

1st Half of Fiscal 2015
Financial Results

October 29, 2015

SHIONOGI

Summary of 1H FY2015

Short term

- Sales on track
- Operating income, ordinary income and net income higher than 1H forecasts, and also higher than the levels achieved in 1H of any prior fiscal year

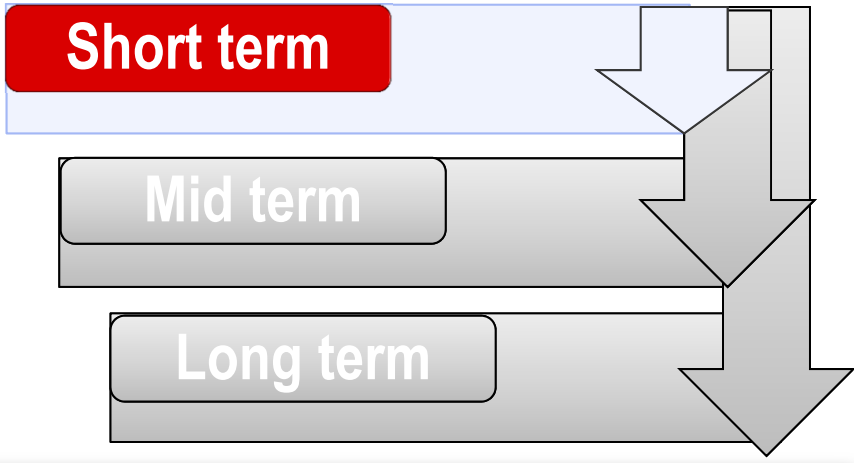
Mid term

- Global growth of HIV franchise began contributing to Shionogi group as the basis for mid- to long-term growth

Long term

- Continued good progress in the development of pipeline compounds in infectious diseases and pain/CNS as future growth drivers

Overview of 1st Half FY2015 Financial Results



Financial Results (Consolidated)

(Unit: B yen)

	FY2015 forecasts	FY2015 1H forecasts	FY2015 1H results	Achievement (%)	FY2014 1H results	Y on Y change (%)	Y on Y change
Sales	296.0	138.0	138.3	100.2	129.8	6.5	8.5
Operating income	72.5	28.5	33.9	119.1	22.7	49.4	11.2
Ordinary income	79.5	28.0	34.8	124.3	31.4	10.7	3.4
Profit attributable to owners of parent	52.0	17.0	21.4	125.8	9.7	120.2	11.7

Note: All numerical values are rounded to the nearest unit

- **Operating income, ordinary income and profit attributable to owners of the parent are higher than the levels achieved in the 1H of any prior year; especially, ordinary income continued to reach record high levels in each of 4 consecutive years**

Exchange rate (average)	FY2015 forecasts	FY2015 1H results
USD ($) – JPY (¥)	120	121.9
EUR (€) – JPY (¥)	130	135.1
GBP (£) – JPY (¥)	175	187.9

Financial Position (Consolidated)

(Unit: B yen)

◆ Financial Position

- **Assets**

  Current assets
  - Cash and deposits +23.4
  - Accounts receivable (13.0); dividends received from ViiV (12.5)

  Non-current assets
  - Investment securities; rise in stock market +4.1, effect of exchange rate change +1.4, sales (1.8)

- **Liabilities**

  Current liabilities
  - Income taxes payable (4.7)
  - Consumption tax payable (2.9)

- **Net assets**
  - Retained earnings +12.3; net income +21.4, cash dividends paid (9.1)
  - Accumulated other comprehensive income +5.5

