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6th Medium-term Management Policy for FY2017-2021

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Hisamitsu Pharmaceutical's Philosophy and Mission



Management Philosophy:

Improving Quality of Life Around the World



Corporate Mission:

Bringing Patch Culture to the World



Hisamitsu Pharmaceutical contributes to the health of people around the world through "Research & Development", "Manufacturing", and "Sales & Delivery" of patch treatments that are effective, safe and comfortable

Hisamitsu Pharmaceutical's Vision





*TDDS: Transdermal Drug Delivery System

- Capturing a 1% share of the global market of "Pharmaceuticals"
- Capturing a 50% share of the global market of "TDDS"

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Hisamitsu Pharmaceutical's Corporate Strategy



Research and Development of highly useful TDDS ahead of the competitors

Research & Development

Providing people around the world with the TDDS of Hisamitsu

Manufacture of TDDS
at high quality, low cost,
and in a short period of time,
regardless of quantity or type

Sales & Delivery

Manufacturing

Using "TDDS" as the standard to reinforce individual functions, as well as achieving fast turnover of a series of cycles as a global function to establish competitive superiority

Background for the Establishment of a New Mid-Term Management Policy 1



Environmental changes in domestic business and their impact

- 1. Reinforcement of measures to suppress medical expenditure in Japan and promotion of proper use
- Reinforcement of measures to suppress medical expenditure
 - Permeation and expansion of generic pharmaceuticals
- Reduction of drug price by continued implementation of reduction in special exemption for long-term listed pharmaceuticals (Z2)
 - Impact of radical reform on drug price system
- Implementation of appropriate provision of compress
 - · Limit of 70 sheets per prescription
- Recording the daily dose and number of days equivalent in medical prescription and medical fee bill
 - ◆ Difficulty in maintaining sales for the existing external anti-inflammatory and analgesic TDDS, such as Mohrus_® Tape

2. Slow growth in Rx new products

- Struggle to differentiate Norspan® Tape and Neoxy® Tape from competitor products
 - ♦ Difficult to make a significant expansion in sales for Rx new products in the future

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Background for the Establishment of a New Mid-Term Management Policy 2



Environmental changes in overseas business and their impact

- 3. Change in business strategy of Noven (US subsidiary)
- Slump in sale promotion measures of Brisdelle®, which was considered to be a driver of growth in the 5th mid-term management policy
 - Closure of sales department (May 2016)
 - Transfer of the right for marketing authorization of Brisdelle® and Pexeva® (July 2016)
- Integration of primary functions for production and R&D, and commence establishment of a system for concentrating management resources to TDDS
 - Deterioration of mid-term profit forecast for Noven

Need arose for modification of sales forecast in domestic and overseas (US) Rx business



Re-acknowledgment of the surrounding environment



Progressing aging tendencies in Japan and overseas

- Increased opportunities for use of pharmaceuticals as a result of an increase in disorders and symptoms
- Increase in polypharmacy
- Decrease in treatment compliance
- Promoting a regional comprehensive care system in Japan with the aim of collaboration between medical and welfare care functions
- Increased interest in QOL with economic expansion in various countries, etc.



It is essential to capture "needs for TDDS" with social changes as the background, and act in an accurate and swift manner

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Action Plan for the 6th Mid-Term Management Policy



[Sales Activities]

Domestic OTC business

Creation of values in new and existing areas

Domestic Rx business

✓ Optimization of business and subsequent expansion

Overseas OTC business

 Concentration of management resource to countries with a base and surrounding countries

Overseas Rx business

Active advancement into Asian countries and optimization of Noven

[Production Activities]



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- Pursuing a high-efficiency production system
- To improve manufacturing quality and production technology
- Expansion of capacity at production bases overseas

[Research and Development Activities]



- ✓ Research and development of TDDS with a clear distinction from existing and competitor products
- Promoting the unification of development theme across the Hisamitsu Group
- ✓ Development of new foundation technology

[Other Activities]



- ✓ Increasing operation efficiency
- ✓ Reinforcement of human resource development
- ✓ Promotion of ESG in Hisamitsu Group

