May 19, 2020

SEIKAGAKU CORPORATION

Consolidated Financial Results (Japan GAAP) (Summary) for the Fiscal 2019 (Year Ended March 31, 2020)

Listed exchanges: Tokyo Stock Exchange (First Section)
Stock code number: 4548
URL: https://www.seikagaku.co.jp/en/
Date of ordinary general meeting of shareholders (Planned): June 19, 2020
Date of dividend payment (Planned): June 22, 2020

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

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

(1) Consolidated Financial Results

(Percentages indicate changes from the prior fiscal year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Fiscal 2019	28,642	0.9	1,960	100.6	3,981	39.2	(10,839)	-
Fiscal 2018	28,384	(5.9)	977	(31.3)	2,859	(46.3)	2,244	(42.8)

(Note) Comprehensive income:
Fiscal 2019: (11,817) million yen[- %]
Fiscal 2018: 862 million yen[(82.9)%]

	Net income per share	Diluted net income per share	Return on equity	Ordinary income as a percentage of total assets	Operating income as a percentage of net sales
	Yen	Yen	%	%	%
Fiscal 2019	(192.15)	-	(16.3)	5.4	6.8
Fiscal 2018	39.76	-	3.1	3.5	3.4

(2) Consolidated Financial Position

	Total assets	Total equity	Equity ratio	Total equity per share
	Millions of Yen	Millions of Yen	%	Yen
Fiscal 2019	68,501	59,767	87.2	1,059.40
Fiscal 2018	80,238	73,036	91.0	1,294.88

(Reference) Shareholders' Equity:
Fiscal 2019: 59,767 million yen
Fiscal 2018: 73,036 million yen

(3) Consolidated Cash Flows

	Net cash flows from operating activities	Net cash flows from investing activities	Net cash flows from financing activities	Cash and cash equivalents at the end of fiscal year
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Fiscal 2019	8,670	623	(1,603)	14,992
Fiscal 2018	3,121	(1,481)	(1,812)	7,313

2. Dividends

	Dividends per share				
	1st Quarter	2nd Quarter	3rd Quarter	Fiscal Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal 2018	-	13.00	-	13.00	26.00
Fiscal 2019	-	13.00	-	13.00	26.00
Fiscal 2020 (Forecast)	-	-	-	-	-

(Note) The forecast of dividend for the Fiscal 2020, is not decided at this time. In the future, we will announce the dividend forecast promptly when it becomes possible to disclose the forecast of consolidated financial results.

	Total dividend payments (Annual)	Dividend payout ratio (Consolidated)	Dividends as a percentage of total equity (Consolidated)
	Millions of Yen	%	%
Fiscal 2018	1,466	65.4	2.0
Fiscal 2019	1,466	-	2.2
Fiscal 2020 (Forecast)		-	

3. Forecast of Consolidated Financial Results for Fiscal 2020 (from April 1, 2020 to March 31, 2021)

At this time it would be difficult to reasonably assess the impact of the COVID-19 infection on the Company's business and financial results. Accordingly, the Company has not yet determined the forecast of consolidated financial results. The Company will carefully examine the impact of the COVID-19 infection on the financial results and promptly make an announcement once it becomes possible to disclose the forecast of consolidated financial results.

* Notes

(1) Changes in the status of material subsidiaries during the period: Yes

New: 3 companies (Company name :) Dalton Chemicals Laboratories, Inc.
SKK CANADA ENTERPRISES CORPORATION
SKK ACQUISITION CORPORATION

(2) Changes in accounting principles, changes in accounting estimates, and retrospective restatements

(a) Changes in accounting principles 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

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

(a) Number of shares at the end of the period (including treasury stock)	As of March 31, 2020	56,814,093 shares	As of March 31, 2019	56,814,093 shares
(b) Number of treasury stock at the end of the period	As of March 31, 2020	397,767 shares	As of March 31, 2019	410,176 shares
(c) Average number of shares issued during the period	Fiscal 2019	56,412,783shares	Fiscal 2018	56,451,671shares

(Reference) Non-Consolidated Financial Results

Non-Consolidated Financial Results for Fiscal 2019 (from April 1, 2019 to March 31, 2020)

