May 13, 2022

SEIKAGAKU CORPORATION

Consolidated Financial Results (Japan GAAP) (Summary) for the Fiscal 2021 (Year Ended March 31, 2022)

Listed exchanges: Tokyo Stock Exchange (Prime Market)
Stock code number: 4548
URL: https://www.seikagaku.co.jp/en/
Date of ordinary general meeting of shareholders (Planned): June 21, 2022
Date of dividend payment (Planned): June 22, 2022

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

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

(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 2021	34,851	25.7	4,495	99.9	5,395	78.4	3,733	(12.4)
Fiscal 2020	27,734	(5.0)	2,248	(42.3)	3,024	(24.0)	4,262	-

(Note) Comprehensive income:
Fiscal 2021: 4,573 million yen[(10.7) %]
Fiscal 2020: 5,119 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 2021	66.32	-	5.7	7.4	12.9
Fiscal 2020	75.54	-	6.9	4.4	8.1

(2) Consolidated Financial Position

	Total assets	Total equity	Equity ratio	Total equity per share
	Millions of Yen	Millions of Yen	%	Yen
Fiscal 2021	75,244	66,340	88.2	1,179.46
Fiscal 2020	69,915	63,604	91.0	1,127.14

(Reference) Shareholders' Equity:
Fiscal 2021: 66,340 million yen
Fiscal 2020: 63,604 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 2021	8,193	870	(2,151)	23,367
Fiscal 2020	1,257	1,023	(1,507)	15,767

2. Dividends

	Dividends per share				
	1st Quarter	2nd Quarter	3rd Quarter	Fiscal Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal 2020	-	10.00	-	14.00	24.00
Fiscal 2021	-	15.00	-	15.00	30.00
Fiscal 2022 (Forecast)	-	11.00	-	11.00	22.00

	Total dividend payments (Annual)	Dividend payout ratio (Consolidated)	Dividends as a percentage of total equity (Consolidated)
	Millions of Yen	%	%
Fiscal 2020	1,354	31.8	2.2
Fiscal 2021	1,687	45.2	2.6
Fiscal 2022 (Forecast)		-	

*** 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: Yes
(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, 2022	56,814,093 shares	As of March 31, 2021	56,814,093 shares
(b) Number of treasury stock at the end of the period	As of March 31, 2022	567,822 shares	As of March 31, 2021	384,421 shares
(c) Average number of shares issued during the period	Fiscal 2021	56,299,803 shares	Fiscal 2020	56,425,798 shares

(Reference) Non-Consolidated Financial Results

Non-Consolidated Financial Results for Fiscal 2021 (from April 1, 2021 to March 31, 2022)

(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 2021	25,178	19.6	2,273	73.3	3,703	87.4	2,496	(28.5)
Fiscal 2020	21,049	(12.1)	1,312	(56.5)	1,976	(37.7)	3,490	-

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal 2021	44.34	-
Fiscal 2020	61.86	-

(2) Non-Consolidated Financial Position

	Total assets	Total Equity	Equity ratio	Total Equity per share
	Millions of Yen	Millions of Yen	%	Yen
Fiscal 2021	64,644	58,010	89.7	1,031.37
Fiscal 2020	62,368	57,836	92.7	1,024.93

(Reference) Shareholders' Equity:

Fiscal 2021: 58,010 million yen

Fiscal 2020: 57,836 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, 2022 (fiscal 2021), net sales were ¥34,851 million, up 25.7% year on year. The result is attributable to a rebound from the impact of the spread of COVID-19 infection in Japan and abroad in the previous fiscal year as well as a substantial increase in royalty income (reclassified from non-operating income to net sales beginning in fiscal 2021) and solid growth from the LAL business and overseas products, factors that offset the impact of National Health Insurance (NHI) drug price reductions in Japan.

