May 13, 2021

SEIKAGAKU CORPORATION

Consolidated Financial Results (Japan GAAP) (Summary) for the Fiscal 2020 (Year Ended March 31, 2021)

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 22, 2021
Date of dividend payment (Planned): June 23, 2021

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

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

(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 2020	27,662	(3.4)	1,530	(21.9)	3,024	(24.0)	4,262	-
Fiscal 2019	28,642	0.9	1,960	100.6	3,981	39.2	(10,839)	-

(Note) Comprehensive income:
Fiscal 2020: 5,119 million yen[- %]
Fiscal 2019: (11,817) million yen[- %]

	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 2020	75.54	-	6.9	4.4	5.5
Fiscal 2019	(192.15)	-	(16.3)	5.3	6.8

(2) Consolidated Financial Position

	Total assets	Total equity	Equity ratio	Total equity per share
	Millions of Yen	Millions of Yen	%	Yen
Fiscal 2020	69,915	63,604	91.0	1,127.14
Fiscal 2019	68,746	59,767	86.9	1,059.40

(Reference) Shareholders' Equity:
Fiscal 2020: 63,604 million yen
Fiscal 2019: 59,767 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 2020	1,257	1,023	(1,507)	15,767
Fiscal 2019	8,670	623	(1,603)	14,992

2. Dividends

	Dividends per share				
	1st Quarter	2nd Quarter	3rd Quarter	Fiscal Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal 2019	-	13.00	-	13.00	26.00
Fiscal 2020	-	10.00	-	14.00	24.00
Fiscal 2021 (Forecast)	-	-	-	-	-

	Total dividend payments (Annual)	Dividend payout ratio (Consolidated)	Dividends as a percentage of total equity (Consolidated)
	Millions of Yen	%	%
Fiscal 2019	1,466	-	2.2
Fiscal 2020	1,354	31.8	2.2
Fiscal 2021 (Forecast)		46.4	

3. Forecast of Consolidated Financial Results for Fiscal 2021 (from April 1, 2021 to March 31, 2022)

(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 2021	32,200	16.1	4,550	102.3	4,650	53.7	3,650	(14.4)	64.68

* 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, 2021	56,814,093 shares	As of March 31, 2020	56,814,093 shares
As of March 31, 2021	384,421 shares	As of March 31, 2020	397,767 shares
Fiscal 2020	56,425,798shares	Fiscal 2019	56,412,783shares

(Reference) Non-Consolidated Financial Results

Non-Consolidated Financial Results for Fiscal 2020 (from April 1, 2020 to March 31, 2021)

(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 2020	20,977	(10.2)	594	(45.0)	1,976	(37.7)	3,490	-
Fiscal 2019	23,369	1.0	1,081	-	3,174	87.3	(11,380)	-

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal 2020	61.86	-
Fiscal 2019	(201.73)	-

(2) Non-Consolidated Financial Position

	Total assets	Total Equity	Equity ratio	Total Equity per share
	Millions of Yen	Millions of Yen	%	Yen
Fiscal 2020	62,368	57,836	92.7	1,024.93
Fiscal 2019	62,665	55,037	87.8	975.56

(Reference) Shareholders' Equity:

Fiscal 2020: 57,836 million yen

Fiscal 2019: 55,037 million yen

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

***The above forecast has been prepared on the basis of economic circumstances, market trends, and other assumptions made at the time of release of this document. Actual results may differ from the forecast due to a variety of factors.**

1. Analysis of Results of Operations

Results of operations for the current fiscal year

In the fiscal year ended March 31, 2021 (fiscal 2020), net sales were ¥27,662 million, down 3.4% year on year. The result is attributable to lower sales from the pharmaceuticals business due to the impact of National Health Insurance (NHI) drug price reductions in Japan coupled with a decrease in outpatient services accompanying the spread of COVID-19 infection, notwithstanding the positive impact on sales of the consolidation of Dalton Chemical Laboratories, Inc. as a wholly owned subsidiary in March 2020.