(1) Non-Consolidated Financial Results

(Percentages indicate changes from the prior fiscal year)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Fiscal 2019	23,369	1.0	1,081	-	3,174	87.3	(11,380)	-
Fiscal 2018	23,144	(8.8)	(168)	-	1,694	(59.5)	1,386	(57.0)

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal 2019	(201.73)	-
Fiscal 2018	24.57	-

(2) Non-Consolidated Financial Position

	Total assets	Total Equity	Equity ratio	Total Equity per share
	Millions of Yen	Millions of Yen	%	Yen
Fiscal 2019	62,665	55,037	87.8	975.56
Fiscal 2018	75,224	68,596	91.2	1,216.16

(Reference) Shareholders' Equity:

Fiscal 2019: 55,037 million yen

Fiscal 2018: 68,596 million yen

***This financial reports are not subject to audit of the certified public accountant and audit firm.**

1. Analysis of Results of Operations

Results of operations for the current fiscal year

In the fiscal year ended March 31, 2020 (fiscal 2019), net sales were ¥28,642 million, up 0.9% year on year. The result is attributable to growth in sales in the overseas pharmaceuticals segment, which compensated for a decline in sales in the domestic pharmaceuticals segment due to the impact of National Health Insurance (NHI) drug price reductions.

With regard to earnings, operating income rose 100.6% year on year to ¥1,960 million as a result of the sales increase coupled with a decrease in depreciation in connection with an impairment loss* and 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 39.2% year on year to ¥3,981 million, reflecting a substantial increase in royalty income, which recorded loss on sale of investment securities. The Company recorded a net loss attributable to owners of parent of ¥10,839 million (compared to a net profit of ¥2,244 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. The Company recorded extraordinary losses of ¥13,524 million in the fiscal year.

1) Net sales by segment

Pharmaceutical Business

- Domestic Pharmaceuticals (¥13,679 million, down 3.4% year on year)

Deliveries to medical institutions of ARTZ, a joint function improving agent for knee osteoarthritis, decreased slightly due to contraction in the market overall, despite an increase in market share resulting from successful measures to acquire new user facilities. The Company's sales fell year on year, reflecting in part the impact of NHI drug price reductions.

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

For MucoUp, a submucosal injection agent for endoscopic surgery, decreased 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, the Company's sales decreased as shipments declined from a high level the previous fiscal year due to secure distribution inventory, although deliveries to medical institutions were strong. To provide the opportunity for treatment to greater numbers of patients, the Company will continue to strive for steady market penetration while proceeding together with the sales partner with information provision activities directed at medical institutions to ensure appropriate use and safety and the collection of post-marketing safety information as the highest priority.

- Overseas Pharmaceuticals (¥7,466 million, up 14.7% year on year)

In the U.S. Gel-One, an intra-articular single-injection viscosupplement for the treatment of knee osteoarthritis, increased substantially both 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 the impact of measures by the sales partner to promote switching from competing 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 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 factors including curtailment of outpatient services at medical institutions in response to the spread of COVID-19 outbreak.

- Bulk Products (¥1,019 million, down 16.4% year on year)
The Company's sales decreased due to factors including intensification of competition for hyaluronic acid.

As a result of these developments, sales in the pharmaceuticals business segment rose 1.2% year on year to ¥22,166 million.

LAL Business
Whereas sales of Bacterial Endotoxin Testing (BET) and Clinical Diagnostic (Fungitell) reagents increased thanks to reinforcement of sales activities at overseas subsidiary Associates of Cape Cod, Inc., sales in Japan declined. Consequently, sales of the LAL business were nearly unchanged from the previous fiscal year, falling 0.2% to ¥6,476 million.

2) Research and Development Activities
To contribute to healthy and fulfilling lives for people around the world, the Company focuses its 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 will engage in efficient R&D activities focused on target compounds and high-priority target diseases and make efforts to increase the number of projects through reinforcement of unique drug-discovery technologies and utilization of open innovation.

Total R&D expenses in fiscal 2019 were ¥6,877 million, or 24.0% of net sales, and the number of R&D personnel was 242, or 27.9% of the total number of employees, at the end of March 2020.

The status of progress of principal R&D activities is described below.

