

Seikagaku Announces a New Mid-term Management Plan (Fiscal 2016 to Fiscal 2018)

Seikagaku Corporation (Tokyo) today announced that it has formulated a new mid-term management plan for the period from fiscal year 2016 (ending March 31, 2017) to fiscal year 2018 (ending March 31, 2019). A summary of the plan follows.

1. The Seikagaku Corporation Ten-Year Vision

The pharmaceutical industry is in a period of great transformation due to growing pricing pressures on medical services, large-scale realignment of pharmaceutical companies across national borders, and technological innovation in drug discovery research accompanied by more intense competition in new drug development.

Responding to this business environment, in March 2009 Seikagaku established the Seikagaku Corporation Ten-Year Vision with the aim of developing as a “Global Category Pharma.”

The Seikagaku Corporation Ten-Year Vision

- Launch new drugs (including medical devices) on a consistent basis and cultivate the capability to open up a new market every three years that has the potential to become a mainstay business.
- Focus research and development on glycoscience and sustain steady growth as a “Global Category Pharma” that establishes global competitiveness.

2. Review of the previous mid-term management plan (Fiscal 2012 to Fiscal 2015)

Starting with a three-year Mid-term Management Plan in April 2009, Seikagaku undertook “Growing basic physical strength and building structure” as a first step toward achieving the Ten-year vision and formulated a four-year Mid-term Management Plan in April 2012 as a second step based on self-searching and results of first step. Setting goal of “Cultivating new leads to achieve the Ten-year vision” under this second Mid-term Management Plan, Seikagaku made proactive investments in key strategic projects such as R&D, production and sales, and are aiming to realize new leads.

During the period of the previous mid-term management plan, the market for joint function improving agents in Japan was becoming increasingly severe due to accelerating measures to control medical costs. Although the market share of ARTZ in Japan increased, ARTZ sales decreased. On the other hand, overseas pharmaceuticals sales exceeded the target, partly because yen depreciation moved more than expected. In particular, sales of single-injection joint function improving agent Gel-One, a strategically important product in the U.S., steadily increased following a sluggish start attributable to the time required to

develop the local sales structure. The LAL business is growing one of mainstay of business for the Company thanks to sales expansion at the U.S. subsidiary.

In the area of production, the start of operation of the No. 5 Production Building of the Takahagi Plant brought to a conclusion a round of major capital investments made during the period of the management plan that resulted in a production structure that ensures a stable supply of products over the medium to long term.

Seikagaku is developing a drug development structure that can cope with parallel development of multiple themes and has advanced projects in the pipeline to late-stage development. SI-6603, treatment for lumbar disc herniation, yielded positive results in Phase III clinical trials in Japan, and an application for new drug (NDA) was submitted in January 2014 in Japan. A Phase III trial for SI-6603 underway in the U.S. is also progressing steadily. However, the NDA examination in Japan is ongoing, and will take additional time to obtain approval.

Accordingly, while Seikagaku attained results that support the objective of “Cultivation of new leads for achieving the Ten-Year Vision,” some issues remain to be addressed.

Previous Mid-term Management Plan Numerical Targets and Results

	Fiscal 2015 Target	Fiscal 2015 Result
Net sales	¥31.5 billion	¥30.9 billion
Operating income	¥3.0 billion	¥2.1 billion

3. Outline of the new mid-term management plan (Fiscal 2016 to Fiscal 2018)

In light of the accomplishments and the issues that remain under the previous management plan, Seikagaku has formulated a new mid-term management plan covering the three-year period beginning in April 2016 as the final step toward achieving the Ten-Year Vision. Under the new plan, Seikagaku will undertake further sales expansion in the U.S., a key market, and aim to launch in Japan and to obtain approval in the U.S. for SI-6603, treatment for lumbar disc herniation, and to enter new markets for existing products. To support these actions, Seikagaku will also strengthen production and quality control systems compliant with global standards.

Furthermore, Seikagaku will establish core technologies to enhance the drug discovery and drug cultivation pipeline that will lead to next-generation leap and will build a powerful research and development organization in preparation for further growth.

Key Concepts

- “ACT for the Vision” Achieving the Ten-Year Vision and Making a Further Leap Forward.
Active spirit, Creative mind, Takeoff
- Overcome severe environment in the business, achieve the Ten-Year Vision, and survive as a “Global Category Pharma.”

High-Priority Strategies

- (1) Steady progress with SI-6603, a treatment for lumbar disc herniation
 - 1) Proceed with a launch in Japan and realize sales expansion in accordance with appropriate use.
 - 2) Aim for commercialization in the U.S., which is potential big market.
- (2) Powering up as a leader in the knee osteoarthritis market
 - 1) Promote sales expansion in the U.S. and new market development for growth driver Gel-One.
 - 2) Maintain sales volumes of ARTZ in Japan through product improvements.
 - 3) Proceed with development of SI-613, a joint function improving agent positioned as a next generation product.
- (3) Enhancement of the development pipeline
 - 1) Maintain basic technologies superior to those of competitors in the field of glycoscience, accelerate exploratory research, and continuously originate and create development themes.
 - 2) Steadily advance the stages of projects in the pipeline by enhancing clinical development capabilities.
- (4) Pursuit of an optimal production system
 - 1) Ensure a stable supply of products and realize cost reductions by implementing further production efficiency improvements.
 - 2) Strengthen production and quality control systems compliant with global standards and capable of rapidly responding to regulatory trends.

Numerical Targets

	Fiscal 2016 Forecast	Fiscal 2018 Target
Net sales	¥29.5 billion	¥32.0 billion
Operating income	¥1.0 billion	¥2.5 billion
Ordinary income	¥3.3 billion	¥4.5 billion

*Key Assumptions of Numerical Targets

- 1) Overseas business expansion to compensate for a decrease in revenue due to NHI drug price reductions in Japan (overseas sales ratio: 45%)
- 2) A high level of R&D expenses (ratio of R&D expenses to net sales: 25% to 30%)
- 3) Various royalty incomes as non-operating income
- 4) Exchange rate: ¥110 to the U.S. dollar

4. Change of Dividend Policy

Seikagaku regards improving 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 from 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.

*The plans and forecasts in this release have been prepared on the basis of current assumptions about future economic conditions, market trends, and other factors. Actual results may differ from the plans and forecasts due to various factors.

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