Financial Results for Fiscal 2017

May 11, 2018
KYORIN Holdings, Inc.
President Minoru Hogawa
Outline of Consolidated Financial Results
  • Trends of mainstay products

Consolidated Financial Results and Forecast

Status of development pipeline

Initiatives toward realization of the long-term vision “HOPE 100”
  • Progress of Medium-Term Business Plan “HOPE 100-Stage 2-”
    (Fiscal 2016～2019)
Outline of Consolidated Financial Results
# Outline of Consolidated Financial Results for Fiscal 2017

(unit: ¥billion)

<table>
<thead>
<tr>
<th></th>
<th>FY2016</th>
<th>FY2017</th>
<th>Change</th>
<th>Change (%)</th>
<th>Change (revised forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td>115.4</td>
<td>110.6</td>
<td>−4.8</td>
<td>−4.1</td>
<td>−0.7</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>10.4</td>
<td>8.8</td>
<td>−1.6</td>
<td>−15.3</td>
<td>−1.7</td>
</tr>
<tr>
<td><strong>Ordinary Income</strong></td>
<td>10.9</td>
<td>9.3</td>
<td>−1.6</td>
<td>−14.1</td>
<td>−1.6</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>7.3</td>
<td>6.6</td>
<td>−0.7</td>
<td>−10.0</td>
<td>−1.2</td>
</tr>
</tbody>
</table>
## Breakdown of Gain and Loss

![Kyorin Logo](image)

<table>
<thead>
<tr>
<th></th>
<th>FY2016</th>
<th>FY2017</th>
<th>Change</th>
<th>Change (%)</th>
<th>Change (revised forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td>115.4</td>
<td>110.6</td>
<td>-4.8</td>
<td>-4.1</td>
<td>-0.7</td>
</tr>
<tr>
<td><strong>Ethical drugs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of new ethical drugs</td>
<td>109.6</td>
<td>104.7</td>
<td>-4.9</td>
<td>-4.4</td>
<td>-0.6</td>
</tr>
<tr>
<td>Japan</td>
<td>84.5</td>
<td>77.0</td>
<td>-7.5</td>
<td>-8.9</td>
<td>-0.2</td>
</tr>
<tr>
<td>Overseas</td>
<td>0.8</td>
<td>3.3</td>
<td>+2.5</td>
<td>+337.0</td>
<td>+0.3</td>
</tr>
<tr>
<td><strong>Generic drugs</strong></td>
<td>25.0</td>
<td>27.7</td>
<td>+2.7</td>
<td>+10.5</td>
<td>-0.3</td>
</tr>
<tr>
<td><strong>Healthcare Business</strong></td>
<td>5.8</td>
<td>5.9</td>
<td>+0.1</td>
<td>+2.2</td>
<td>0</td>
</tr>
<tr>
<td><strong>Cost of Sales</strong></td>
<td>50.8</td>
<td>49.1</td>
<td>-1.7</td>
<td>-3.5</td>
<td>-</td>
</tr>
<tr>
<td><strong>SG&amp;A</strong></td>
<td>54.1</td>
<td>52.8</td>
<td>-1.3</td>
<td>-2.5</td>
<td>(14.2) (+5.0) (+1.2)</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>10.4</td>
<td>8.8</td>
<td>-1.6</td>
<td>-15.3</td>
<td>-1.7</td>
</tr>
<tr>
<td><strong>Ordinary Income</strong></td>
<td>10.9</td>
<td>9.3</td>
<td>-1.6</td>
<td>-14.1</td>
<td>-1.6</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>7.3</td>
<td>6.6</td>
<td>-0.7</td>
<td>-10.0</td>
<td>-1.2</td>
</tr>
</tbody>
</table>