SI-6603 (treatment for lumbar disc herniation: developed in the U.S.)
An additional Phase III clinical study of SI-6603 in the U.S. was initiated in February 2018. Since the Company has applied stringent subject enrollment criteria to increase the probability of success, and it is taking time to set up clinical trial sites, in November 2019 the Company decided to extend the enrollment period by two years beyond the original plan. (Follow-up observations are scheduled for completion in November 2022.) Furthermore, delays are occurring in the progress of the study, partly because of discontinuation of the study at some medical institutions and an increase in the number of subjects postponing hospital visits due to the spread of the COVID-19 infection in the U.S. The Company is currently making efforts to collect and examine local information and plans to focus on subject enrollment and review the study plan once the outbreak has subsided.

SI-6603, which contains condoliase as its active pharmaceutical ingredient, is a treatment directly injected into the lumbar disc. It does not require a general anesthesia and is less invasive to the patient than surgical treatment. Since a single-injection treatment is expected to improve the symptoms of lumbar disc herniation, SI-6603 is expected to improve the quality of life of patients as a new treatment option.

SI-613 (treatment for osteoarthritis: developed in Japan and the U.S.)
SI-613-ETP (treatment for enthesopathy: developed in Japan)
In January 2020, the Company submitted a new drug application for manufacturing and marketing approval in Japan relating to the efficacy and effectiveness of SI-613 in the treatment of osteoarthritis (knee joint, hip joint, ankle joint) based on the results of three Phase III clinical studies conducted in Japan. In the U.S., a Phase II clinical study targeting knee osteoarthritis has been completed, and the Company is considering a Phase III study while proceeding with selection of a sales partner. Data analysis of a late-stage Phase II clinical trial in Japan of SI-613-ETP for the treatment enthesopathy has been completed, and the Company is considering the next clinical study together with co-development and marketing partner Ono Pharmaceutical Co., Ltd.

In April 2020, the Company entered into an agreement with Eisai Co., Ltd. concerning Co-development and Marketing Alliance of SI-613, a Treatment of Osteoarthritis, in China.

SI-613 (SI-613-ETP) is a formulation in which hyaluronic acid and diclofenac (an anti-inflammatory agent) are chemically bound using Seikagaku's own proprietary technology. Since SI-613 (SI-613-ETP) combines the pain relief and anti-inflammatory effect of diclofenac designed for sustained release with the joint function

improving effect of hyaluronic acid, it is expected to provide prompt and sustained relief of the pain and inflammation associated with osteoarthritis and enthesopathy.

SI-614 (treatment for dry eye: developed in the U.S.)

Phase II/III clinical studies of SI-614 were completed in January 2015, and the Company is currently considering a Phase III clinical study based on the data obtained from those studies and proceeding with selection of a sales partner.

SI-614 is a modified hyaluronate that is produced using proprietary technology. Ocular instillation of SI-614 in patients with dry eye is expected to protect the ocular surface and promote corneal wound healing.

SI-722 (treatment for interstitial cystitis: developed in the U.S.)

A Phase I clinical study of SI-722 was completed in the U.S., and Phase I/II clinical studies were initiated in November 2019. These studies of patients with interstitial cystitis will evaluate the safety, tolerability, and pharmacokinetics of SI-722 and exploratively evaluate its efficacy. Delays are occurring in the study plan due to the spread of the COVID-19 infection in the U.S. The Company is currently making efforts to collect and examine local information and plans to focus on subject enrollment and review the study plan once the outbreak has subsided.

SI-722 is a novel chemical compound in which a steroid is conjugated with chondroitin sulfate using Seikagaku's proprietary glycosaminoglycan modification technology and drug delivery systems. SI-722 injected into the bladder is thought to demonstrate long-lasting improvement in the conditions of frequent urination and bladder pain by releasing a steroid with an anti-inflammatory effect.

SI-449 (adhesion barrier: developed in Japan)

A clinical study (pilot study) in Japan of SI-449 initiated in May 2018 is progressing steadily, enrollment of subjects was completed in April 2019, and the Company is currently conducting follow-up observation. The purpose of the study was to confirm utility and safety of SI-449 and conduct exploratively investigate its efficacy.

SI-449 is a powdered adhesion barrier whose main ingredient is cross-linked chondroitin sulfate developed using Seikagaku’s own glycosaminoglycan2 proprietary technology. It has the property of absorbing moisture and swelling and is expected to prevent or mitigate post-operative adhesion formation by forming a barrier between the surgical wound site and surrounding tissues after application. The Company will proceed with development of SI-449 with a view to introducing it globally, not only in Japan.

