31, 2019	56,814,093 shares	As of March 31, 2019	56,814,093 shares
As of December 31, 2019	397,667 shares	As of March 31, 2019	410,176 shares
First nine months of fiscal 2019	56,411,600 shares	First nine months of fiscal 2018	56,467,286 shares

* This financial reports are not subject to the quarterly review procedures.

* Disclaimer regarding forward-looking information including appropriate use of forecasted financial results

The forecast shown in these materials are based on information currently available and certain assumptions that the Company regards as reasonable. Actual performance and other results may differ materially from these forecasted figures due to various factors.

1. Results of Operations for the First Six Months of Fiscal 2019

(Nine-Month Period Ended December 31, 2019)

(1) Qualitative explanation on quarterly financial results

In the first nine months (April 1 to December 31, 2019) of the fiscal year ending March 31, 2020 (fiscal 2019), net sales rose 7.7% year on year to ¥23,240 million. The result is due mainly to growth in the overseas pharmaceuticals.

Operating income rose 141.6% year on year to ¥3,265 million as a result of the sales increase, coupled with a decrease in depreciation in connection with an impairment loss*, as well as a year-on-year decrease in R&D expenses due to completion of clinical studies in Japan for SI-613, a treatment for osteoarthritis.

Ordinary income rose 31.0% year on year to ¥3,868 million. The amount of increase in ordinary income declined year on year compared to that of operating income, reflecting factors including a decrease in gains on sale of investment securities and the absence of royalty income. The Company recorded a net loss attributable to owners of parent of ¥9,781 million (compared to a net profit of ¥2,253 million during the same period in the previous fiscal year) due to the recording of an extraordinary loss (impairment loss)*.

* As announced in Seikagaku Announces the Recognition of an Extraordinary Loss (Impairment Loss), released on November 8, 2019, the Company recognized an impairment loss on property, plant and equipment related to the pharmaceuticals business and recorded an extraordinary loss of ¥12,441 million in the nine-month period.

Net sales by segment

Pharmaceuticals Business

- Domestic Pharmaceuticals (¥11,470 million, up 4.9% year on year)

Deliveries to medical institutions of ARTZ, a joint function improving agent for knee osteoarthritis, decreased slightly due to slight contraction in the market overall, despite an increase in market share resulting from measures to promote switching from competing products. The Company's sales rose year on year, partly as a reflection of a low level of shipments in the first nine months of the previous fiscal year due to the impact of an inventory adjustment by the sales partner, despite the impact of a National Health Insurance (NHI) drug price reduction.

For the OPEGAN series of ophthalmic viscoelastic devices, deliveries to medical institutions and the Company's sales increased due to overall market expansion and progress in acquiring share from competing products.

MucoUp, a submucosal injection agent for endoscopic surgery, had a decrease in the Company's sales due to the impact of the introduction of competing products on the market

For HERNICORE, a treatment for lumbar disc herniation, deliveries to medical institutions remained steady growth and the Company's sales increased. The Company, together with the sales partner, will continue to engage in information provision activities directed at medical institutions to ensure appropriate use and safety and continue to strive for steady market penetration.

- Overseas Pharmaceuticals (¥6,046 million, up 23.1% year on year)

In the U.S. Gel-One, an intra-articular single-injection viscosupplement for the treatment of knee osteoarthritis, had sizable increases in local sales volume and the Company's sales, as a result of qualification for preferential reimbursement status with multiple insurance companies beginning in 2019 and progress with measures to promote switching from rival products.

For SUPARTZ FX, an intra-articular 5-injection viscosupplement for the treatment of knee osteoarthritis, local sales volume and the Company's sales declined due in part to the impact of a continuing trend in the U.S. market toward preference for products that require a low number of injections

Regarding ARTZ in China (P.R.C.) local sales volume and the Company's sales decreased, reflecting an inventory adjustment by the sales partner, despite continuing success with the sales expansion strategy.

- Bulk Products (¥831 million, down 3.9% year on year)

While sales of hyaluronic acid increased, sales of chondroitin sulfate decreased, resulting in a decline in the Company's sales year on year.

As a result of these developments, sales for the pharmaceuticals business segment rose 9.8% year on year to ¥18,348 million.

LAL Business

Higher sales of Bacterial Endotoxin Testing (BET) and Clinical Diagnostic (FungitelIR) reagents, thanks to reinforcement of sales activities at overseas subsidiary Associates of Cape Cod, Inc., compensated for a decrease in sales in Japan. Consequently, sales of the LAL business rose 0.4% year on year to ¥4,892 million.

(2) Explanation of forward-looking information, including the forecast of consolidated financial results

Although operating income and ordinary income in the first nine months of fiscal 2019 have already reached the full-year earnings forecast in the consolidated financial results forecast for fiscal 2019, which was announced on November 8, 2019, in light of expected concentration of R&D expenses in the fourth quarter, there is no change to the forecast of consolidated financial results.

Reference Information: Forecast of consolidated financial results for the fiscal year ending March 31, 2020 (April 1, 2019 to March 31, 2020)

Net sales	¥28,600 million (up 0.8% year on year)
Operating income	¥1,350 million (up 38.1% year on year)
Ordinary income	¥3,750 million (up 31.2% year on year)
Net loss attributable to owners of parent	¥11,000 million (–)

Note: The forecasts shown in these materials are based on information currently available and certain assumptions that the Company regards as reasonable. Actual performance and other results may differ materially from these forecasted figures due to various factors.

Research and Development Activities

To contribute to healthy and fulfilling lives for people around the world, the Company focuses research and development on glycoscience as its area of specialization and aims to create original pharmaceuticals and medical devices.

To achieve early and continuous launching of new drugs, which hold the key to future business growth, the Company engages in efficient R&D activities focused on target compounds and high-priority target diseases and is working to increase the number of projects through reinforcement of unique drug-discovery technologies and utilization of open innovation.

Total R&D expenses in the first nine months of the fiscal 2019 come to ¥4,457 million, or 19.2% of net sales.

The progress status of principal R&D activities is as follows.

SI-613 (treatment for osteoarthritis and enthesopathy: developed in Japan and the U.S.)

Based on the results of three Phase III clinical studies conducted in Japan, in January 2020 the Company has submitted a new drug application ("NDA") for manufacturing and marketing approval in Japan for the treatment of osteoarthritis (knee joint, hip joint, and ankle joint).

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