- **Extraordinary income**: gain of approximately 600 million yen as a result of transfer of shares of Dr. Program Co., Ltd. Recorded.
- **Extraordinary loss**: Expenses of around 400 million yen related to the settlement of a lawsuit for violation of US antitrust laws in connection with an out-licensed product (Gatifloxacin eyedrops).
- Loss due to debt guarantee regarding a trust-type employee stock ownership incentive plan: About 400 million yen
Highlights of Business Performance ① (Sales) Kyorin

(Units: ¥ billion)

【Net Sales ¥−4.8bln】
- Healthcare Business + 0.1bln
  - The distribution of hand hygiene products sales start
  - Growth of RUBYSTA and Milton
  - Transfer the stocks of the skincare business

【Ethical Drugs Sales ¥−4.9bln】
- Generic drugs + 2.7bln
  - Increase of MONTELKAST AG sales
  - Sales to other companies decreased

Ethical drug sales overseas + 2.5bln
- Received lump sum payment of out-licensed product

Ethical drug sales in Japan - 10.1bln
- Despite steady growth in Flutiform and Desalex sales
- Decreased by the expiration of the patent for KIPRES.
- Decreased in prescriptions of long-listed drugs.
Gross Profit decreased

- Net Sales: decreased ¥4.8bln year on year
- Cost of sales ratio: Increased 0.2% year on year
  - Decrease of sales of new ethical drugs
  - Increase in loss on retirement of inventories, etc.
  - Increased costs due to the impact of currency fluctuations

R&D expenses increased

- Book a lump-sum payment for the contract for the introduction of KRP-N118 (SK-1404)
  - ¥13.6billion (FY2016)
  - ⇒ ¥14.2billion (FY2017)

SG&A(excluding R&D) decreased

- Decrease of Labor costs, general expenses
  - ¥40.5billion (FY2016)
  - ⇒ ¥38.5billion (FY2017)
| Net Sales | 111.3 | 110.6 | -4.8 | -4.1 | -0.7 |
| Ethical drugs business | | | | | |
| Sales of new ethical drugs | 105.3 | 104.7 | -4.9 | -4.4 | -0.6 |
| Japan | 77.2 | 77.0 | -7.5 | -8.9 | -0.2 |
| Overseas | 74.2 | 73.7 | -10.1 | -12.0 | -0.5 |
| Generic drugs | 28.0 | 27.7 | +2.7 | +10.5 | -0.3 |
| Healthcare Business | 5.9 | 5.9 | +0.1 | +2.2 | 0 |
| Cost of Sales | | - | 49.1 | -1.7 | -3.5 |
| SG&A | | - | (13.0) | (52.8) | (14.2) |
| Operating Income | 10.5 | 8.8 | -1.6 | -15.3 | -1.7 |
| Ordinary Income | 10.9 | 9.3 | -1.6 | -14.1 | -1.6 |
| Net Income | 7.8 | 6.6 | -0.7 | -10.0 | -1.2 |

[Explanation of Variances (Change : revised forecast)]

Net sales: Regarding the new drug launched in Japan, sales of Kipres and products for other companies did not achieve the target, and sales of generic medicine for other companies did not achieve the target.
R&D cost: Booked a lump-sum payment for the contract of the license-in product: 13.0 billion yen (forecast)→14.2 billion yen +1.2 billion yen
## Mainstay Product Sales