2. Forecasts for Fiscal 2020

At this time it would be difficult to reasonably assess the impact of the COVID-19 infection on the Company’s business and financial results. Accordingly, the Company has not yet determined the forecast of consolidated financial results. The Company will carefully examine the impact of the COVID-19 infection on the financial results and promptly make an announcement once it becomes possible to disclose the earning forecast.

Current assumptions about the forecasts for fiscal 2020 are as follows.

1) Impact of the COVID-19 Infection on the Company’s Businesses

Pharmaceuticals Business

In the pharmaceuticals business in Japan and overseas, a decline in deliveries to medical institutions is forecast, reflecting factors including curtailment of outpatient services and postponement of non-urgent and non-emergency medical procedures. It is unclear when the COVID-19 infection will subside, and the impact of the COVID-19 infection on the Company’s financial results may increase if the outbreak becomes prolonged.

LAL Business

The Bacterial Endotoxin Testing (BET) and contract research services offered in the LAL business are used in quality management of injectable pharmaceuticals and certain medical devices, and at this time the Company does not anticipate a significant business impact from the COVID-19 infection. However, the

business may be affected if the voluntary restraint of economic activities currently being practiced in Japan and overseas becomes prolonged.

R&D Expenses

Delays in progress of clinical studies in connection with discontinuation of studies at some medical institutions and postponement of hospital visits by subjects may affect the timing of recognition of R&D expenses.

2) Other Assumptions

The Company expects the National Health Insurance (NHI) drug price reductions implemented in April 2020 to have an overall impact on domestic pharmaceuticals of approximately about 11% on a weighted average basis (comparison with prices after the drug price reductions implemented in October 2019 in connection with the consumption tax increase).

The Company's export transactions are denominated mainly in U.S. dollars, and the overseas sales ratio has reached 45%. The financial results may be affected if the yen appreciates beyond 108.8 to the U.S. dollar, the average exchange rate during the fiscal year ended March 31, 2020.

The Company will reflect the financial results of Dalton Chemical Laboratories, Inc., which was consolidated as a subsidiary in March 2020, in the Pharmaceuticals Business segment beginning.

Note: Please refer to "3. Issues Facing the Company" on Page 10 for information on Seikagaku's initiatives to prevent the spread of infection and the operation of business sites and status of production.

3. Issues Facing the Company

While the abrupt changes to the business environment surrounding the pharmaceuticals industry are continues to be extremely difficult, progress in measures to control medical expenses of starting with a drastic reform of the NHI drug pricing system in Japan, intensity of competition among firms the diversifying of treatment options, and degree of difficulty of new drug development increases in the inside cost of research and development which rises. In this situation, the need to lay out a growth path once again makes the continual creation of innovative new drugs an imperative for the Company. In parallel with this, the Company is embarking on initiatives based on a speedy transition to rapid earnings improvement and promoting reforms that are not constrained by existing frameworks.

Outline of the mid-term management plan (fiscal 2019 to fiscal 2021)

1) Seikagaku's vision

"A company that is valued by the world through its innovative drug discovery"

By leveraging its expertise in the field of glycoscience into proprietary technology and creating innovative drugs that are in demand, and through a broader global supply of these products, Seikagaku aims to contribute to the health and well-being of people around the world and be a company that is valued. By making this its foundation, the Company will advance fair and earnest business activities.

2) Basic philosophy & corporate slogan

a. Core values (motto): Creativity, Fairness, Dreams and Passion

b. Mission statement: Glycoscience for Human Well-being

c. Corporate slogan of the new mid-term management plan: "Innovative Thinking"

~Creating value based on innovative thinking~

3) Important measures

Under this mid-term management plan, Seikagaku positions the plan period as one for solidifying the profit foundation in order to delineate a path to growth once again. To this end, the Company will proceed with the following important measures.

a. Accelerating new drug discovery to become the pillar of new profits

- **Strengthening and making use of the Company's own core technology related to GAGs**

  Leveraging drug discovery technology held by Seikagaku to the fullest extent and raise the possibilities for innovative drug discovery.

