

**SEIKAGAKU CORPORATION**  
**Consolidated Financial Results (Japan GAAP) (Summary)**  
**for the Fiscal 2017**  
**(Year Ended March 31, 2018)**

Listed exchanges: Tokyo Stock Exchange (First Section)

Stock code number: 4548

URL: <http://www.seikagaku.co.jp/english/>

Date of ordinary general meeting of shareholders (Planned): June 20, 2018

Date of dividend payment (Planned): June 21, 2018

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

**1. Consolidated Financial Results for the Fiscal 2017**(from April 1, 2017 to March 31, 2018)

**(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 2017	30,175	2.0	1,421	10.9	5,327	115.1	3,922	119.4
Fiscal 2016	29,589	(4.4)	1,282	(40.2)	2,477	(29.2)	1,787	(30.7)

(Note) Comprehensive income:

Fiscal 2017: 5,054 million yen [ 91.6% ]

Fiscal 2016: 2,638 million yen [ 198.8% ]

	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 2017	69.30	-	5.4	6.5	4.7
Fiscal 2016	31.55	-	2.5	3.1	4.3

**(2) Consolidated Financial Position**

	Total assets	Total equity	Equity ratio	Total equity per share
	Millions of Yen	Millions of Yen	%	Yen
Fiscal 2017	84,749	73,945	87.3	1,306.37
Fiscal 2016	80,048	70,646	88.3	1,248.07

(Reference) Shareholders' Equity:

Fiscal 2017: 73,945 million yen

Fiscal 2016: 70,646 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 2017	5,346	(4,066)	(2,221)	7,511
Fiscal 2016	4,885	(3,502)	(2,282)	8,460

## 2. Dividends

	Dividends per share				
	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	Fiscal Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal 2016	-	13.00	-	18.00	31.00
Fiscal 2017	-	13.00	-	13.00	26.00
Fiscal 2018 (Forecast)	-	13.00	-	13.00	26.00

	Total dividend payments (Annual)	Dividend payout ratio (Consolidated)	Dividends as a percentage of total equity (Consolidated)
	Millions of Yen	%	%
Fiscal 2016	1,754	98.3	2.5
Fiscal 2017	1,471	37.5	2.0
Fiscal 2018 (Forecast)		-	

## 3. Forecast of Consolidated Financial Results for Fiscal 2018 (from April 1, 2018 to March 31, 2019)

(Percentages indicate changes from the prior 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 2018	28,100	(6.9)	400	(71.9)	2,250	(57.8)	1,700	(56.7)	30.03

### \* Notes

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

**(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)

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

(c) Average number of shares issued during the  
period

As of March 31, 2018	56,814,093 shares	As of March 31, 2017	56,814,093 shares
As of March 31, 2018	209,947 shares	As of March 31, 2017	209,561 shares
Fiscal 2017	56,604,365 shares	Fiscal 2016	56,662,884 shares

**(Reference) Non-Consolidated Financial Results****Non-Consolidated Financial Results for Fiscal 2017** (from April 1, 2017 to March 31, 2018)**(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 2017	25,371	(0.4)	299	1.7	4,188	181.7	3,225	176.7
Fiscal 2016	25,460	(5.1)	293	(75.4)	1,487	(41.8)	1,165	(41.7)

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal 2017	56.99	-
Fiscal 2016	20.58	-

**(2) Non-Consolidated Financial Position**

	Total assets	Total Equity	Equity ratio	Total Equity per share
	Millions of Yen	Millions of Yen	%	Yen
Fiscal 2017	80,499	70,232	87.2	1,240.77
Fiscal 2016	76,717	68,020	88.7	1,201.68

(Reference) Shareholders' Equity:

Fiscal 2017: 70,232 million yen

Fiscal 2016: 68,020 million yen

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

### **(1) Analysis of Results of Operations**

#### **Results of operations for the current fiscal year**

In the fiscal year ended March 31, 2018 (fiscal 2017), net sales were ¥30,175 million, up 2.0% year on year. The result is attributable to higher sales volumes of pharmaceuticals to the U.S. and strong overseas sales in the LAL business, despite a decrease in sales of domestic pharmaceuticals.

With regard to earnings, operating income rose 10.9% year on year to ¥1,421 million, reflecting the sales increase as well as a decrease in the cost of sales ratio, which resulted in part from production efficiency improvement, despite an increase in selling, general and administrative expenses. These were mainly R&D expenses accompanying progress with development themes such as SI-613, an osteoarthritis treatment. Ordinary income rose 115.1% year on year to ¥5,327 million, and net income attributable to owners of parent rose 119.4% year on year to ¥3,922 million, reflecting a substantial increase in royalty income, among other factors.

#### **1) Net sales by segment**

##### **Pharmaceutical Business**

###### **- Domestic Pharmaceuticals (¥16,125 million, down 0.9% year on year)**

Deliveries to medical institutions and the Company's sales of ARTZ, a joint function improving agent, declined, partly as a result of the impact of restrained purchasing by medical institutions in connection with National Health Insurance (NHI) drug price reductions implemented in April 2018.

Deliveries to medical institutions and market share of the OPEGAN series, ophthalmic surgical aid, rose sharply as a result of vigorous sales promotion activities for SHELLGAN, and the Company's sales increased as well.

The Company's sales of MucoUp, submucosal injection agent for endoscopic surgery, were at the prior-year level.

###### **- Overseas Pharmaceuticals (¥7,113 million, up 5.0% year on year)**

U.S. sales of Gel-One, a single-injection joint function improving agent, increased as a volume increase compensated for the impact of a decline in local selling unit prices accompanying price adjustments for some major customers. The Company's sales increased due to the local sales increase coupled with the impact of yen depreciation.