Operating income rose 99.9% year on year to ¥4,495 million, with the sales increase more than offsetting higher SGA expenses—mainly R&D expenses accompanying progress with an additional clinical study underway in the U.S. for SI-6603, a treatment for lumbar disc herniation—and ordinary income rose 78.4% year on year to ¥5,395 million. Net income attributable to owners of parent fell 12.4% to ¥3,733 million due to non-recurrence of deferred tax assets recognized in fiscal 2020, which had a positive impact on prior-year profit.

1) Net sales by segment

Pharmaceutical Business

- Domestic Pharmaceuticals (¥11,447 million, down 0.0% year on year)

Deliveries to medical institutions of ARTZ, a joint function improvement agent for knee osteoarthritis, increased year on year as a result of successful measures to promote switching from competing products coupled with a rebound in outpatient services following a decline in the previous fiscal year caused by the spread of COVID-19 infection. The Company's sales fell slightly due to the impact of NHI drug price reductions.

With regard to the joint function improvement agent JOYCLU, launched on May 19, 2021, although the Company called attention to the risk of shock or anaphylaxis in the Important Side Effects section of the JOYCLU package insert, in response to multiple reports of shock or anaphylaxis occurring in patients following administration of JOYCLU, the Company issued a Dear Healthcare Professionals Letter of Rapid Safety Communication (Blue Letter) on June 1, 2021 to increase awareness of these side effects among healthcare professionals. The Company is continuing cooperative efforts with sales partner Ono Pharmaceutical Co., Ltd. to proactively gather side effects reports and other information and provide safety-related information and has also initiated a physician-led clinical study to identify the cause of the side effects.

Deliveries to medical institutions of the OPEGAN series of ophthalmic viscoelastic devices increased year on year amid an ongoing rebound in the number of cataract surgeries following a decrease in the previous fiscal year due to the spread of COVID-19 infection. The Company's sales fell as a result of NHI drug price reductions and a decline in shipments from a high level in fiscal 2020.

The Company's sales of MucoUp, a submucosal injection agent for endoscopic surgery, were at the prior-year level as a result of a sales partner inventory adjustment, despite recovery from the impact of the spread of COVID-19 infection in the previous fiscal year.

Deliveries to medical institutions of HERNICORE, a treatment for lumbar disc herniation, grew steadily, and the Company's sales also rose due to active information provision activities directed at medical institutions carried out together with the sales partner.

- Overseas Pharmaceuticals (¥7,652 million, up 12.9% year on year)

Local sales volume in the U.S. and the Company's sales of Gel-One, an intra-articular single-injection viscosupplement for the treatment of knee osteoarthritis, increased year on year, reflecting continuation of the trend toward preference for single-injection products and successful measures by the sales partner to promote switching from competing products.

Local sales volume in the U.S. of SUPARTZ FX, an intra-articular 5-injection viscosupplement for the treatment of knee osteoarthritis, increased due to a rebound from the strong impact of the spread of COVID-19 infection experienced in the previous fiscal year, despite continuation of unfavorable market conditions for multiple-injection products. The Company's sales increased as a result of bringing forward shipments to avoid distribution risk.

Local sales volume in China of ARTZ increased because of active sales promotion in regions where successful bids were submitted in the centralized procurement system and higher orders from medical institutions, despite fears of sluggish distribution due to the spread of COVID-19 infection. The Company's sales

rose sharply, due in part to bringing forward shipments in connection with a change in packaging materials.

- Bulk Products and Contract Development and Manufacturing Organization*1 (¥2,607 million, up 41.2% year on year)

Although sales of bulk products fell slightly, overall sales rose sharply because of the addition of full-year sales of contract development and manufacturing and other services of overseas subsidiary Dalton Chemical Laboratories, Inc.

As a result of these developments and a substantial increase in royalty income*2 (¥3,989 million, up 455.6% year on year), sales from the Pharmaceuticals business segment rose 23.6% year on year to ¥25,696 million.