<table>
<thead>
<tr>
<th></th>
<th>FY2016</th>
<th>FY2017</th>
<th>Change</th>
<th>Change(%)</th>
<th>Change (revised forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Flutiform</strong> (Combination drug for asthma treatment)</td>
<td>10.1</td>
<td>11.9</td>
<td>+1.8</td>
<td>+18.1</td>
<td>−0.1</td>
</tr>
<tr>
<td><strong>Uritos</strong> (Overactive bladder)</td>
<td>7.5</td>
<td>7.2</td>
<td>−0.3</td>
<td>−3.7</td>
<td>−0.1</td>
</tr>
<tr>
<td><strong>Desalex</strong> (Antiallergic Agent)</td>
<td>1.0</td>
<td>4.9</td>
<td>+3.9</td>
<td>+404.8</td>
<td>+1.4</td>
</tr>
<tr>
<td><strong>Kipres</strong> For adult (LT receptor antagonist)</td>
<td>17.7</td>
<td>8.3</td>
<td>−9.4</td>
<td>−53.5</td>
<td>−0.8</td>
</tr>
<tr>
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<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>For children</td>
<td>14.9</td>
<td>10.5</td>
<td>−4.4</td>
<td>−29.5</td>
<td>−0.2</td>
</tr>
<tr>
<td><strong>Pentasa</strong> (Ulcerative colitis and Crohn’s disease treatment)</td>
<td>15.5</td>
<td>15.3</td>
<td>−0.2</td>
<td>−1.4</td>
<td>−0.3</td>
</tr>
<tr>
<td><strong>Mucodyne</strong> (Mucoregulant)</td>
<td>9.9</td>
<td>8.7</td>
<td>−1.2</td>
<td>−12.1</td>
<td>+0.3</td>
</tr>
<tr>
<td><strong>MONTELUKAST Tablets“KM”</strong></td>
<td>8.2</td>
<td>11.7</td>
<td>+3.5</td>
<td>+42.4</td>
<td>+1.0</td>
</tr>
</tbody>
</table>

(Units: ¥ billion)
Trends of mainstay products
### Respiratory/Otolaryngology

#### Flutiform [Anti-asthmatic]

<table>
<thead>
<tr>
<th>Months</th>
<th>15/3</th>
<th>16/3</th>
<th>17/3</th>
<th>18/3</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>3.6</td>
<td>7.2</td>
<td>10.1</td>
<td>11.9</td>
<td>12.3</td>
</tr>
</tbody>
</table>

#### Kipres [Bronchial asthma and allergic rhinitis treatment]

<table>
<thead>
<tr>
<th>Months</th>
<th>15/3</th>
<th>16/3</th>
<th>17/3</th>
<th>18/3</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>41.2</td>
<td>44.1</td>
<td>32.7</td>
<td>18.8</td>
<td>13.2</td>
</tr>
</tbody>
</table>

### Status of FY2017
- **ICS/LABA market**: expand 1.3%
  
  ¥113.6bn (FY2016) ⇒ ¥115.1bn (FY2017) ※1

- **Share of Flutiform sales**
  
  9.7% (FY2016) ⇒ 11.4% (FY2017) ※2
  
  [Price revision rate ▲5.8%]

### Effort for FY2018
- Secure the positioning of a first-line drug for the treatment of asthma
  
  - Attract attention to the high clinical impact from a patient with symptoms
  - The agent nicely penetrates and reaches the peripheral airways.

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**Respiratory / Otolaryngology**

**Desalex** (Antiallergic Agent)

Concluded co-promotion contract with MSD (Sep. 2016)

- **Acquire domestic exclusive distribution rights** (May 2018)

**Nasonex** (Spray type allergic rhinitis remedy)

- **[Sales start]** August 2018 (planned)
- **[Sales forecast]** Fiscal year ending March 2019: 10.1 billion yen

- Market scale: 43 billion yen
- Main products: NASONEX, Allermist, Erizas, Flunase, etc

**Status of FY2017**
- Antihistamine market: expand 2.7%
  - ¥173.5bln (FY2016) ⇒ ¥178.2 (FY2017) ※1
- Share of Desalex sales
  - 0.5% (FY2016) ⇒ 2.9% (FY2017) ※2
    - [Price revision rate ▲5.6%]
  - The prescription restriction lifted in December 2017

**Effort for FY2018**
- Non-drowsy and effects and usability
- Realization of prescription acquisition rate No.1 in otolaryngology