With regard to earnings, operating income fell 21.9% year on year to ¥1,530 million as a result of the sales decrease and an increase in R&D expenses attributable to costs related to an additional clinical study underway in the U.S. for SI-6603, a treatment for lumbar disc herniation. This occurred despite lower operating expenses, reflecting factors including a decrease in depreciation due to non-recurrence of an impairment loss recognized in the previous fiscal year and a review of sales promotion expenses.

Ordinary income fell 24.0% year on year to ¥3,024 million, reflecting a sharp decline in royalty income. Net income attributable to owners of parent was ¥4,262 million, turning positive following a net loss of ¥10,839 million in previous fiscal year, reflecting recognition of deferred income taxes in the amount of negative ¥1,561 million in connection with recognition of deferred tax assets taking into consideration factors such as the future earnings trend in light of a projected increase in royalty income in the fiscal year ending March 31, 2022 and other circumstances.

1) Net sales by segment

Pharmaceutical Business

- Domestic Pharmaceuticals (¥12,019 million, down 12.1% year on year)

A decrease in outpatient services accompanying the spread of COVID-19 infection led to contraction of the overall market for ARTZ, a joint function improving agent for knee osteoarthritis, and lower deliveries to medical institutions compared to the previous fiscal year. Nevertheless, switching from competing products to ARTZ progressed, and market share increased, reflecting factors including the continuing effectiveness of measures to acquire new user facilities. The Company's sales declined sharply, due in part to the impact of NHI drug price reductions.

Although the overall market for the OPEGAN series of ophthalmic viscoelastic devices contracted amid a decrease in the number of cataract surgeries in connection with the spread of COVID-19 infection, deliveries to medical institutions and market share increased due to the impact of shipment adjustments for competing products. The Company's sales were at the prior-year level as the higher volume compensated for the impact of NHI drug price reductions.

The Company's sales of MucoUp, a submucosal injection agent for endoscopic surgery, declined, reflecting the impact of a low-price sales offensive for competing products coupled with a decrease in the number of endoscopic surgeries in connection with the spread of COVID-19 infection.

Deliveries to medical institutions of HERNICORE, a treatment for lumbar disc herniation, were at the prior-year level due to the impact of a decrease in outpatient services accompanying the spread of COVID-19 infection, despite steady growth in the number of new user facilities. The Company's sales rose, reflecting the impact of shipment timing.

- Overseas Pharmaceuticals (¥6,854 million, down 8.2% year on year)

Amid a deep slump in the market overall for Gel-One, an intra-articular single-injection viscosupplement for the treatment of knee osteoarthritis, due to factors such as postponement of non-urgent and non-emergency medical procedures in connection with the spread of COVID-19 infection, local sales volume in the U.S. increased due to factors including continuation of the trend in the U.S. market toward preference for products that require a low number of injections and successful measures implemented by the sales partner to promote switching from competing products. The Company's sales fell, reflecting the substantial impact of lower shipments accompanying the spread of COVID-19 infection in the first quarter.

Local sales volume in the U.S. and the Company's sales of SUPARTZ FX, an intra-articular 5-injection viscosupplement for the treatment of knee osteoarthritis, declined due to continuation of the trend in the U.S.

market toward preference for products that require a low number of injections coupled with a decrease in outpatient services.

The U.S. market is on a recovery trend as economic activity resumes.

Local sales in China of ARTZ were low in the previous fiscal year, reflecting the substantial impact of the spread of COVID-19 infection from January to March 2020. However, from April 2020 onward the market recovered steadily, and local sales volume and the Company's sales increased.

- Bulk Products and Contract Development and Manufacturing Organization* (¥1,846 million, up 81.0% year on year)

Although sales of bulk products declined, overall sales increased due to the addition of sales from contract development and manufacturing at Dalton Chemical Laboratories, Inc.