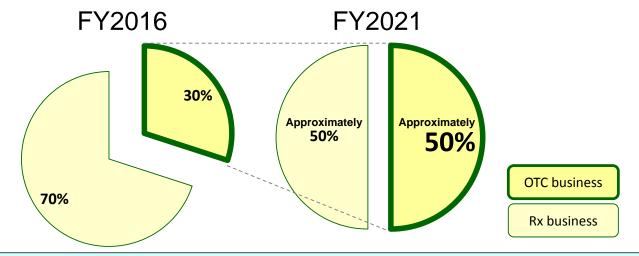
Implementing action and establishment of a system with the aim of creating corporate values



Sales Activities



Changes in sales composition in domestic and overseas pharmaceutical business



Further focus on activities for OTC business with the aim of stabilizing the profit standard (especially the high sales standard)

Also, realize increased operation efficacy to prevent profit rate from decreasing

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Sales Activities



1. Domestic OTC business

I Active advancement into new areas and reinforcement of activities

Reinforce activities in new areas the company has no experience entering into and where they are expected to have synergistic effects to create new values

Increase presence in the domestic market of OTC

Establish overwhelming presence in the market through expansion of scale in new and existing areas

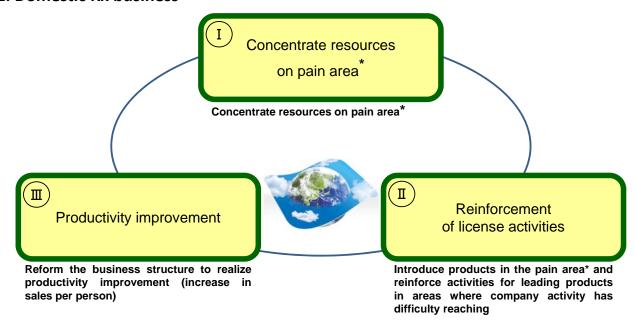
Continued improvement
of products from
the customers' perspective

Continued improvement of products in existing areas (such as Salonpas $_{\circledcirc}$) for further added value

Sales Activities



2. Domestic Rx business



*Pain area: Orthopedic surgery, pain clinic, etc.

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Sales Activities



3. Overseas OTC business



Sales target of Salonpas ® (global)



Concentration of resources to countries with bases and surrounding countries



Sales target of Salonpas_® (FY2021): 45 billion yen

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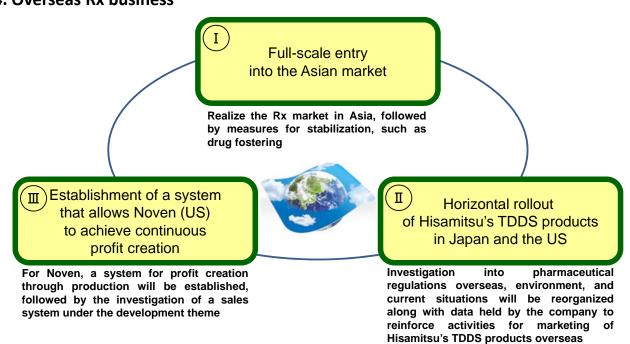
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Sales Activities



4. Overseas Rx business



Research and Development Activities



I Research and development of TDDS with a clear distinction from existing and competitor products

Promote comprehensive exploration of candidate drugs and active alliances for continual launch of differentiated TDDS

Development of new foundation technology

Fulfilling unmet needs in a medical setting through the development and utilization of new foundation technology (such as micro needles)

Promoting the unification of development theme across the Hisamitsu Group

Give priority to development theme, management and operation system, and cost efficiency

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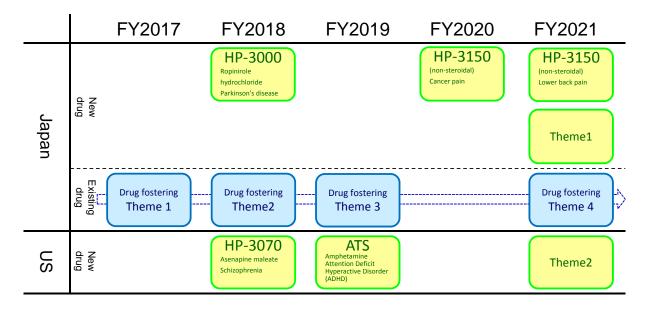
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Research and Development Activities



Forecast for the timing of application for the R&D theme (Rx)



Continued marketing of differentiated TDDS



Research and Development Activities



Example of differentiated TDDS

HP-3000

- Active ingredient: Ropinirole hydrochloride
- Indication: Parkinson's disease
- Stage: Phase III in progress
- Aim of the development
 - Significant reduction in skin irritation
 - Can be administered to patients with difficulty swallowing

