

Seikagaku Announces A New Mid-term Management Plan (Fiscal 2019 to Fiscal 2021)

Seikagaku Corporation (Tokyo, Japan, "Seikagaku") today announced that it has formulated a new mid-term management plan for the three-year period starting in the fiscal year ending March 31, 2020 (fiscal 2019). A summary of the plan follows.

1. Background of the new mid-term management plan

Based on the "Seikagaku Corporation Ten-Year Vision" formulated in 2009, Seikagaku aims to grow as a "Global Category Pharma," a company which contributes to the health and well-being of the world's people. Toward the vision's achievement, the Company has undertaken various mid-term management plans as it progressed toward the ending period of the fiscal year ended March, 31 2019 (fiscal 2018).

During this period, Seikagaku launched new products including Gel-One, an intra-articular single-injection viscosupplement for the treatment of knee osteoarthritis, in the U.S. and HERNICORE, a treatment for lumbar disc herniation, in Japan. Together with this, it has enhanced its core drug discovery technology and enriched its development pipelines. In addition, Seikagaku has completed multiple capital investments with the aim of putting in place a medium- to long-term structure for the stable supply of products and has also bolstered its quality control system to comply with global standards and raised its production efficiency. In the LAL business, Seikagaku's U.S. subsidiary has followed a growth trajectory to make a steady profit contribution to consolidated earnings.

However, in Japan a drastic reform of the NHI drug pricing system is taking place and has had an oversized impact on the Company, which has longtime listed drugs as its core product offerings. In overseas markets, competition among companies has intensified more than expected and at breakneck speed. Because its responses to this upheaval in the business environment have been insufficient, Seikagaku has taken an impairment loss in fiscal 2019 on property, plant and equipment related to the pharmaceuticals business. Going forward, the Company now plans to make prompt improvements to earnings, which has remained an urgent issue.

2. Outline of the new mid-term management plan

While the abrupt changes to the business environment surrounding the pharmaceuticals industry are becoming ever more severe, 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.

(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 the new 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.

(4) Numerical targets

	Fiscal 2018 results	Fiscal 2021 targets
Net sales	¥28.3 billion	¥28.3 billion
Ordinary income	¥2.8 billion	¥4.5 billion
SKK EBITDA	¥4.6 billion	¥5.0 billion
Overseas sales ratio	42.2%	50.0%

<<Assumptions>>

- (1) Expansion of overseas sales including the LAL business makes up for the effects of the NHI drug price revisions in Japan
- (2) Depreciation expense declines as a result of impairment accounting
- (3) R&D expense is 25–30% of sales
- (4) Various royalty income is included as non-operating income
- (5) Exchange rate: ¥105 to the U.S. dollar

* SKK EBITDA : A profit indicator consisting of operating income plus depreciation expense and royalty income

(5) Basic policy on profit distributions

In accordance with the new mid-term management plan, the Company has formulated a new basic policy on the distribution of profits as follows.

Note that with respect to dividend distributions to shareholders that the policy has

changed from the existing policy based on stable dividends to one that links dividends to business performance.

<Basic policy on profit distributions>

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

Seikagaku recognizes the return of profits to shareholders as an important management concern and has set a policy of linking the distribution of dividends to business performance. While taking into consideration future business expansion and the payout of total returns, the Company has also set a basic policy of examining the purchase of the Company's treasury stock when appropriate. For the term of the new mid-term management plan, the Company strives for continuous shareholder returns. For fiscal 2019, the Company keeps in place its forecast for dividend distributions of ¥26 per share; for fiscal 2020 and fiscal 2021, in consideration of business profits, it aims for a dividend payout ratio of 50%.

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.

<Cautionary Notes>

This press release contains forward-looking statements regarding future management strategies or performance forecasts. These descriptions are based on judgments derived from information that is currently available to Seikagaku and are subject to risk and uncertainty. Actual results and developments may differ significantly from these descriptions due to various factors. Information about pharmaceutical products or medical devices (including products currently in development) included in this press release is not intended to constitute an advertisement or medical advice.

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