**Product features**
- **Efficacy**: Steroid nasal spray
- **Indication**: Allergic rhinitis
- **Feature**: Single daily dose of steroid nasal spray is exceptionally effective against symptoms of allergic rhinitis (sneezing, runny nose, nasal congestion, nasal pruritus)
\section*{Urology}

\begin{itemize}
\item \textbf{OAB market expand}
\begin{itemize}
\item ¥77.0bn (FY2013) ⇒ ¥91.0bn (FY2017) ※1
\item Launch of β3 receptor agonist
\begin{itemize}
\item Launch a new drug (KRP-114V) to contribute to the treatment of patients with an overactive bladder (OAB)
\item Establish the positioning of Uritos
\end{itemize}
\end{itemize}

\begin{itemize}
\item With both drugs, we aim to expand the market share in the OAB market.
\end{itemize}

※1, (Source: Copyright 2018 IQVIA, IMS-JPM. Unauthorized copying prohibited)

\begin{itemize}
\item \textbf{status of FY2017}
\begin{itemize}
\item OAB market: market : expand 0.8%
\begin{itemize}
\item ¥90.0bn (FY2016) ⇒ ¥91.0bn (FY2017) ※1
\end{itemize}
\item share of Uritos sales
\begin{itemize}
\item 9.2% (FY2016) ⇒ 8.8% (FY2017) 注2
\end{itemize}
\end{itemize}

\begin{itemize}
\item 【 price revision rate ▲5.9%】
\end{itemize}

\begin{itemize}
\item \textbf{effort for FY2018}
\begin{itemize}
\item Aim to be a firstline drug for OAB patients with nocturia
\begin{itemize}
\item Promotion of prescription based on extensive evidence
\end{itemize}
\end{itemize}

※1,2 (Source: Copyright 2018 IQVIA, IMS-JPM. Unauthorized copying prohibited)
Status of Generic Drugs

(Units: ¥ billion)

- Turnover increase, MONTELUKAST AG: +¥3.5 billion (price revision rate ▲18.0%)
- Turnover decrease rate, excluding AG
  - Increase of Health insurance pharmacy market’s sales
  - Decrease of contract manufacturing’s sales

Effort for FY2018

- Actions for an authorized generic drug (AG)
  - Maintain a high share of Montelukast AG in the GE market
  - Consider acquiring new AGs
- Expand sales of strategic products and Supplementary Items
Consolidated Financial Results and Forecast
## Consolidated Financial Results Forecast for the Year Ending March 31, 2019

### (Units: ¥ billion)

<table>
<thead>
<tr>
<th></th>
<th>FY2017</th>
<th>FY2018 (forecast)</th>
<th>Y/Y Change</th>
<th>Change(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales</strong></td>
<td>110.6</td>
<td>114.4</td>
<td>+3.8</td>
<td>+3.4</td>
</tr>
<tr>
<td><strong>Ethical drugs business</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of new ethical drugs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>77.0</td>
<td>80.9</td>
<td>+3.9</td>
<td>+5.0</td>
</tr>
<tr>
<td>Overseas</td>
<td>3.3</td>
<td>1.0</td>
<td>−2.3</td>
<td>−70.1</td>
</tr>
<tr>
<td><strong>Generic drugs</strong></td>
<td>27.7</td>
<td>27.4</td>
<td>−0.3</td>
<td>−0.9</td>
</tr>
<tr>
<td><strong>Healthcare Business</strong></td>
<td>5.9</td>
<td>6.0</td>
<td>+0.1</td>
<td>+1.1</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>8.8</td>
<td>8.6</td>
<td>−0.2</td>
<td>−2.5</td>
</tr>
<tr>
<td><strong>Ordinary Income</strong></td>
<td>9.3</td>
<td>9.2</td>
<td>−0.1</td>
<td>−1.6</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>6.6</td>
<td>6.6</td>
<td>0</td>
<td>+0.4</td>
</tr>
</tbody>
</table>