  <Main technologies held by Seikagaku>

  a. New drug development based on modification, processing, and bioactivity
  b. Drug delivery systems (DDS)
  c. Use of platform technology and a next-generation GAG drug development approach

- **Accelerating innovative drug discovery using an open innovation strategy**

  In addition to the technologies in its possession, Seikagaku will proactively undertake initiatives toward technology having high affinity with other companies, maximize synergies, and expand the number of projects in new drug development—all to speed up its work.

- **Steady expansion of the development pipeline with an eye toward global expansion**

  Seikagaku will quickly foster the development of SI-613, a treatment for osteoarthritis and enthesopathy, as a new core product by applying for and successfully obtaining drug approval, and by achieving launching. Seikagaku also aims to step up clinical studies for SI-722, a treatment for interstitial cystitis and bladder pain syndrome, and SI-449, an adhesion barrier. With regard to SI-6603, an indication for treatment for lumbar disc herniation, the Company will focus on speeding up additional study for the Phase III clinical study as it pursues a full effort toward a U.S. market launching.

b. Solidifying the profit foundation through market expansion for new products

- **Post-marketing drug development of HERNICORE in Japan**

  Seikagaku places priority on information provision activities to ensure appropriate use and safety as well as the collection of after-market safety information. Upon agreement with the authorities while coordinating with relevant scientific societies, the Company will work toward gradual expansion of requirements for available medical practitioners and facilities together with steady market penetration. The Company will also advance the disease awareness activities related to lumbar disc herniation for patients.

- **Accelerating multinational expansion of existing products and products in development**

  By expediting the cultivation of new markets for existing products and products in development to maximize product value, Seikagaku seeks to solidify its medium- to long-term profit foundation. It will also be actively engaged in product improvement and application development in accordance with medical treatment needs in the targeted expansion regions.

- **Global expansion of endotoxin-detecting reagents that utilize genetic recombination technology**

  Overseas development of the Seikagaku Group's LAL business is under its U.S.-based subsidiary, the Associates of Cape Cod, Inc. (ACC). With expectations of future adoption, ACC aims for global expansion of gene-recombinant endotoxin-detecting reagents, leading to the securing of a new profit foundation.

c. Productivity improvement reforms

- **Thorough cost reductions**

  In manufacturing costs, as a result of a project that is already underway, Seikagaku will conduct a review of procurement costs and the optimization and streamlining of production, leading to greater assurance of product profitability.

  In selling, general and administrative expenses, the Company will improve work efficiency and make sure that thorough cost reductions are actually done. Furthermore, in order to carry out new drug development continuously, it will address efficient use of R&D expenses determined by priority.

- **Diversifying the profit model**

  Regardless of the business model up to now, the Company will carry out a vigorous examination of ways in which to produce new profit.

- **Creating an organization for maximizing the value of resources**

  Seikagaku will advance organizational reform that enables flexible responses to changes in the business environment and the nurturing of talent that can create new value, and which also lets each person demonstrate their potential to the fullest.

Progress against the Mid-Term Management Plan in Fiscal 2019

Progress against the mid-term management plan in fiscal 2019 is as described below.

"Accelerating new drug discovery to become the pillar of new profits" is the first of three important measures set out in the management plan. In January 2020, the Company submitted a new drug application for manufacturing and marketing approval in Japan relating to the efficacy and effectiveness of the osteoarthritis treatment SI-613 in the treatment of osteoarthritis of the knee joint, hip joint, and ankle joint. The Company will now focus on reliably obtaining approval for SI-613 and a rapid start-up of a sales structure. Also, in November 2019 the Company initiated Phase I/II clinical studies of SI-722, a treatment for interstitial cystitis. Furthermore, in a new initiative, the Company is utilizing an outside consultant in an effort to construct an R&D system capable of rapidly responding to environmental changes, such as tightening of related regulations and modality diversification. Through this initiative, the Company will further accelerate drug discovery that addresses unmet medical needs by utilizing proprietary GAG-related technology.

The second important measure is "Solidifying the profit structure through market expansion of new products." In April 2020, the Company concluded an agreement with Eisai Co., Ltd. concerning co-development of SI-613 and a marketing alliance in China, and so we are able to proceed with the multination marketing of SI-613. The number of patients in China with osteoarthritis of the knee, a type of osteoarthritis that occurs with high frequency, is estimated to be approximately 47 million (some 6 times the number in Japan) and is expected to increase as the population increasingly ages. The Company expects to receive milestone royalties in accordance with future progress in development and marketing.

