

Third Quarter Consolidated Financial Results for the Fiscal Year Ending March 31, 2018

1. Overview of consolidated results
2. Highlights of Business Performance
3. Main Product Sales Update
4. Development pipeline

【Reference】

5. Segment information
6. Financial summary and Forecasts

February 5, 2018

KYORIN Holdings, Inc.

These forecast performance figures are based on information currently available to the Company and may include uncertain factors or risk that affect our future performance. Accordingly, actual business results may materially differ from the forecasted figures due to various factors in the future.



Outline of Third Quarter Consolidated Financial Results for the Fiscal Year Ending March 31, 2018

(¥ million)	Dec/2014	Dec/2015	Dec/2016	Dec/2017	YoY change (%)	Mar/2018 (forecast)	YoY change (%)
Net Sales	83,602	89,469	86,836	82,923	-4.5	111,300	-3.5
Operating Income	10,691	14,666	7,313	7,805	+6.7	10,500	+0.8
Ordinary Income	11,181	14,946	7,716	8,246	+6.9	10,900	+0.2
Net Income	9,571	10,831	4,723	6,119	+29.6	7,800	+6.8

Third Quarter Consolidated Financial Results for the Fiscal Year Ending March 31, 2018

【Net sales】 Despite steady growth in Flutiform a core product, and Desalex a new product, sales of new ethical drugs in Japan decreased following the expiration of the patent for KIPRES. In contrast, sales of generic drugs increased with a rise in sales of MONTELUKAST AG (KIPRES), the authorized generic version and also sales of new ethical drugs overseas increased due to receive of lump sum payment of out-licensed product. As a result, overall net sales were 82,923 million yen (down 4.5% year on year).

【Income】 The gross profit on sales fell 2,064 million yen year-on-year, given the decreased sales of new ethical drugs in Japan and an increase in the loss on the retirement of inventories, etc., although sales of new ethical drugs overseas increased due to receive of lump sum payment of out-licensed product. Meanwhile, SG&A expenses decreased 2,557 million yen year-on-year (including a 802 million yen decrease in R&D expenses) due to cost cutting, and operating income rose to 7,805 million yen (a 6.7% year-on-year increase). Net income attributable to owners of parent came to 6,119 million yen (a 29.6% year-on-year increase).