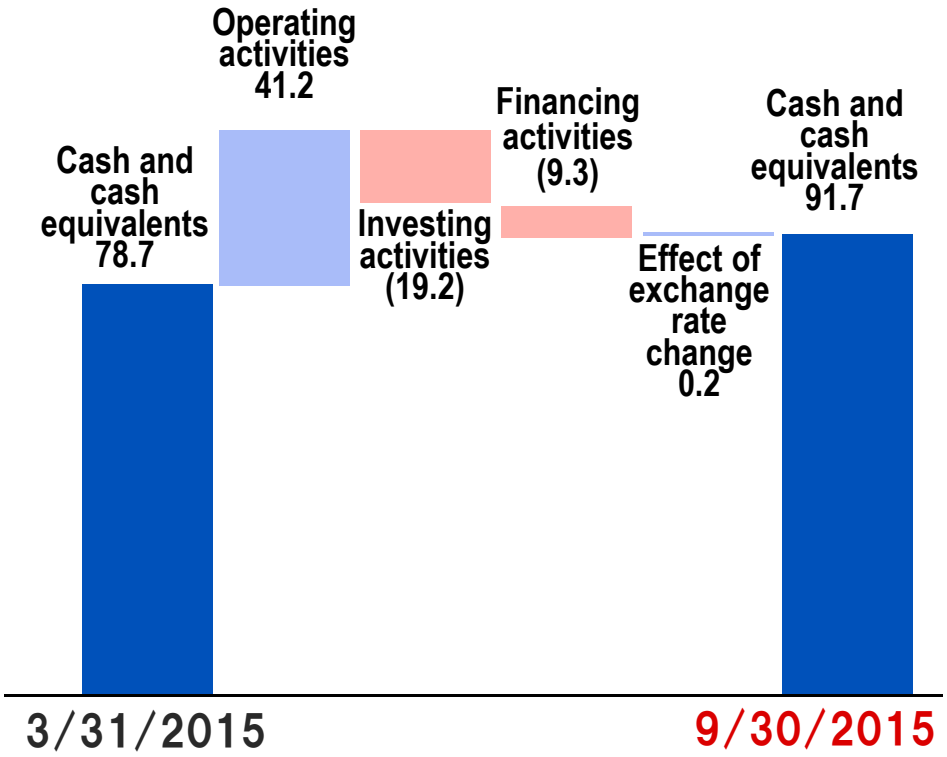
	3/31/2015	9/30/2015	change
Total assets	602.9	611.1	8.2
Current Assets	259.9	264.4	4.5
Non-current assets	343.0	346.7	3.7
Total liabilities	124.0	114.2	(9.8)
Current liabilities	67.8	57.1	(10.7)
Non-current liabilities	56.2	57.1	0.9
Net assets	478.9	496.8	17.9
Equity ratio	78.7%	80.5%	1.8%

Cash Flow (Consolidated)

(Unit: B yen)

◆ Cash Flow

- Net cash providing by operating activities
  - Income before income taxes +34.6
  - Decrease in notes and accounts receivable-trade (6.6)
  - Reduction in inventory (1.8)
  - Interest and dividends income received +14.4; accounts receivable as dividends from ViiV +13.2 including currency exchange fluctuations
- Net cash provided by investing activities
  - Payments into time deposits (11.4); surplus fund management of dividend from ViiV (11.3)
  - Investment securities; purchase (7.5), redemption +5.0
  - Proceeds from sales of investment securities +2.1
- Net cash provided by financing activities
  - Cash dividends paid (9.1)



Statement of Income (Consolidated)

(Unit: B yen)

	FY2015		Achievement (%)	FY2014 1H results	Y on Y	
	1H forecasts	1H results			change (%)	change
Prescription drugs	79.2	78.4	99.0	77.0	1.9	1.4
Total of 3 key products	37.2	35.9	96.5	34.0	5.5	1.9
Total of 8 strategic products	49.4	47.5	96.1	45.7	3.9	1.8
Overseas subsidiaries/export*	14.8	14.7	99.5	13.8	6.7	0.9
Shionogi Inc.	9.0	8.4	93.5	7.4	13.5	1.0
Osphena®	3.0	2.6	86.0	1.7	52.9	0.9
C&O	3.4	3.3	98.3	3.3	1.9	0.0
Contract manufacturing*	3.7	3.7	99.5	6.9	(46.1)	(3.2)
OTC and quasi-drugs	2.5	2.6	102.9	2.5	4.9	0.1
Royalty income	36.5	37.5	102.6	28.3	32.4	9.2
Royalty income for the sales of Crestor® and HIV franchise	32.0	35.0	109.5	24.4	43.6	10.6
Crestor®	-	23.7	-	24.4	(3.0)	(0.7)
HIV franchise	-	11.4	-	-	-	11.4
Others	1.3	1.4	108.3	1.5	(5.9)	(0.1)
Total	138.0	138.3	100.2	129.8	6.5	8.5

Eight strategic products: Crestor®, Irbetan® franchise, Cymbalta® (3 key products), and OxyContin® franchise, Finibax®, Differin®, Pirespa®, Rapiacta®

* The accounting policy for API for dolutegravir was changed from export to contract manufacturing in FY2014

Japan: Sales of 8 Strategic Products

(Unit: B yen)

