

# Third Quarter (Apr.-Dec.) of FY2007 (March 2008) Earnings Results



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# Results for the Third Quarter of FY2007



(Yen B)

|                   | 06/4-12 | 07/4-12 | YOY change |      |
|-------------------|---------|---------|------------|------|
| Sales             | 184.9   | 193.5   | +8.5       | +5%  |
| Self-Medication   | 115.4   | 118.5   | +3.1       | +3%  |
| Rx Pharmaceutical | 69.5    | 75.0    | +5.5       | +8%  |
| Operating income  | 22.1    | 32.9    | +10.8      | +49% |
| Ordinary income   | 24.7    | 37.4    | +12.7      | +51% |
| Net income        | 17.2    | 23.1    | +5.9       | +34% |

Note: All amounts are rounded to the nearest tenth of a billion yen.

# Pharmaceutical Market Trends in Japan in the 3Q of FY2007



## Self-Medication Operation Group

- The OTC drug market was up 1.6% year on year
    - Sales rising in categories like Chinese herbal medicines, sedatives, and vitamins
    - Market trends for our core product categories:
      - Sales of drug-oriented 100mL energy drinks and cold remedies basically flat
      - Sales of food-oriented energy drinks and hair regrowth treatments declining
- (Retail price base)

## Prescription Pharmaceutical Operation Group

- The Rx pharmaceutical market was up 5.7% year on year
  - Oral antibacterial drugs were down 2.5%
  - Injected antibacterial drugs were down 1.7%

(Source: IMS data; based on reimbursement prices)

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# Results for the Third Quarter of FY2007



## Self-Medication Operation Group

- Mainstay brands
  - *Lipovitan D* and *Lipovitan fine* performed well, pushing overall *Lipovitan* series sales up
  - *RiUP* posted double-digit growth and the *Pabron* decline slowed
- Switch-OTC drugs
  - *Herpecia* launched in October 2007
  - Approval of major products, and preparations for launch
    - *RiUP PLUS*, *Pabron Ace AX* (both launched in January 2008)
- Other
  - Mail order service members up  
(we expect to sign up 200,000 during this fiscal year)

## Prescription Pharmaceutical Operation Group

- Taisho Toyama Pharmaceutical
  - Performance in line with expectations despite generics impact on *Clarith*
  - Solid start for *Geninax*
- R&D
  - TS-032 (schizophrenia drug candidate)
    - Outlicensing to Pfizer Inc.  
(resulting in lump-sum amount of ¥2.5 billion or U.S.\$22 million)

# Factors Driving Net Sales Growth and Declines



(Blue: Self-Medication Red: Rx Pharmaceutical)

(Yen B)

|  | Sales       | YOY         |  |
|--|-------------|-------------|--|
| <i>Lipovitan series</i>                    | 62.4        | +2.8        | In-store promotions successful, <i>Lipovitan fine</i> provided a boost |
| <i>Pabron series</i>                       | 15.8        | -0.6        | Sluggish sales in 1H, but picked up in 3Q (Oct.-Dec.)                  |
| <i>RiUP series</i>                         | 7.5         | +1.0        | In-store promotions successful   |
| Other OTC drugs*                           | 17.0        | -0.7        | More or less in line with expectations                                 |
| <i>Livita series</i>                       | 1.8         | +0.1        | Metabolic syndrome-related products sold well                          |
| <b>Taisho Toyama</b>                       | <b>63.6</b> | <b>+3.1</b> | Thanks in part to <i>Geninax</i> launch                                |
| <b>Royalty income</b>                      | <b>3.6</b>  | <b>+2.6</b> | Thanks in part to lump-sum amount                                      |
| <b>Other</b> (Intermediate products, etc.) | <b>7.8</b>  | <b>-0.5</b> | In line with expectations  |

Note: All amounts are rounded to the nearest tenth of a billion yen.

\*Other OTC drugs: Net sales were calculated by deducting the sales figures for core brands, namely the *Lipovitan* series, *ZENA* series, *Pabron* series and *RiUP* series, and also for gastrointestinal drugs, from the net sales of "Over-the-counter drugs, etc." in the reference data.

# Factors of Operating Income Change



|                   | YOY<br>(Yen B) |
|-------------------|----------------|
| Sales             | +8.5           |
| Self-Medication   | +3.1           |
| Rx Pharmaceutical | +5.5           |
| Gross profit      | +5.7           |
| SG&A expenses     | -5.1           |
| Operating income  | +10.8          |

Note: All amounts are rounded to the nearest tenth of a billion yen.