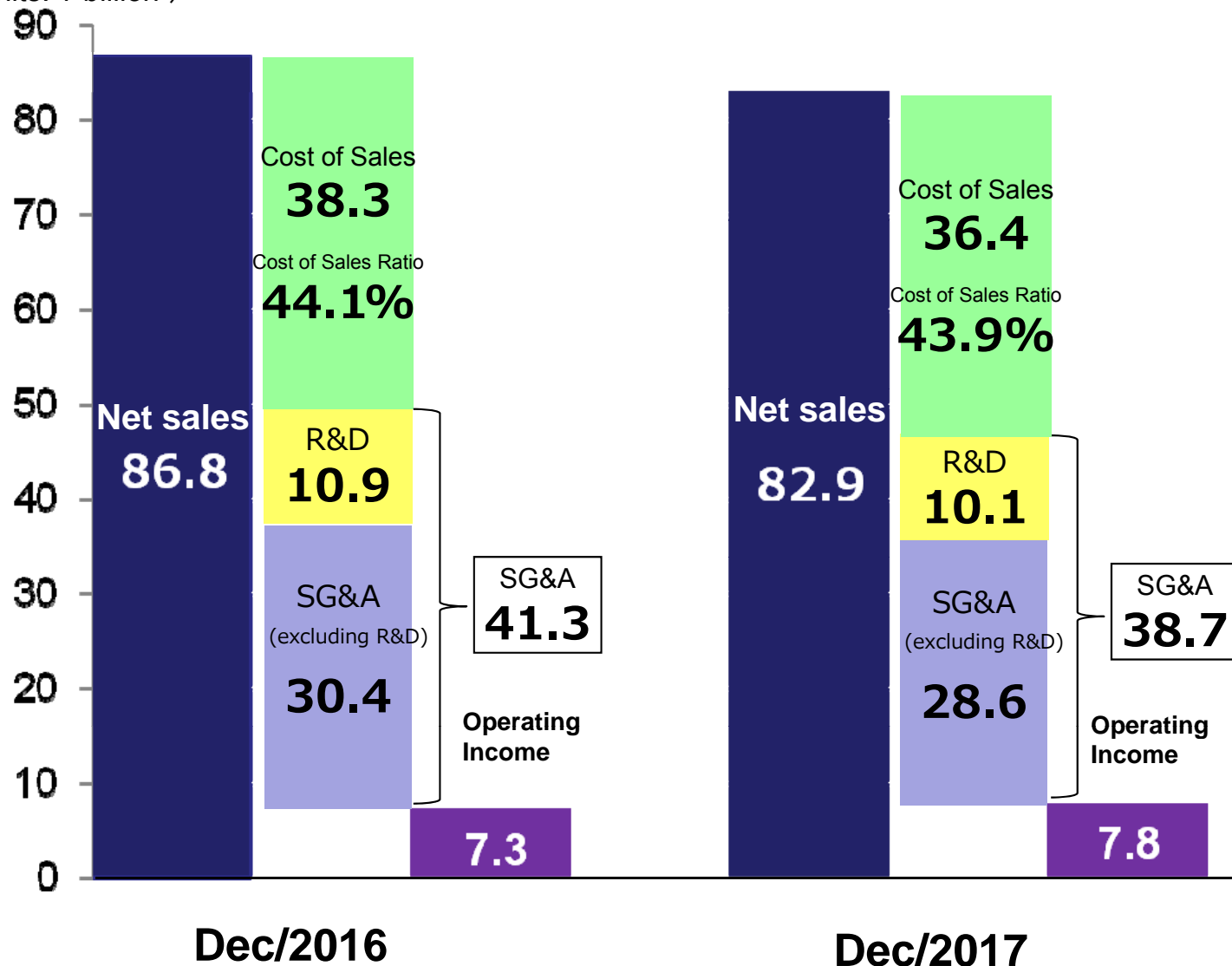
Consolidated Financial Results for the Fiscal Year Ending March 31, 2018 (forecast)

The results forecasts for the full year announced on November 6, 2017 remain unchanged.

(Progress compared with the forecast for the fiscal year ending March 31, 2018: net sales: 74.5%; operating income: 74.3%)

Highlights of Business Performance

(Units: ¥ billion)



- **Net Sales decreased ¥3.9billion year on year.**
 - Decrease of sales of new ethical drugs(Japan)
 - Increase of sales of new ethical drugs (Overseas)
 - Increase of sales of Generic drugs

➤ **Cost of sales ratio decreased 0.2%.**

■ **Gross Profit decreased ¥2.1billion year on year**

➤ **SG&A expenses decreased ¥2.6billion year on year.**

- R & D expenses decreased ¥0.8billion
- SG&A(excluding R&D) decreased ¥1.8billion

■ **Operating Income increased ¥0.5billion year on year.**

Consolidated Financial Results

for the Third Quarter ending March 31, 2018

(unit : ¥ billion)

Year on Year

	Dec/2016	Dec/2017	Change
Net Sales (total)	86.8	82.9	-3.9
Ethical drugs Business	82.5	78.5	-4.0
◆Sales of new ethical drugs	64.4	57.9	-6.5
●Japan	64.1	54.8	-9.3
●Overseas	0.3	3.1	+2.8
◆Generic drugs	18.1	20.6	+2.5
Healthcare Business	4.3	4.4	+0.1
Operating Income	7.3	7.8	+0.5
Ordinary Income	7.7	8.2	+0.5
Net Income	4.7	6.1	+1.4