	FY2015		achievement (%)	FY2014 1H results	Y on Y	
	1H forecasts	1H results			change (%)	change
Prescription drugs	79.2	78.4	99.0	77.0	1.9	1.4
Crestor®	21.3	20.4	95.8	21.1	(3.1)	(0.7)
Irbetan® franchise	8.2	8.3	101.5	7.5	10.5	0.8
Cymbalta®*	7.7	7.2	93.4	5.5	31.5	1.7
Total of 3 key products	37.2	35.9	96.5	34.0	5.5	1.9
OxyContin® franchise	5.3	5.2	97.2	5.3	(2.4)	(0.1)
Finibax®	1.9	2.1	110.7	1.9	8.9	0.2
Differin®	1.9	1.6	81.8	1.8	(13.5)	(0.2)
Pirespa®	3.0	2.8	92.0	2.6	5.8	0.2
Rapiacta®	0.1	(0.0)	-	0.1	-	(0.1)
Total of 8 strategic products	49.4	47.5	96.1	45.7	3.9	1.8
[percent of sales]	[62.4]	[60.5]	-	[59.4]	-	-

* Remuneration for promotional activity from FY2015

Change in Sales vs. Previous Year

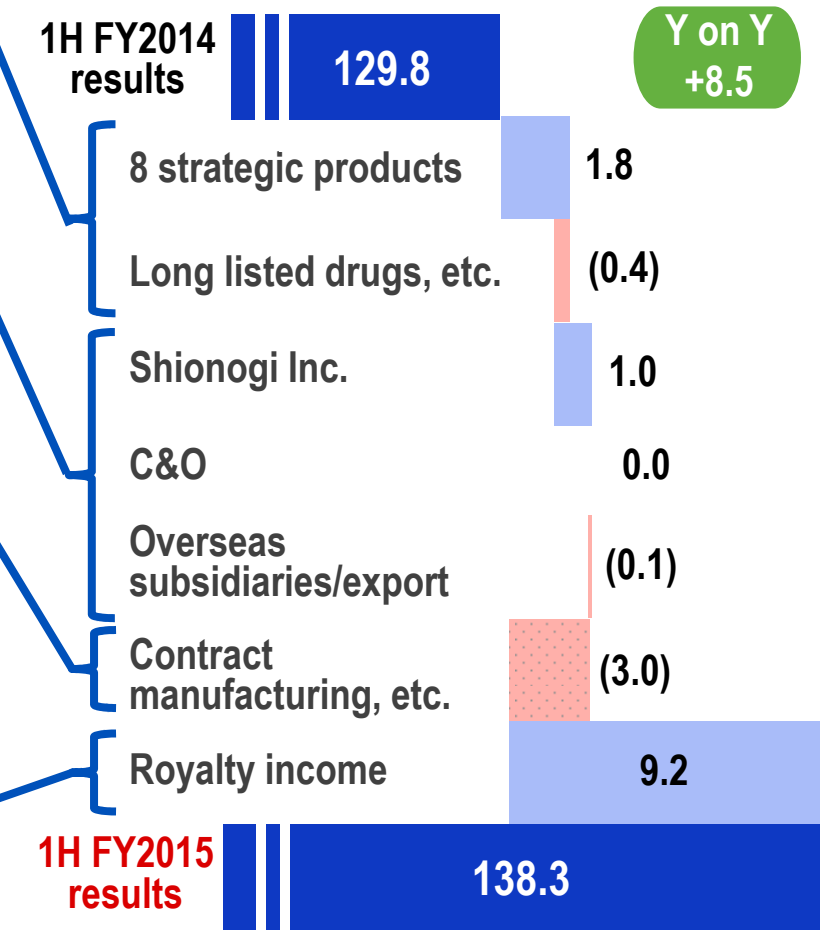
◆ **Prescription drugs +1.4**
Increased sales of the 8 strategic products
Decreased sales of existing products (generic penetration impact was within assumed range)

◆ **Overseas subsidiaries/export +0.9**
Increased sales of Osphena® (Shionogi Inc.)
Divestiture of an existing product (Shionogi Inc.)