【for reference: year on year】

1. Increase sales of our main products Flutiform and Desalex, and increase sales of Nasonex.
2. Reduction of gross operating income: The cost rate is up by about 4 point.
3. Reduction of selling, general and administrative expenses (SGA): R&D cost is reduced (forecast a reduction of 2.6 billion yen from the previous year, to 11.6 billion yen). The rate of SGA (excluding R&D cost) has declined by about 1% from the previous year.
4. Method of depreciation: Expect a change from the declining-balance method to the straight-line method.
## Forecast of Mainstay Product Sales

(Units: ¥ billion)

<table>
<thead>
<tr>
<th>Product</th>
<th>FY2017</th>
<th>FY2018 (forecast)</th>
<th>Y/Y</th>
<th>Change</th>
<th>Change(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Flutiform</strong> (Combination drug for asthma treatment)</td>
<td>11.9</td>
<td>12.3</td>
<td>+0.4</td>
<td>+4.1</td>
<td></td>
</tr>
<tr>
<td><strong>Uritos (Kyorin)</strong> (Overactive bladder)</td>
<td>7.2</td>
<td>6.8</td>
<td>-0.4</td>
<td>-4.7</td>
<td></td>
</tr>
<tr>
<td><strong>Desalex</strong> (Antiallergic Agent)</td>
<td>4.9</td>
<td>8.1</td>
<td>+3.2</td>
<td>+65.3</td>
<td></td>
</tr>
<tr>
<td><strong>Kipres for adult</strong> (LT receptor antagonist)</td>
<td>8.3</td>
<td>6.0</td>
<td>-2.3</td>
<td>-26.8</td>
<td></td>
</tr>
<tr>
<td><strong>Kipres for children</strong> (LT receptor antagonist)</td>
<td>10.5</td>
<td>7.2</td>
<td>-3.3</td>
<td>-30.9</td>
<td></td>
</tr>
<tr>
<td><strong>Pentasa</strong> (Ulcerative colitis and Crohn’s disease treatment)</td>
<td>15.3</td>
<td>14.5</td>
<td>-0.8</td>
<td>-5.0</td>
<td></td>
</tr>
<tr>
<td><strong>Mucodyne</strong> (Mucoregulant)</td>
<td>8.7</td>
<td>7.2</td>
<td>-1.5</td>
<td>-16.5</td>
<td></td>
</tr>
<tr>
<td><strong>Nasonex</strong> (Spray type allergic rhinitis remedy)</td>
<td>–</td>
<td>10.1</td>
<td>+10.1</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td><strong>MONTELUKAST Tablets “KM”</strong></td>
<td>11.7</td>
<td>9.8</td>
<td>-1.9</td>
<td>-16.4</td>
<td></td>
</tr>
</tbody>
</table>
Shareholder Returns

Basic Policy

- While maintaining the sound financial base, adopt the capital policy ensuring both growth investment and stable return to shareholders.
- In shareholders return, aim for stable dividends.
  Dividend per share for fiscal 2018 (estimate): ¥58 (Year-end dividend ¥38)

Dividends

<table>
<thead>
<tr>
<th></th>
<th>FY2016</th>
<th>FY2017 ※</th>
<th>FY2018 (forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend per share (Yen)</td>
<td>¥58 (Year-end ¥38)</td>
<td>¥58 (Year-end ¥38)</td>
<td>¥58 (Year-end ¥38)</td>
</tr>
<tr>
<td>Consolidated payout ratio(%)</td>
<td>59.3%</td>
<td>65.9%</td>
<td>65.7%</td>
</tr>
</tbody>
</table>

※ The year-end dividend of 38 yen in the fiscal year ending March 2018 will be decided at the Board Meeting scheduled for May 22.
Status of development pipeline
### Drug Development Pipeline:
**Progress in FY2017, schedule of FY2018**