■Net Sales	¥82.9bln	(-3.9)
◆Ethical drugs business	¥78.5bln	(-4.0)
●Sales of new ethical drugs	¥54.8bln	(-9.3)
Dec/2016⇒Dec/2017		
· Flutiform	7.6 ⇒ 8.9 (+1.3)	
· Uritos	5.8 ⇒ 5.6 (-0.2)	
· Desalex	0.7 ⇒ 2.1 (+1.4)	
· Kipres	26.0 ⇒ 14.2 (-11.8)	
· Pentasa	12.0 ⇒ 12.2 (+0.2)	
· Mucodyne	7.5 ⇒ 6.6 (-0.9)	
●Sales of new ethical drugs in Overseas	¥3.1bln	(+2.8)
received lump sum payment of out-licensed product		
●Sales of Generic drugs	¥20.6bln	(+2.5)
· Sales of the MONTELUKAST™AG for KIPRES increased		
· Sales for other companies decreased.		
◆Healthcare Business	¥4.4bln	(+0.1)
■Operating Income	¥7.8bln	(+0.5)
◆Operating Income margin decreased 1.0 percentage points to 9.4%		
●Cost of Sales Ratio : 44.1%⇒43.9% decreased 0.2 percentage points		
[Decrease] received lump sum payment of out-licensed product		
Increase in sales of mainstay products (Flutiform, Desalex, Pentasa)		
[Increase] Increase in loss on retirement of inventories, etc.		
●R&D Ratio : 12.5%⇒12.1% decreased 0.4 percentage points		
* ¥10.9bln⇒¥10.1bln (-¥0.8bln) Project expenditure expenses were recorded in the previous fiscal year (KRP-AM1977X, KRP-114V)		
●SG&A Ratio : 35.0%⇒34.5% decreased 0.5 percentage		
* ¥30.4bln⇒¥28.6bln (-¥1.8bln) Mainly labor costs and general expenses decreased		
■Net Income	¥6.1bln	(+1.4)

- **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)

Main Product Sales Update

(Units: ¥billion)		Sep/2016	Sep/2017	Dec/2016	Dec/2017	Change	(%) Change	Mar/ 2017	Mar/2018 (forecast)
Sales of new ethical drugs (Japan)	Flutiform (Combination drug for asthma treatment)	4.5	5.4	7.6	8.9	+1.3	+18.3	10.1	12.0
	Uritos (Kyorin) (Overactive bladder)	3.8	3.6	5.8	5.6	-0.2	-3.3	7.5	7.3
	Desalex (Antiallergic Agent)	—	0.9	0.7	2.1	+1.4	+209.3	1.0	3.5
	Kipres for adult (LT receptor antagonist)	11.5	3.9	15.0	6.1	-8.9	-59.4	17.7	9.1
	Kipres for children (LT receptor antagonist)	6.3	5.1	11.0	8.1	-2.9	-26.3	14.9	10.7
	Pentasa (Ulcerative colitis and Crohn's diseasetreatment)	7.9	8.0	12.0	12.2	+0.2	+1.7	15.5	15.6
	Mucodyne (Mucoregulant)	4.4	3.9	7.5	6.6	-0.9	-12.2	9.9	8.4
Generic Drugs	MONTELUKAST Tablets "KM"	1.8	5.0	5.3	8.2	+2.9	+55.5	8.2	10.7
Over-the- counter drugs	Milton (Disinfectant)	1.1	1.1	1.7	1.7	0.0	+2.7	2.2	2.2

Main R&D Activities -1 (as of February 5 2018)

Ph III ~ Application submitted

Stage		Compound/ Code	Therapy area /Action	Origin	Features	Comments
Japan	Overseas					
Application (9/2017)	Ph II clinical trial end Merck & Co.,	KRP-114V	Overactive bladder	Merck & Co.,	-Expectation of high compliance in taking medicine with less side effects than the conventional drugs for overactive bladder -- Less drug interaction as $\beta 3$ receptor agonist - $\beta 3$ agonist including this agonist may constitute the first- line drug for treatment of overactive bladder	•License agreement with Merck & Co., Inc.,(7/2014) •Co-Development and Co-Marketing Agreement with Kissei Pharmaceutical Co., Ltd. affiliate (3/2016) •License agreement with Merck & Co., Inc., for Asia (4/2017)
Application (4/2017)		KRP- AM1977X (Oral agent)	New quinolone synthetic antibacterial agent	In-house	-Superior ability to combat drug-resistant gram- positive bacteria (incl. MRSA) -has a powerful antimicrobial activity against anaerobic bacteria - Expectation of high clinical effects with excellent tissue penetration	
Ph III (3/2016)		KRP- AM1977Y (Injection)	New quinolone synthetic antibacterial agent	In-house	-High degree of safety expected since safety hurdles cleared prior to clinical trials	
Ph III (3/2017)		KRP-116D	Interstitial cystitis	—	Evaluation committee on unapproved or off-labeled drugs with high medical needs "Dimethyl sulfoxide(DMSO)"	
Ph III (6/2017)		KRP-108P	Anti-asthmatic	(U.K.) Vectura	Expand the indication of Flutiform to pediatric patients	