◆ **Contract manufacturing**
Reduced due to the modification of Cymbalta® contract
Increased API for DTG

◆ **Royalty income; Crestor® /HIV franchise +10.6**
Increased royalty from HIV franchise
Decreased royalty from Crestor® and others

(Unit: B yen)



API: Active pharmaceutical ingredients DTG: Dolutegravir

Statements of Income (Consolidated)

(Unit: B yen)

	FY2015		vs. forecasts		FY2014 1H results	Y on Y	
	1H forecasts	1H results	achievement (%)	Difference		change (%)	change
Sales	138.0	138.3	100.2	0.3	129.8	6.5	8.5
[Royalty* income]	32.0	35.0	109.5	3.0	24.4	43.6	10.6
Cost of sales	25.6 [33.3] 35.3	26.4 [35.3] 36.5	103.3	1.2	29.4 [36.2] 38.1	(4.4)	(1.6)
Gross profit	102.7	101.8	99.1	(0.9)	91.7	11.0	10.1
SG&A expenses	53.8 74.2	49.1 67.9	91.5	(6.3)	53.1 69.0	(1.6)	(1.1)
Selling & general expenses	50.2	46.1	91.7	(4.1)	45.8	0.6	0.3
R&D expenses	24.0	21.8	91.0	(2.2)	23.2	(5.9)	(1.4)
Operating income	20.7 28.5	24.5 33.9	119.1	5.4	17.5 22.7	49.4	11.2
[Excluding royalty* income]	(3.5)	(1.1)	-	2.4	(1.7)	-	0.6
Non-operating income and expenses	L0.5	P0.9	-	1.4	P8.7	-	(7.8)
Ordinary income	20.3 28.0	25.2 34.8	124.3	6.8	24.2 31.4	10.7	3.4
Extraordinary income and loss	-	L0.1	-	(0.1)	P0.2	-	(0.3)
Income before income taxes	28.0	34.6	123.7	6.6	31.7	9.4	2.9
Total income taxes, etc.	11.0	13.3	120.6	2.3	22.0	(39.6)	(8.7)
Profit attributable to owners of parent	17.0	21.4	125.8	4.4	9.7	120.2	11.7

Note: Small numbers in red are percent of sales, and numbers in red provided in parentheses are percent of sales excluding royalties
* Royalty income from AstraZeneca and ViiV for the sales of Crestor® and HIV franchise

Change in Earning Structure vs. Previous Year

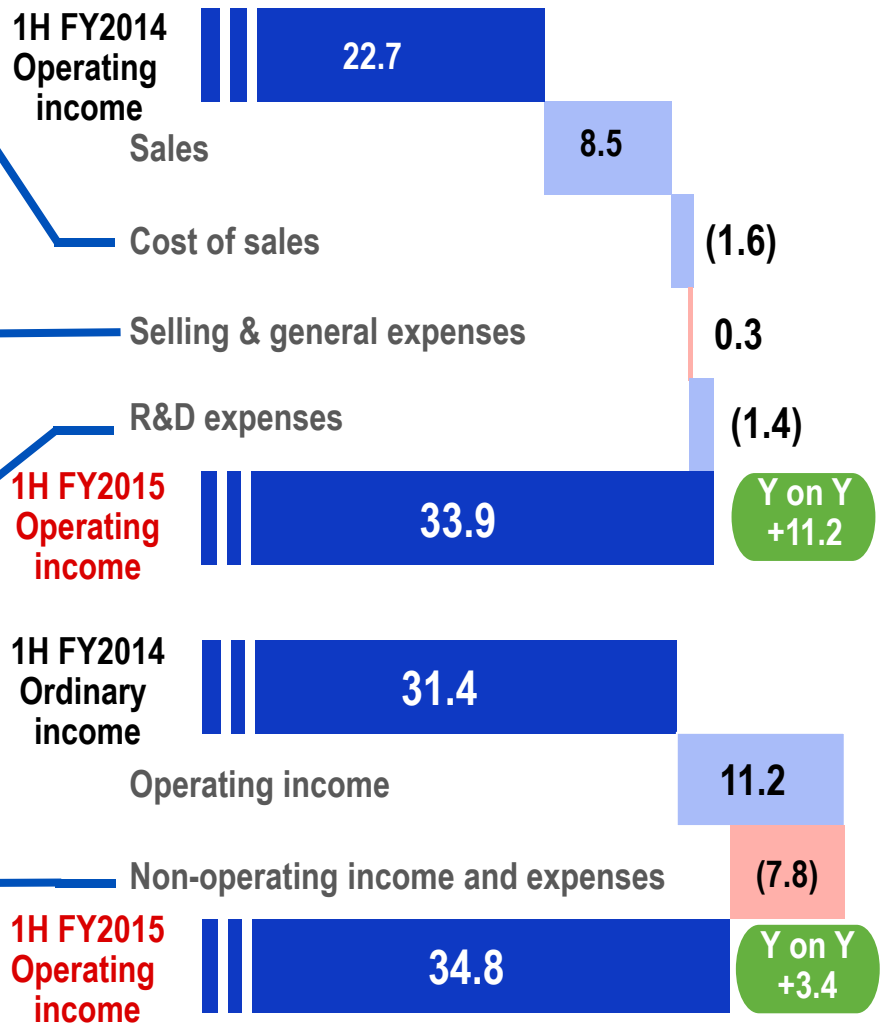
◆ **Cost of sales ratio**
Positive factor: the modification of Cymbalta® contract
Negative factor: planned out-license did not occur during 1H, increased contract manufacturing for DTG