U.S. sales of SUPARTZ FX, a 5-injection joint function improving agent, fell, reflecting a preference in the U.S. market for products that require a low number of injections, such as single-injection and 3-injection products. The Company's sales increased due to a sales partner inventory buildup.

The impact of a government price-curbing policy is running its course, and sales of ARTZ in China (P.R.C.) returned to growth. The Company's sales decreased, following a concentration of shipments in fiscal 2016 accompanying a local inventory buildup.

###### **- Bulk Products (¥1,005 million, down 9.6% year on year)**

Sales decreased due to fierce competition in the market for hyaluronic acid.

As a result of these developments, sales from the pharmaceuticals business segment rose 0.4% year on year to ¥24,244 million.

##### **LAL Business**

Sales of the LAL business rose 9.1% year on year to ¥5,931 million as a result of strong overseas sales of endotoxin-detecting reagents and other products, mainly at the U.S. subsidiary, despite a decrease in sales to dialysis facilities in Japan.

## **2) Research and Development Activities**

The Company focuses its research and development on glycoscience as its area of specialization and aims to develop as a “Global Category Pharma” that contributes to healthy and fulfilling lives for people around the world. To achieve early and continuous launching of new products, which hold the key to future business growth, the Company is strengthening research and development capabilities and working to expand and enhance the glycoscience research network in Japan and overseas.

Total R&D expenses in fiscal 2017 were ¥8,408 million, or 27.9% of net sales, and the number of R&D personnel was 233, or 32.5% of the total number of employees at the end of March 2018.

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

### **SI-6603 (treatment for lumbar disc herniation: developed in Japan and the U.S.)**

In Japan, the Company obtained marketing approval for HERNICORE 1.25 units for intradiscal injection from the Ministry of Health, Labour and Welfare on March 23, 2018. HERNICORE is the first therapeutic agent for lumbar disc herniation in Japan. Sales partner Kaken Pharmaceutical Co. Ltd. plans to launch HERNICORE as soon as the necessary preparations are complete.

In the U.S., although the expected pharmacological effect was demonstrated in a Phase III clinical trial, the study did not meet its primary endpoint— change in the worst leg pain at week thirteen — and found no statistically significant improvement. In response to this result, the Company initiated an additional study of Phase III clinical trial in the U.S. in February 2018. The Company will increase the probability of success by reflecting in the additional study the knowledge gained from the results of the previous study.

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 of osteoarthritis and enthesopathy: developed in Japan and the U.S.)**

In Japan, in addition to a Phase III clinical trial initiated in February 2017 as a confirmatory study for knee osteoarthritis, the Company is conducting a clinical study to evaluate SI-613 for other joints (hip, ankle, elbow, and shoulder) and three long-term administration studies with the primary objective of safety evaluation. The Company initiated a late-stage Phase II clinical trial for the treatment of enthesopathy in September 2017. The Company also concluded an agreement concerning a joint development and marketing alliance for SI-613 in Japan with Ono Pharmaceutical Co., Ltd. in September 2017.

In the U.S., the Company initiated a Phase II clinical trial for the treatment of knee osteoarthritis in June 2017.

SI-613 is a formulation and its structure is that hyaluronic acid and a non-steroidal anti-inflammatory drug (diclofenac) are chemically bound using a proprietary technology. Combining the pain relief and anti-inflammatory effect of a sustained-release form of diclofenac with the joint function improving effect of hyaluronic acid is expected to provide prompt and continuous relief of the intense pain and inflammation associated with osteoarthritis and enthesopathy.

### **SI-614 (treatment of dry eye: developed in the U.S.)**

Phase II/III clinical trials were completed in January 2015, and the Company is currently considering a Phase III clinical trial based on the data obtained 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.

## **(2) Forecasts for Fiscal 2018**

The Company forecasts a 6.9% decrease in net sales year on year to ¥28,100 million in fiscal 2018, ending March 31, 2019, as a result of NHI drug price reductions steeper than previous reductions, which will accompany drastic reform of NHI drug price system, and the expected impact of yen appreciation. The Company forecasts a 71.9% decrease in operating income year on year to ¥400 million to result from the projected sales decrease due to NHI drug price reductions, despite an expected decrease in selling, general and administrative expenses, mainly R&D expenses. Although the Company expects to record milestone royalty income in non-operating income, the amount will decrease sharply compared to fiscal 2017. Accordingly, the Company forecasts a 57.8% decrease in ordinary income year on year to ¥2,250 million and a 56.7% decrease in net income attributable to owners of the parent to ¥1,700 million.

The Company forecasts R&D expenses of ¥7,050 million, a decrease of 16.2% year on year, and a ratio of R&D expenses to net sales of 25.1%.

Notes:

1. Since fiscal 2018 is the launch year, the Company forecasts a small amount of sales in Japan for HERNICORE, a treatment of lumbar disc herniation.
2. The exchange rate assumption used in the forecast of consolidated business results for fiscal 2018 is ¥105 to the U.S. dollar.

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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.

## **(3) Dividend Policy**

Seikagaku regards creating shareholder value as an important management priority and aims to enhance shareholder returns and to realize sustained growth through well-balanced business investment in R&D, production system maintenance, and other areas.

Seikagaku's policy on shareholder returns is to aim for stable and continuous dividends in terms of a medium-to-long-term perspective and to continue paying an annual dividend of ¥26 per share. Seikagaku will also consider purchases of treasury stock, as appropriate, taking into account future business development and the total return ratio.

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