*1 Starting from the consolidated financial results for the second quarter of the fiscal year ended March 31, 2021 (fiscal 2020), the sales of Dalton Chemical Laboratories, Inc., which became a subsidiary in March 2020, are included in the Pharmaceuticals business.
*2 Beginning in fiscal 2021, royalty income has been reclassified from non-operating income to net sales.

LAL Business

Sales from the LAL business segment increased 31.9% year on year to ¥9,155 million because of an increase in sales of Bacterial Endotoxin Testing (BET) reagents and Clinical Diagnostic (Fungitell) reagents attributable to reinforcement of sales activities at overseas subsidiary Associates of Cape Cod, Inc. as well as higher orders for contract research services and steady sales in Japan.

2) Research and Development Activities

To contribute to healthy and fulfilling lives for people around the world, the Seikagaku Group 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 Group 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 2021 were ¥9,005 million, or 25.8% of net sales (29.2% excluding royalties), and the number of R&D personnel was 223, or 23.8% of the total number of employees, at March 31, 2022.

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 a delay occurred in the additional Phase III clinical trial schedule due to the spread of COVID-19 infection, subject enrollment was completed in March 2022. Following a one-year observation period, the Company plans to perform results analysis and make preparations for a new drug application.

SI-6603, which contains condoliase as its active pharmaceutical ingredient, is a therapeutic agent directly injected into the lumbar disc. It does not require 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, the Company aims to provide SI-6603 as a new treatment option.

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

Clinically beneficial effects were confirmed in Phase II/III clinical study and other. Accordingly, in May 2022 the Company initiated a Phase III clinical study to evaluate efficacy and safety.

SI-614 is a substance produced by introducing a hydrophobic group into hyaluronic acid using Seikagaku's own proprietary technology. Ocular instillation of SI-614 in patients is expected to improve symptoms of dry eye by stabilizing the tear film and promoting corneal epithelial wound healing. Through development of SI-614, the Company aims to provide a new option for the treatment of dry eye.

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

SI-613

The Company will consider the future direction for development in the U.S., China, and South Korea while assessing progress with identification of the cause of shock or anaphylaxis of JOYCLE.

SI-613-ETP

The primary efficacy endpoint in a late-stage Phase II clinical trial in Japan of SI-613-ETP for the treatment enthesopathy was not met, and the Company will prioritize identification of the cause of shock or anaphylaxis of JOYCLE. For these reasons, development of SI-613-ETP was discontinued in February 2022.

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.

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

In the Phase I/II clinical studies of SI-722 conducted in the U.S., 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)

A delay has occurred in the clinical trial schedule of a pivotal study of SI-449 in the field of gastroenterological surgery initiated in May 2020 due to the spread of COVID-19 infection. The Company is continuing to take 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.

A pilot study in the field of gynecology was initiated in November 2021 for the purpose of expanding the scope of application of SI-449 by confirming usability and safety in gynecology.

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 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 2022

It is difficult at present to prepare reasonable forecasts of consolidated financial results for the fiscal year ending March 31, 2023 (fiscal 2022), because it is necessary to assess the progress of efforts to identify the cause of shock or anaphylaxis occurring in patients following administration of the joint function improvement agent JOYCLU. Accordingly, the Company will refrain from announcing earnings forecasts at this time. Once it becomes possible to prepare reasonable forecasts, the Company will promptly announce them.

Current assumptions about the forecasts for fiscal 2022 are as follows:

1. The Company anticipates the National Health Insurance (NHI) drug price reductions implemented in April 2022 will have a negative impact of approximately 11% on domestic pharmaceuticals as a whole on a weighted-average basis (compared to the April 2021 revised drug prices).
2. The Company's export transactions and the sales of overseas subsidiaries are denominated mainly in U.S. dollars, and the overseas sales ratio (excluding royalties) reached approximately 56% in fiscal 2021. The financial results will be affected if the yen appreciates or depreciates sharply from the average exchange rate for fiscal 2021 (112.38 yen to the U.S. dollar).