◆ **Selling & general expenses**
Decreased due to re-scheduling Osphena® DTC campaign from 1Q to 2Q, and continued cost management

◆ **R&D expenses**
Decreased due to continued careful cost management focusing investment on high-priority development programs

◆ **Non-operating income and expenses**
Decreased due to dividend from ViiV in 1Q FY2014, and effect of exchange rate change

(Unit: B yen)



DTG: Dolutegravir DTC Direct to consumer

Achievements in 1H FY2015



Actions to increase profitability of Japanese domestic business

- Cymbalta®: Expansion of sales in depression area and enhancing presence in pain area
- More focused investment in high-priority SG&A expenses

Steady progress on development programs

- Cymbalta® (pain associated with fibromyalgia), Mulpleta® Approvals
- Naldemedine, S-033188, Cymbalta® (pain associated with osteoarthritis)

Operating income excluding royalty income is exceeded the original plan

- Improved inventory turnover (months of stock in inventory)
  9/30/2014: 7.9 months
  9/30/2015: 7.0 months
- Steady cost management

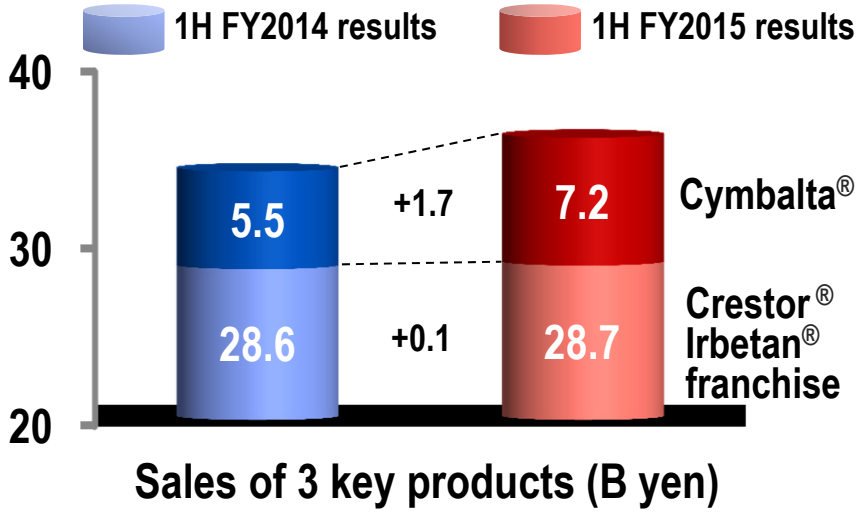
Strong growth of the HIV franchise

- Increase in global sales
- Significant increase in royalty from ViiV

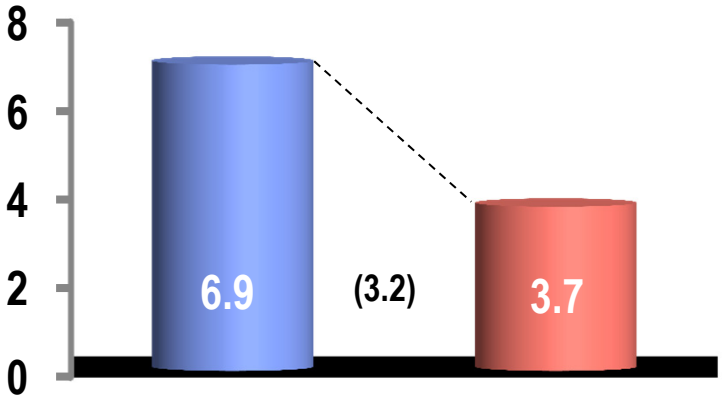
Modification of Cymbalta® Contract Contributed to Consolidated Performance