<table>
<thead>
<tr>
<th>development code</th>
<th>Ph I</th>
<th>Ph II</th>
<th>Ph III</th>
<th>application</th>
<th>Approval/ Launch</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Respiratory</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ad-SGE-REIC</td>
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<td></td>
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</tr>
<tr>
<td>KRP-108P</td>
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<tr>
<td><strong>Infections</strong></td>
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<td>KRP-AM1977X</td>
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<td>2017/4</td>
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<tr>
<td>KRP-AM1977Y</td>
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<td></td>
<td></td>
<td>preparation</td>
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<td><strong>Urological</strong></td>
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<td></td>
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<td>KRP-114V</td>
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<td>2017/9</td>
</tr>
<tr>
<td>KRP-116D</td>
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</tr>
<tr>
<td>KRP-N118 (SK-1404)</td>
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<td></td>
<td></td>
<td></td>
<td>Ph II start</td>
</tr>
</tbody>
</table>

#### 【Licensing development】
※ For KRP-AM 1977 X, additional nonclinical studies are required and will be carried out.

<table>
<thead>
<tr>
<th>Compound/Code</th>
<th>导出先</th>
<th>Stage</th>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>FPR2 agonist program</td>
<td>BMS</td>
<td>Ph I</td>
<td>FPR-2 agonists that mainly inhibit the migration of neutrophils and exhibit anti-inflammatory action. Therapy area : Non-disclosure</td>
</tr>
</tbody>
</table>

※KRP-203: Because Novartis (licensee) decided to discontinue development of KRP-203 for strategic reasons, Kyorin receive the return of development rights.
Overactive bladder treatment 「KRP-114V」

- **generic name**: Vibegron

### Status of development

#### Preparing for Application

**Clinical Phase III study**
Study: A double-blind comparative study for verifying the efficacy and safety of the drug in OAB patients
Result: The drug was shown to be superior to a placebo in primary endpoints and all secondary endpoints.

[**Primary endpoints**] Average frequency of urination per day
[**Secondary endpoints**] Average frequency of urinary urgency per day, etc.


### Publication of the results of the study

- Conference presentation: March 2018 European Association of Urology (EAU)
- Publication of a paper: Specialty urology journal: European Urology (May issue)

**File an application and obtain approval soon**
Concluded a licensing agreement with Sanwa Kagaku Kenkyusho Co., Ltd. (March 2018)

[Development status] Phase II clinical study

[Mechanism of action] A vasopressin V2 receptor agonist that promotes the reabsorption of water by the collecting duct of the kidney to reduce the amount of urine (antidiuretic action).

[Characteristics] The drug is well absorbed and evidences antidiuretic action promptly after administration. The drug is eliminated rapidly from the body. It is expected to be a therapeutic agent for nocturia due to nocturnal polyuria that offers good efficacy and safety.

What is Nocturia? Nocturia is a disease with symptoms that cause a patient to get up to urinate during the night. It is the most common of the symptoms related to urination, and about 45 million males and females in their 40s and older have symptoms of nocturia, causing them to get up at least once to urinate during the night. The frequency increases with advancing age. Nocturia is a disease that causes a high level of difficulty in daily life.

(from the website of The Japanese Urological Association)
Expansion of product lineup in the area of urology

Cause of nocturia

- Overactive bladder (OAB)
  - Uritos (anticholinergic agent)
  - KRP-114V (β3 receptor agonist)
- Nocturnal polyuria
  - KRP-N118 (Vasopressin V2 receptor agonist)

Interstitial cystitis
KRP-116D is under development

Aim to improve presence in the area of urology

(Reference)

- **Number of OAB patients**
  104 million (aged 40 years and older)*1
- **Number of patients with nocturia**
  45 million (at least one instance of urination during the night)
  85 million (3 or more instances of urination during the night)*2

Source: 
*1: Clinical guidelines for overactive bladder (ver. 2) 
Progress of Medium-Term Business Plan “HOPE 100-Stage 2-” (Fiscal 2016～2019)
Outline of “HOPE 100-Stage 2-”

**Business Strategy (S)**

- Strengthening of the Ability to Discover New Drugs
- Increase in the Ratio of New Drugs Group
- Promotion of Generic Drugs Business by Making the Most of Its Characteristics
- Strengthening of Low Cost

**Organization Strategy (O)**

- Best worthwhileness of work
- Establishment and operation of the system for management of human resources

**Performance Targets (P)**

- Sustainable growth
- Aim to achieve the average annual growth rate of 3% or more for the consolidated net sales and the consolidated operating income margin of 15% or more.
- In shareholders return, aim for stable dividends.