*Starting from the second quarter, the sales of Dalton Chemical Laboratories, Inc., which became a subsidiary in March 2020, are included in the pharmaceuticals business segment.

As a result of these developments, sales from the pharmaceuticals business segment fell 6.5% year on year to ¥20,720 million.

LAL Business

Sales from the LAL business segment increased 7.2% year on year to ¥6,941 million due to an increase in sales of Bacterial Endotoxin Testing (BET) reagents and Clinical Diagnostic (Fungitell) reagents thanks to reinforcement of sales activities at overseas subsidiary Associates of Cape Cod, Inc., coupled with steady sales in Japan.

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 products, 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 2020 were ¥7,209 million, or 26.1% of net sales, and the number of R&D personnel was 231, or 25.3% of the total number of employees, at the end of March 2021.

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

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

Although the Company was proceeding under a plan to complete follow-up observations in November 2022, a delay has occurred in the additional Phase III clinical trial schedule, partly because of discontinuation of a clinical trial at some medical institutions and an increase in the number of subjects postponing hospital visits, both due to the spread of the novel coronavirus. As of March 31, 2021, against a backdrop of a recovery trend in the status of trial site operation, effective subject recruitment activities in subject enrollment and measures for the rapid start-up of new trial sites implemented in cooperation with a local contract research organization (CRO) have been successful, and subject enrollment is proceeding steadily. The Company will continue to work to minimize delays while taking measures to reduce the risk of COVID-19 infection.

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, the U.S., China, and South Korea)
SI-613-ETP (treatment for enthesopathy: developed in Japan)

SI-613

In Japan, on March 23, 2021 the Company obtained from the Ministry of Health, Labour and Welfare a manufacturing and marketing approval for JOYCLU 30mg Intra-articular Injection (SI-613) for the indication of osteoarthritis (knee joint and hip joint). JOYCLU is the first joint function improvement agent in Japan indicated for the treatment of osteoarthritis of the hip joint. Following the National Health Insurance drug price listing, a launch through sales partner Ono Pharmaceutical Co., Ltd. is planned.

In the U.S., a Phase II clinical study targeting knee osteoarthritis has been completed. The Company is considering a Phase III study while proceeding with selection of a sales partner.

The Company entered into an agreement with Eisai Co., Ltd. concerning co-development of SI-613 and a marketing alliance in China in April 2020 and an agreement with Eisai Co., Ltd. concerning a marketing alliance in South Korea for SI-613 in September 2020.

SI-613-ETP

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.

SI-613 is a formulation in which hyaluronic acid and diclofenac (an anti-inflammatory agent) are chemically bound using Seikagaku's own proprietary technology. It is expected to improve symptoms associated with osteoarthritis and enthesopathy by releasing diclofenac by hydrolysis. Further, since SI-613 is directly administered locally as an injectable treatment, systemic exposure to diclofenac is low, and the risk of systemic adverse drug reaction is thought to be low.

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

Phase II/III clinical studies of SI-614 have been completed, and the Company is currently considering a Phase III clinical study while 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. Through development of SI-614, the Company aims to improve the quality of life of patients by providing a new option for the treatment of dry eye.

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

Although a delay occurred in the clinical trial schedule of Phase I/II clinical studies of SI-722 underway in the U.S. due to the spread of the novel coronavirus, subject enrollment was completed in January 2021, and tolerability has been confirmed in the studies. The Company is currently considering the next clinical trial based on the data obtained.

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)

Although a pivotal study of SI-449 to confirm efficacy, safety and usability was initiated in May 2020, a delay occurred in the clinical trial schedule due to the spread of the novel coronavirus. The Company is currently taking measures to make up for the delay, such as expanding the trial site network and implementing a remote response for facilities where visiting is restricted.