Both Shionogi and Eli Lilly Japan K.K. strengthened their promotional activities
Sales of Cymbalta® brand showed strong growth

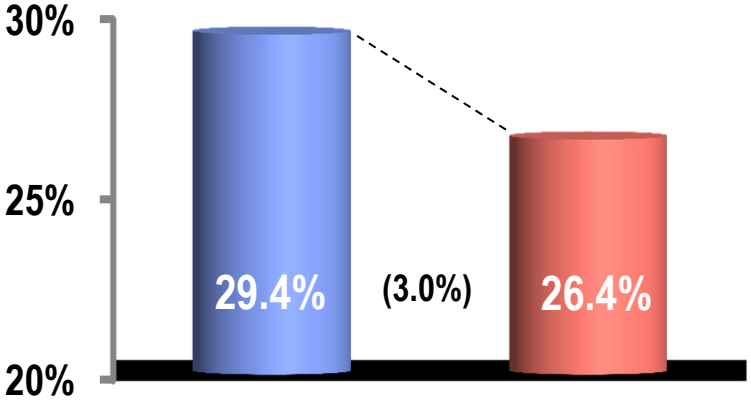
- **Shionogi received remuneration for its promotional activity**
  - Increase in sales of ethical pharmaceutical products
- **Revised API price based on the modified contract**
  - Decreased sales from contract manufacturing but improved cost of goods ratio



Sales of 3 key products (B yen)



Sales from contract manufacturing (B yen)



Consolidated cost of sales ratio

Key Actions for 2H FY2015 Based on Achievements in 1H



- Accelerate expansion of sales of Cymbalta®
- Rapid market penetration of Mulpleta® and Actair®
- New business scope of the Human Health Care Division
- Activities for NDA submission and launch of S-877503

- Maximize the value of Osphena®
- Expand of sales of Rabeprazole in China
- Establish platform for NDA submission and launch of naldemedine

- Achieve the target cost of sales ratio
- Improve inventory turnover
- Sustain and further increase tight control over operating costs

FY2015 Financial Forecasts

Revision of FY2015 Financial Forecasts (Consolidated)

(Unit: B yen)

	FY2015							FY2014	Y on Y change (%)
	full year			1H	2H				
	original	revised	change	results	original	revised	change	results	
Sales	296.0	301.5	5.5	138.3	158.0	163.2	5.2	274.0	10.0
Operating income	72.5	78.0	5.5	33.9	44.0	44.1	0.1	50.4	54.9
Ordinary income	79.5	88.0	8.5	34.8	51.5	53.2	1.7	77.9	13.0
Profit attributable to owners of parent	52.0	59.0	7.0	21.4	35.0	37.6	2.6	44.1	33.9

Exchange rate (average)	FY2015 forecasts (original)	FY2015 forecasts (revised)	change
USD ($) – JPY (¥)	120	120	-
EUR (€) – JPY (¥)	130	130	-
GBP (£) – JPY (¥)	175	180	5

FY2015 Financial Forecasts

Revision of Sales by Segments (Consolidated)

(Unit: B yen)