POC Project (Ph I ~ Ph II)

Stage		Compound/ Code	Therapy area /Action	Origin	Features	Comments
Japan	Overseas					
Ph I , II (7/2015)	(US) Momotaro- Gene prostate cancer (5/2014)	Ad-SGE-REIC	malignant pleural mesothelioma	Okayama University	A gene-therapy product using a novel tumor suppressor gene of reduced expression in immortalized cells/ Dickkopf-3 (REIC/Dkk-3), which was discovered by researchers from Okayama University, as a therapeutic gene. It is expected to have direct effect on primary tumor lesions and indirect effect on metastatic tumor lesions as a gene-therapy product that simultaneously induces tumor cell-selective apoptosis and the activation of antitumor immunity respectively.	Adopted to Next generation Technology Transfer Program (NexTEP) (6/2014)

Main R&D Activities -2 (as of February 5 2018)

Licensing development

※Changes from the previous announcement (Nov 6 2017)

Stage/ Overseas	Compound/ Code	Licensee / Collaborative research	Therapy area/Action	Origin	Features	Comments
※Ph I	FPR-2 agonist program	BMS	Non- disclosure	In-house	FPR-2 agonists that mainly inhibit the migration of neutrophils and exhibit anti-inflammatory action.	License agreement with BMS (12/2015)

※KRP-203 : deleted it from Main R&D Activities
Novartis (licensee) decided to discontinue development of KRP-203 for strategic reasons

Reference

Segment information for the Third Quarter Ending March 31, 2018

Sales, Profit or Loss of each report segment

(unit : ¥billion)

	Sales	change Y/Y	Profit	change Y/Y
Net Sales (total)	82.9	-3.9	7.8	+0.5
Ethical drugs business	78.5	-4.0	7.3	+0.2
◆Sales of new ethical drugs	57.9	-6.5		
○Japan	54.8	-9.3		
○Overseas	3.1	+2.8		
◆Generic drugs	20.6	+2.5		
Healthcare business	4.4	+0.1	0.2	+0.2
Amount of adjustment	-	-	0.3	+0.1

Consolidated Financial Results for the Third Quarter ending March 31, 2018

(unit : ¥million)	Sep/2016	Sep/2017
Sales	54,628	50,758
Ethical drugs business	51,936	47,977
◆Sales of new ethical drugs	41,615	34,972
●Japan	41,272	34,449
●Overseas	343	523
◆Generic drugs	10,321	13,005
healthcare business	2,691	2,781
Operating Income	3,663	1,443
Ordinary Income	3,921	1,693
Net Income	2,684	1,240

Dec/2016	Dec/2017	Change	% Y/Y
86,836	82,923	-3,913	-4.5
82,508	78,484	-4,024	-4.9
64,407	57,902	-6,505	-10.1
64,116	54,798	-9,318	-14.5
290	3,104	+2,814	+970.3
18,101	20,582	+2,481	+13.7
4,327	4,438	+111	+2.6
7,313	7,805	+492	+6.7
7,716	8,246	+530	+6.9
4,723	6,119	+1,396	+29.6

Mar/2017	Mar/2018 (forecast)
115,373	111,300
109,566	105,300
84,542	77,200
83,777	74,200
764	3,000
25,024	28,000
5,807	5,900
10,413	10,500
10,874	10,900
7,305	7,800