**Development Strategies**

- Healthcare Business/ Overseas Expansion
Priority strategy: Enhance drug discovery capabilities

**Efforts on first-in-class drug discovery**

- Watarase Research Center
- Cooperation
- ActivX (USA)

**Open innovation**
- Academia, venture
- Academia, venture

**Selection and concentration**

**Priority study area**
- Kinase study
- Fibrogenesis study

**Multi-tiered efforts**

**Novel drug discovery target**

**Worldwide (world-class drug discovery)**
Priority strategy: Increase ratio of new drug group

Accelerate regrowth with new drug group and new products

- Maximize the dissemination of Flutiform, Desalex, PENTASA Granules, Uritos and Nasonex.
- Launch and disseminate KRP-114V and KRP-1977X.

[The ratio of the new drugs group should increase as follows]

- Flutiform
- Desalex
- Uritos
- Pentasa Granules
- Nasonex
- KRP-AM1977X
- KRP-114V

Ratio of new drugs group (FY2015-FY2019):
- FY2015: 27%
- FY2016: 35%
- FY2017: 29%
- FY2018: 41%
- FY2019: 56% (At least 50%)

Medium-term management plan “HOPE100—Stage 2—” (2016-2019)
Promotion of low-cost operation

- Consolidation of the Group’s production functions
  - Noshiro plant (Akita)
  - Inami plant (Toyama)
  - Shiga plant (Shiga)

New production subsidiary: KYORIN Pharmaceutical Facilities Co., Ltd.
Commences full-scale operation on April 1, 2018

Equalization of the utilization rate of each plant, the efficient use of assets, and the building of the Group’s competitive production structure

- Improvement of productivity through the betterment of the direct-indirect ratio
- Promotion of appropriate number and deployment of employees (review of existing operations and structures)
Deployment of diagnostic business using GeneSoC ultrafast gene quantitative system

**Fostering strategy: Diagnostic business**

**Characteristics of GeneSoC ultrafast gene quantitative system**

- Rapid detection of genes based on the technology of ultrafast quantitative PCR* (5-6 minutes)
- High-sensitivity detection is possible with a trace amount of the sample immediately after infection
- A compact, desktop PCR device eyeing POCT*

Identification of pathogenic bacteria of infection by POCT and improvement of treatment with the choice of an appropriate antibacterial agent

PCR: Polymerase chain reaction, technology for gene amplification.
POCT: Point of care testing by a health care worker. It refers to tests conducted by a health care worker at an examinee’s side. By taking advantage of the reduced test time and the advantage, that examinees feel is closer and more comfortable, POCT contributes to rapid and appropriate diagnosis and care, prevention of disease, promotion of health, and also to the improvement of medical care and patient QOL.

**Efforts going forward**

- **Release of a reagent for research using GeneSoC ultrafast gene quantitative system**
  - February 2019: Exhibition at the 30th annual meeting of the Japanese Society for Clinical Microbiology and launch within the fiscal year
- **Development of an extracorporeal (in-vitro) diagnostic agent**
  - Aim to launch in 2020

**Target market**

- Respiratory infections: Cold, pneumonia, influenza
- Enteral infection
- Sexually transmitted disease, etc.

Aim to be the next core business
Important points in facilitating the FY2018 business strategy

Make a change in advance and create a new scenario for growth

- Drug discovery of an original new drug
- Drug discovery of a new drug and creation of a market with a new drug
- Acceleration of growth of peripheral businesses and improvement of profitability
- Promotion of low-cost operation