SI-449 is a powdered medical device whose main ingredient is cross-linked chondroitin sulfate developed using Seikagaku's own proprietary glycosaminoglycan cross-linking 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 2021

For fiscal 2021, ending March 31, 2022, the Company forecasts net sales of ¥32,200 million, an increase of 16.1% from the previous fiscal year to result from an increase in royalty income (reclassified from non-operating income to net sales beginning in fiscal 2021), the launch of the new product JOYCLU, and higher sales from Bulk products and contract development and manufacturing organization, despite the negative impact of National Health Insurance drug price reductions in Japan.

The Company forecasts a 102.3% increase in operating income year on year to ¥4,550 million and a 53.7% increase in ordinary income to ¥4,650 million to result from the expected sales increase, despite an expected increase in selling, general and administrative expenses, such as R&D expenses. The Company forecasts a 14.4% decrease in net income attributable to owners of the parent to ¥3,650 million, reflecting recognition of negative deferred income taxes in the previous fiscal year.

The Company forecasts R&D expenses of ¥7,900 million, an increase of 9.6% year on year, and a ratio of R&D expenses to net sales of 24.5% (28.3% excluding royalty income).

Note: The exchange rate assumption used in the forecast of consolidated financial results for fiscal 2021 is ¥105 to the U.S. dollar.

The Company will apply Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and Guidance on Accounting Standard for Revenue Recognition (ASBJ Statement No. 30, March 30, 2018) from the beginning of the fiscal year ending March 31, 2022.

Furthermore, the Company will reclassify royalty income from non-operating income to net sales.

The year-on-year comparisons in the above forecast are calculated based on retroactive application of the accounting standard to the consolidated business results for the fiscal year ended March 31, 2021.

Note: The above forecast has been prepared on the basis of economic circumstances, market trends, and other assumptions made at the time of release of this document. Actual results may differ from the forecast due to a variety of factors.

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 2020

Progress against the mid-term management plan in fiscal 2020 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 March 2021, the Company obtained a manufacturing and marketing approval in Japan for the joint function improvement agent JOYCLU 30mg Intra-articular Injection (development code: SI-613) for the indication of osteoarthritis (knee joint and hip joint). JOYCLU is the first joint function improvement agent in Japan indicated for the treatment of osteoarthritis of the hip joint. JOYCLU is a formulation in which hyaluronic acid and diclofenac (an anti-inflammatory drug) are chemically bound using Seikagaku's own proprietary technology. Improvement of symptoms of osteoarthritis (knee joint and hip joint) is expected by the administration of JOYCLU into the joint cavity once every four weeks. Further, since JOYCLU is administered directly into the joint cavity as an injectable treatment, the risk of systemic adverse drug reaction is thought to be low. The Company plans to launch JOYCLU following the National Health Insurance drug price listing and will strive to provide a new treatment option for patients in cooperation with sales partner Ono Pharmaceutical Co, Ltd.

Subject enrollment in a Phase I/II clinical study in the U.S. of SI-722, a treatment for interstitial cystitis, was completed in January 2021. In tolerability evaluation, a primary objective of the study, the tolerability of SI-722 was confirmed, and the Company is currently considering the next-phase study.

The second important measure is "Solidifying the profit structure through market expansion of new products." In addition to an agreement concerning co-development of SI-613 and a marketing alliance in China concluded in April 2020 with Eisai Co., Ltd., the Company concluded an agreement with Eisai concerning a marketing alliance in South Korea in September, thus accelerating multinational expansion of products in development. The numbers of patients in China and South Korea with osteoarthritis of the knee, a frequently occurring type of osteoarthritis, are estimated to be approximately 47.0 million and 3.2 million, respectively, and patient numbers are expected to increase as population aging progresses.

Furthermore, in April 2021 overseas subsidiary Associates of Cape Cod, Inc. ("ACC") launched PyroSmart NextGen recombinant LAL reagent, an endotoxin-detecting reagent manufactured using recombinant technology resulting from research and development conducted over many years at Seikagaku. Producing PyroSmart NextGen without using blood harvested from horseshoe crabs, a raw material used in the manufacture of traditional Bacterial Endotoxin Testing (BET) reagents, is environmentally friendly and will ensure continuous product supply. The new reagent will be marketed globally, including in Japan.