Also, use of Hernicore in Japan at facilities without full-time supervisory physicians accredited by the Japanese Society for Spine Surgery and Related Research (JSSR) became possible in November 2019. To provide the opportunity for treatment to greater numbers of patients, the Company will continue to increase the number of physicians and facilities capable of using Hernicore in stages in cooperation with academic societies and by agreement with the regulatory authorities and will steadily engage in information provision activities and the collection of post-marketing safety information to ensure appropriate use and safety.

As part of "Productivity improvement reforms," the third important measure in the management plan, in March 2020 the Company acquired all issued shares of Canada-based Dalton Chemical Laboratories, Inc. ("Dalton") and consolidated it as a subsidiary. Dalton is a one-stop provider to pharmaceutical companies of contract manufacturing services for chemical synthetics and pharmaceutical ingredients and high-value-added services, such as manufacturing process development. The Company will utilize in its new drug development Dalton's technologies and expertise and will pursue efficiency improvement and production optimization by switching from outsourced manufacturing of chemical synthetics to in-house production and by transferring manufacturing of investigational drugs and some Seikagaku products to Dalton.

Also, an all-out effort to reduce production costs is a matter of urgent importance for responding to the impact of drastic reform of National Health Insurance (NHI) drug price system in Japan. The Company is examining ways of achieving this in a cross-organizational product-cost reduction project and has achieved results from some measures. The Company will continue to implement a fundamental cost review that includes the production management system, production processes, and supply chain.

In fiscal 2019, the first year of the mid-term management plan, the Company achieved a certain amount of progress with these three important measures. At the same time, as a result of a detailed examination that included business conditions and medium- to long-term business performance trends conducted in conjunction with the formulation of the management plan, the Company recognized deterioration of profitability as a result of factors including the effects of National Health Insurance (NHI) drug price reductions that came out of a fundamental reform of the drug pricing system in Japan and a decline in sales volumes of joint function improving agents to a level below what was expected when capital investments were made. Accordingly, the Company recognized an impairment loss on property, plant and equipment related to the pharmaceuticals business in fiscal 2019. The Company recognizes that undertaking earnings improvement at an early date is an

urgent priority and will continue to implement the important measures in the management plan and diligently work to construct a strong earnings foundation and return Seikagaku to a growth trajectory on the basis of an agile management strategy.

Response to the COVID-19 Infections

As a response to the COVID-19 infections, the Company has launched an emergency headquarters under powerful management leadership and is developing a system capable of executing the minimum operations necessary for maintaining business continuity, giving the highest priority to prevention of infection of employees or their families. As measures to prevent infection, the Company is making maximum use of work-at-home and staggered working hours and taking measures to reduce contact among employees to the extent possible. Also, the domestic and overseas clinical studies the Company conducts are being affected by partly because of discontinuation of studies at some medical institutions and postponement of hospital visits at some clinical trial sites. The Company is promptly reviewing clinical trial protocols to ensure that sufficient attention is given to preventing infection of participating patients, medical personnel, and others and is conducting trials to the extent possible in accordance with the intentions of trial sites.

To continue to fulfill Seikagaku's social responsibilities and responsibility for stable supply as a pharmaceutical company, the Company will promptly gather information and expeditiously implement countermeasures as the situation requires.

4. Dividend Policy

As a means of ensuing sustainable profit growth and improving corporate value, Seikagaku believes in the sharing of profits with its shareholders.

Seikagaku considers the return of profits to shareholders as an important management concern and has made a paying dividends linked to business performance a basic policy. Also, the Company will consider, as appropriate, the purchase of treasury stock while taking into consideration future business expansion and the total return ratio. Under the mid-term management plan, the Company will strive to provide continuous shareholder returns. The Company plans to pay cash dividends of ¥26 per share for fiscal 2019 and will aim for a dividend payout ratio of 50% for fiscal 2020 and 2021, taking into consideration business profits and other factors.

In addition, in order to solidify the business foundation and improve capital efficiency, the Company will direct its business investment toward R&D and the establishment of a production system for creating new value, and will also actively carry out initiatives for strategic investments with prospects for future growth and synergy effects.

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