3. Royalties are expected to decrease due to the non-recurrence of a prior-year, one-time increase.
4. R&D expenses are expected to decrease due to completion in March 2022 of subject enrollment for an additional clinical study in the U.S. for SI-6603, a treatment for lumbar disc herniation.

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 with the Mid-Term Management Plan (fiscal 2019 to fiscal 2021)

Main areas of progress and remaining issues with the mid-term management plan are as follows.

"Accelerating new drug discovery to become the pillar of new profits" is the first of the three important measures set out in the management plan. The Company was able to achieve steady advancement of development pipelines, launching the joint function improvement agent JOYCLU (development code: SI-613 in Japan) in May 2021, completing subject enrollment for Phase I/II clinical studies in the U.S. of SI-722, a treatment for interstitial cystitis in January 2021, and advancing SI-449, an adhesion barrier, to the pivotal study stage in May 2020.

SI-6603, a treatment for lumbar disc herniation, is a key to future business growth. Although a delay has occurred in the plan for an additional Phase III clinical study underway in the U.S. due to the impact of the spread of COVID-19 infection, subject enrollment was completed in March 2022, and the study entered a one-year observation period. The Company aims to achieve expeditious and steady progress toward NDA submission and approval for SI-6603 in collaboration with SEIKAGAKU NORTH AMERICA CORPORATION, a subsidiary established in Canada in January 2022.

At the research stage, activities aimed at boosting the prospects for drug discovery and further business domain expansion progressed. These activities involve utilization of unique GAG-related basic technologies to

pursue approaches to new disease fields and development of drug discovery modalities as well as pursuit of an active open innovation strategy together with academic institutions and other partners.

Although the Company called attention to the risk of shock or anaphylaxis in the Important Side Effects section of the JOYCLU package insert, in response to multiple reports of shock or anaphylaxis occurring in patients following administration of JOYCLU, the Company issued a Dear Healthcare Professionals Letter of Rapid Safety Communication (Blue Letter) on June 1, 2021 to increase awareness of these side effects among healthcare professionals. The Company will continue cooperative efforts with sales partner Ono Pharmaceutical Co., Ltd. to proactively gather and provide safety information. In addition, the Company will endeavor to identify the cause of these side effects to make the use of JOYCLU safer for patients.

The second important measure is "Solidifying the profit structure through market expansion of products." As part of efforts to accelerate multinational expansion of existing products and products in development, the Company achieved introduction of a single-injection joint function improvement agent into an additional market by launching HyLink in Taiwan in August 2021. Also, with regard to SI-613, a treatment for osteoarthritis, although the Company concluded with Eisai Co., Ltd. an agreement concerning co-development and a marketing alliance in China in April 2020 and an agreement concerning a marketing alliance in South Korea in September 2020, the Company has decided to prioritize identification of the cause of shock or anaphylaxis occurring among patients in Japan following administration of JOYCLU and will consider the future development plan while assessing how the situation with JOYCLU develops.

In the LAL business, overseas subsidiary Associates of Cape Cod, Inc. ("ACC") launched PyroSmart NextGen recombinant LAL reagent, an endotoxin-detecting reagent, in April 2021. ACC will market PyroSmart NextGen globally, and Seikagaku launched the product in Japan in May 2021.

The Company is proceeding with post-marketing development of HERNICORE, continuing to gather and provide information to ensure proper use and safety and generating additional evidence in cooperation with academic societies. 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, and the number of facilities capable of using HERNICORE increased.

"Productivity improvement reforms" is the third important measure in the management plan. The acquisition of Dalton Chemical Laboratories, Inc. ("Dalton") of Canada and its consolidation as a subsidiary in March 2020, as part of efforts to diversify the profit model, marked the addition of the Contract Development and Manufacturing Organization business to the Seikagaku Group's business domains. The Company is pursuing 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.

Also, to flexibly cope with changes in the business environment, notably the spread of COVID-19 infection, the Company took measures such as establishing new HR systems, including a work-from-home system, and improving the IT environment. In the area of cost reductions, although progress was made with reviews of procurement costs and sales-related expenses, some issues remain with respect to fundamental cost structure improvement.