	FY2015							FY2014	Y on Y change (%)
	Full year			1H	2H				
	original	revised	change	results	original	revised	change	results	
Prescription drugs	167.0	167.0	-	78.4	87.8	88.6	0.8	161.4	3.5
Crestor®	44.4	44.4	-	20.4	23.1	24.0	0.9	43.6	1.8
Irbetan® franchise	17.0	17.0	-	8.3	8.8	8.7	(0.1)	15.1	12.4
Cymbalta®*1	17.4	17.4	-	7.2	9.7	10.2	0.5	10.9	59.0
Total of 3 key products	78.8	78.8	-	35.9	41.6	42.9	1.3	69.7	13.1
OxyContin® franchise	10.7	10.7	-	5.2	5.4	5.5	0.1	10.3	4.3
Finibax®	3.8	3.8	-	2.1	1.9	1.7	(0.2)	4.0	(4.5)
Differin®	3.8	3.8	-	1.6	1.9	2.2	0.3	3.9	(1.9)
Pirespa®	5.4	5.4	-	2.8	2.4	2.6	0.2	5.4	0.6
Rapiacta®	2.8	2.8	-	(0.0)	2.7	2.8	0.1	2.6	5.8
Total of 8 strategic products	105.3	105.3	-	47.5	55.9	57.8	1.9	95.8	9.9
Overseas subsidiaries/export*2	30.4	30.4	-	14.7	15.6	15.7	0.1	28.7	6.0
Shionogi Inc. Osphena®	17.4 7.4	17.4 7.4	- -	8.4 2.6	8.4 4.4	9.0 4.8	0.6 0.4	15.9 4.6	9.1 61.9
C&O	8.0	8.0	-	3.3	4.6	4.7	0.1	6.9	15.6
Contract manufacturing*2	7.6	7.6	-	3.7	3.9	3.9	0.0	15.6	(51.3)
OTC and quasi-drugs	4.7	4.7	-	2.6	2.2	2.1	(0.1)	4.6	3.0
Royalty income	83.3	88.8	5.5	37.5	46.8	51.3	4.5	60.7	46.3
Crestor® HIV franchise	74.5	80.0	5.5	23.7 11.4	42.5	45.0	2.5	47.4 5.8	50.2
Others	3.0	3.0	-	1.4	1.7	1.6	(0.1)	3.1	(2.2)
Total	296.0	301.5	5.5	138.3	158.0	163.2	5.2	274.0	10.0

*1 Remuneration for promotional activity from FY2015
*2 The accounting policy for API for dolutegravir was changed from export to contract manufacturing in FY2014

FY2015 Financial Forecasts

Revision of Statement of Income (Consolidated)

(Unit: B yen)

	FY2015 full year original	FY2015 full year revised	FY2015 full year change	FY2015 1H results	FY2015 2H original	FY2015 2H revised	FY2015 2H change	FY2014 results	Y on Y change (%)
Sales	296.0	301.5	5.5	138.3	158.0	163.2	5.2	274.0	10.0
[Royalty* income]	74.5	80.0	5.5	35.0	42.5	45.0	2.5	53.2	50.2
Cost of sales	24.8 [33.2] 73.5	24.4 [33.2] 73.5	-	26.4 [35.3] 36.5	24.2 [33.1] 38.2	22.7 [31.3] 37.0	(1.2)	30.0 [37.2] 82.2	(10.6)
Gross profit	222.5	228.0	5.5	101.8	119.8	126.2	6.4	191.8	18.9
SG&A expenses	50.7 150.0	49.8 150.0	-	49.1 67.9	48.0 75.8	50.3 82.1	6.3	51.6 141.4	6.1
Selling & general expenses	101.0	101.0	-	46.1	50.8	54.9	4.1	92.6	9.1
R&D expenses	49.0	49.0	-	21.8	25.0	27.2	2.2	48.9	0.3
Operating income	24.5 72.5	25.9 78.0	5.5	24.5 33.9	27.8 44.0	27.0 44.1	0.1	18.4 50.4	54.9
[Excluding royalty* income]	(2.0)	(2.0)	-	(1.1)	1.5	(0.9)	(2.4)	(2.9)	-
Non-operating income and expenses	P7.0	P10.0	3.0	P0.9	P7.5	P9.1	1.6	P27.5	-
Ordinary income	26.9 79.5	29.2 88.0	8.5	25.2 34.8	32.6 51.5	32.6 53.2	1.7	28.4 77.9	13.0

Note: Small numbers in red are percent of sales, and numbers in red provided in parentheses are percent of sales excluding royalties
* Royalty income from AstraZeneca and ViiV for the sales of Crestor® and HIV franchise

Dividend Forecasts

- Maximize enterprise value by balancing three key factors; return to shareholders, investment for further growth and strategic opportunities
- Sharing our mid- to long-term profit growth with our shareholders by increasing returns as appropriate
- Dividend forecast for FY2015: 60 yen

	Dividend per share			DOE	ROE
	full-year	year-end	annual		
FY2014	24.00	28.00	52.00	3.7%	9.4%
Original FY2015	28.00	(forecast) 28.00	(forecast) 56.00	–	(planned) 10.6%
Revised FY2015	28.00	(forecast) 32.00	(forecast) 60.00	–	(forecast) 11.9%

Forward-Looking Statements

- Forecast or target figures in this material are neither official forecasts of earnings and dividends nor guarantee of target, achievement and forecasts, but present the midterm strategies, goals and visions. Official earnings guidance should be referred to in the disclosure of the annual financial report (*kessan tanshin*) in accordance with the rules set by Tokyo Stock Exchange.
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