As part of "Productivity improvement reforms," the third important measure in the management plan, the transfer of manufacturing to Dalton Chemical Laboratories, Inc., which was acquired and made a subsidiary in March 2020, is proceeding. The Company will continue to pursue production optimization and efficiency improvement by gradually switching from outsourced manufacturing of chemical synthetics to in-house production and transferring manufacturing of investigational drugs and some Seikagaku products to Dalton.

In fiscal 2020, dramatic changes in work styles arising from the impact of COVID-19 infection provided an opportunity to press ahead with improvement of the work environment and IT environment, for instance, introduction of a work-from-home system. Furthermore, the Company is implementing organizational moves designed to maximize the value of resources, such as appointing and training young employees to be research team leaders and persons in charge of various production activities. To further organizational reform, the Company is also proceeding with a complete overhaul of personnel systems and aims to apply revised systems during the period of the current mid-term management plan.

In fiscal 2020, the second year of the mid-term management plan, in the face of unforeseen factors such as changes in the business environment resulting from the spread of COVID-19 infection and measures to deal with the spread of infection, the Company achieved a certain amount of progress with these three important measures. In the final year of the management plan, the Company will continue to implement these measures and diligently work to construct a strong earnings foundation.

The Impact of COVID-19 infection and Response Measures

In response to the spread of COVID-19 infection, the Company launched an emergency headquarters in March 2020 and is developing a system capable of executing the operations necessary for maintaining business continuity, giving the highest priority to prevention of infection of employees or their families. To prevent infection, the Company is making maximum use of-at-home work and staggered working hours and taking measures to reduce contact among employees in the workplace to the extent possible. The Company is continuing production to fulfill its responsibility to ensure a stable supply of pharmaceuticals and medical devices while giving the highest priority to ensuring the safety of employees.

Although business performance has been affected to state of emergency declarations, lockdowns, and other COVID-19 infection response measures in Japan and abroad, it is gradually recovering. Also, some domestic and overseas clinical studies that the Company is conducting continue to be affected by discontinuation of studies at some medical institutions and postponement of hospital visits by subjects. The Company will continue to appropriately conduct trials while giving sufficient attention to preventing infection of participating patients and medical personnel.

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 issue 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 paid an annual dividends of ¥26 per share for fiscal 2019 and the Company plans to pay annual dividends of ¥24 per share, including the interim dividend of ¥10 per share for fiscal 2020. Also the Company aim for a dividend payout ratio of 50% for fiscal 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.

To mark the occasion of approval for manufacturing and marketing of the joint function improvement agent JOYCLU, the Company plans to pay a year-end dividend for the fiscal year ended March 31, 2021 of ¥14 per share, to consist of an ordinary dividend of ¥10 and a commemorative dividend of ¥4, to express gratitude to the shareholders for their constant support. This will result in an annual dividend of ¥24 per share (representing a dividend payout ratio of 31.8%), including the interim dividend of ¥10.

The Company plans to pay cash dividends for the fiscal year ending March 31, 2022 of ¥30 per share (representing a dividend payout ratio of 46.4%), to consist of an ordinary dividend of ¥20 (including an interim dividend of ¥10) and a special dividend of ¥10 (including an interim dividend of ¥5) on the occasion of the launch of JOYCLU.

Also, in order to implement a flexible capital strategy in response to various changes in the business environment, the Board of Directors resolved at a meeting held on May 13, 2021 to acquire, during the period

from July 1, 2021 to August 12, 2021, up to a maximum of 200,000 shares of treasury stock (common shares) up to a maximum amount of ¥240 million, pursuant to the provisions of the Articles of Incorporation under Article 165, paragraph 3 of the Companies Act.

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