As mentioned above, during the period of the mid-term management plan the Company was affected by market stagnation in Japan and overseas, delays in R&D activities, and other consequences of an unforeseen crisis, namely the spread of COVID-19 infection. Nevertheless, the Company was able to achieve a certain measure of results with respect to the three important measures in the plan and to achieve all numerical targets announced when the plan was formulated. Although some issues remain after completion of the three-year period of the plan, positioned as a time for solidifying the profit foundation to return Seikagaku to a growth trajectory, the Company believes that it has successfully laid a foundation for the next mid-term management plan.

Strategic direction for the next mid-term management plan

The business environment facing pharmaceutical companies is expected to continue to become increasingly

difficult, and the Company recognizes that it is necessary to further strengthen the profit foundation that will support Seikagaku in the years ahead. During the period of the next mid-term management plan, the Company's highest priority will be to dependably bring SI-6603, a treatment for lumbar disc herniation, to market in the U.S. and rapidly ramp up sales. In addition, the Company will assiduously implement measures to make the use of JOYCLU safer for patients. The Company will also continue efforts to expand the LAL business and Contract Development and Manufacturing Organization business and to accelerate overseas expansion of existing products and new products. The Company intends to focus effort on these high-priority tasks and also consider other matters including cost reductions for the purpose of dependably generating profits and a review of the profit structure.

In the area of R&D, the source of Seikagaku's growth, the Company will advance development pipelines, including SI-449, an adhesion barrier, and also pursue business domain expansion utilizing basic technologies through entry into new business domains and new modalities and active utilization of open innovation.

Furthermore, on the basis of high corporate ethical standards that reflect profound awareness the social mission and responsibilities of a pharmaceutical company, the Company will aim to sustainably develop together with society by engaging in business activities centered around material sustainability issues.

In view of the fact that business plans and future earnings forecasts will vary substantially depending on progress with the safety-related measures being implemented for JOYCLU and the trend in the U.S. of SI-6603, a treatment for lumbar disc herniation, as of May 2022, the Company has decided to postpone announcing both the next mid-term management plan, which is set to start in the fiscal year ending March 31, 2023 (fiscal 2022), and numerical targets. Seikagaku plans to announce the next mid-term management plan around the autumn of 2022.

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 to be an important management challenge and has made paying dividends linked to business performance a basic policy. Seikagaku will also consider the purchase of treasury stock as appropriate, taking into consideration future business expansion and the total return ratio. Under the mid-term management plan, Seikagaku paid annual dividends of ¥26 per share and ¥24 per share for fiscal 2019 and fiscal 2020, respectively.

To strengthen the profit foundation and improve capital efficiency, Seikagaku will make business investments in the areas of R&D and production system development for the purpose of creating new value and also actively pursue strategic investments with prospects for future growth and synergistic effects.

Seikagaku plans to pay a year-end dividend for fiscal 2021 of ¥15 per share, to consist of an ordinary dividend of ¥10 and a special dividend of ¥5 on the occasion of the launch of JOYCLU. This will result in an annual dividend of ¥30 per share (representing a dividend payout ratio of 45.2%), including the interim dividend of ¥15 (including a special dividend of ¥5). Seikagaku plans to pay annual cash dividends for the fiscal year ending March 31, 2023 (fiscal 2022) of ¥22 per share (including an interim dividend of ¥11).

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, 2022 to purchase, during the period from May 16, 2022 to December 30, 2022, up to 2,000,000 shares of treasury stock at a maximum amount of ¥1,500 million, pursuant to the provisions of the Articles of Incorporation under Article 165, paragraph 2 of the Companies Act.

Seikagaku is currently formulating the next mid-term management plan and is considering the dividend policy in conjunction with this. Seikagaku plans to announce the next mid-term management plan around the autumn of 2022.

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