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Research and Development Activities





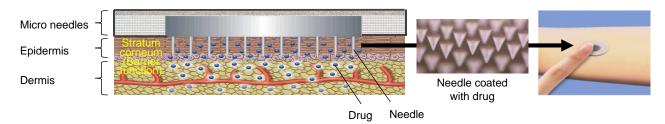
Unify the development theme across the Hisamitsu Group and aim for early rollout in Rx markets

Research and Development Activities



Micro needles

- Under development using multiple drugs including vaccines (some have reached the clinical phase)
- Investigation in progress for the manufacturing method for mass production



 Currently developing micro needles that have a new mechanism with a different drug absorption profile from previous micro needles

Use of various new foundation technologies to accelerate development, with the aim of commercialization

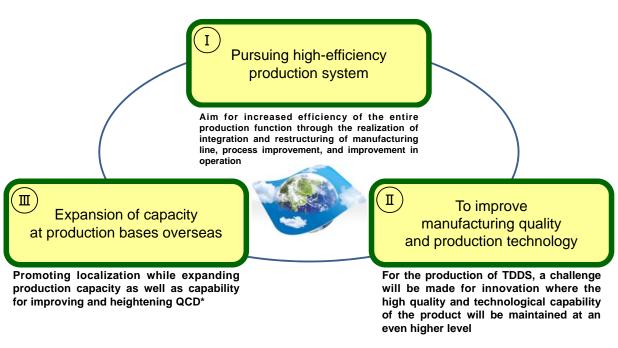
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Production Activities





*QCD: Quality, Cost and Delivery



Other Activities



1. Increasing operation efficiency

Optimization of individual functions

Aim for optimization through implementation of globalization, integration, standardization, etc. of each function with a focus on management department

Organization of mechanisms (systems)

Review and organize the mechanisms (systems) of the Hisamitsu group in general, such as the information system for supporting management system across the functions

Reduction of fixed cost

Reduction of fixed cost along with maximization of results based on multifaceted thinking such as total optimization, zero base, cost performance, feasibility, and sales rate

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Other Activities



2. Reinforcement of human resource development

Permeation of corporate philosophy and mission

Improvement of methods and mechanisms across the Hisamitsu group to further permeate the mission and philosophy and deepen understanding through the entire organization and its employees

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Promoting diversity

Promote diversification of human resources by increasing the employment of women, elderly people, foreign workers, and people with disabilities, with the aim of reforming the organizational structure to suit future

Support for improvement of staff capabilities

Promote the improvement of individual capabilities through enrichment of knowledge and experience via training and self-education support systems, as well as the implementation of OJT* and active job rotation across sections

*OJT:Training through routine operations (on the job training)



environmental changes

Other Activities



3. Promotion of ESG in the Hisamitsu Group

[Items of Main Focus]

[Items for Future Investigation]

Environment

Social

Governance

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Resource-saving
Energy-saving
Waste reduction
Procurement based on protection of
the environment
Creating environmentally friendly

Work style reform
Respect for human rights
Involvement of women in the
workforce
Reinforcing relationship with the
stakeholders
Creating TDDS which satisfied social

Exploration for the format and method of corporate governance Investigation and realization of the foundation of various committees Increase learning opportunities for executives

Roles of independent or external

Establishment of risk management

Consistency with the corporate strategy

Thinking

and acting from an integrative perspective

Setting of KPI and implementation of PDCA cycle
Further accumulation and analysis of information and

Active involvement of management

Establishment of ESG promotion system

Promoting education for all staff members in the Hisamitsu group and introduction to evaluation

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Management Goal



	FY2016 actual	FY2017 forecast	FY2021 target	5-year average growth rate
Sales	¥145.9B	¥147.0B	¥170.0B	3.1%
CoGs	36.4%	37.9%	35.0%	_
SG&A	45.5%	45.7%	45.0%	_
Operating Profits	¥26.3B	¥24.1B	¥34.0B	5.3%

Total investment

(5-year cumulative)

At least 100 billion yen

- 1. Strategic investment
- 2. Growth investment
- 3. Facility investment
- 4. Investment for improvement of capital efficiency

ROE

(Return on equity)

FY2021

At least 8.0%

Forward-Looking Statements



This presentation material contains information that constitutes forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ from those in the forward-looking statements as a result of various factors including changes in material circumstances.