Gross margin\* 66.6% → 66.6%

(\* After adjusting for provision for sales returns)

Sales of energy drinks and *RiUP* rose, as did royalties. However, the gross margin was flat due to depreciation expenses associated with Omiya's No.2 pharmaceutical manufacturing building and a rise in sales of products procured from other companies.

SG&A/sales ratio 54.7% → 49.6%

- R&D expenses: up ¥0.4bn
- Advertising expenses: down ¥1.1bn
- Sales promotion expenses: down ¥2.0bn
- Other: down ¥2.4bn

- Non-operating items: Interest/dividend income rose by ¥600 million and equity-method income rose ¥1.4 billion to ¥100 million.

# FY2007 Forecasts (consolidated)



We have raised our FY2007 estimates due to strong 3Q earnings at SMG, a rise in royalty income, and progress in cost cutting.

(Yen B)

|                        | FY07E<br>(Revised) | YOY<br>Change | FY07E<br>(Previous*) | YOY<br>Change |
|------------------------|--------------------|---------------|----------------------|---------------|
| Sales                  | 248.5              | +3%           | 243.5                | +1%           |
| Self-Medication (SMG)  | 152.3              | +2%           | 149.8                | +0%           |
| Rx Pharmaceutical      | 96.2               | +4%           | 93.7                 | +1%           |
| Operating income       | 35.5               | +59%          | 29.5                 | +32%          |
| Ordinary income        | 41.5               | +66%          | 35.5                 | +42%          |
| Net income             | 26.0               | +69%          | 22.0                 | +43%          |
| (reference)            |                    |               |                      |               |
| Sales of Taisho Toyama | 82.0               | +2%           | 82.0                 | +2%           |

Note: All amounts are rounded to the nearest tenth of a billion yen.

(\*Estimates released when 1H results announced)

# FY2007 Forecasts by Product



- Changes in the sales forecasts (mainstay brands)

(Yen B)

|                         | Full year E |           |        |
|-------------------------|-------------|-----------|--------|
|                         | New         | Previous* | Change |
| <i>Lipovitan series</i> | 75.5        | 73.2      | +2.3   |
| <i>Lipovitan D</i>      | 54.2        | 52.3      | +1.9   |
| Other                   | 21.3        | 20.9      | +0.4   |
| <i>ZENA series</i>      | 4.1         | 4.1       | 0      |
| <i>Pabron series</i>    | 23.0        | 22.5      | +0.5   |
| <i>RiUP series</i>      | 10.3        | 10.1      | +0.2   |
| GI drugs                | 4.3         | 4.4       | -0.1   |
| <i>Clarith</i>          | 26.0        | 26.0      | 0      |
| <i>Palux</i>            | 11.2        | 11.2      | 0      |

(\*Estimates released when 1H results announced)

# Self-Medication Business: Trend in New Products



- Remarkable new products of switch-OTC launched in January

*(Italics: New products that have already been launched)*

|  |   |
|--|---|
| <p>&lt;1st Quarter&gt;<br/> <i>Karada Kankyo Diet (mail order)</i><br/> <i>IRIS 50, IRIS 50 Cool</i><br/> <i>Palsweet liquid type</i><br/>                 ...and others</p>   | <p>&lt;3rd Quarter&gt;<br/> <i>Herpecia, IRIS Arrest</i><br/> <i>Livita black vinegar</i><br/> <i>Pabron Hand Jell 365 &lt;Lemon&gt;</i><br/> <i>Mail order (soup-type diet food)</i><br/> <i>Livita Brightening Essence</i><br/>                 ...and others</p> |
| <p>&lt;2nd Quarter&gt;<br/> <i>Lipovitan 8 NEW</i><br/> <i>Livita Natural Water</i><br/> <i>Nourish Night Cream (mail order)</i><br/> <i>Preser, Menfula</i> ...and others</p> | <p>&lt;4th Quarter&gt;<br/> <i>RiUP PLUS</i><br/> <i>Pabron Ace AX</i><br/>                 Dermarin<br/>                 Food supplement (mail order)<br/>                 ...and others</p>   |

# Prescription Pharmaceutical: New Drug Pipeline



## New Drug Pipeline (As of January 30, 2008)

| Stage     | Name                  | Formulation | Application  | Development with      | Originator               | Remarks   |
|-----------|-----------------------|-------------|--|-----------------------|--------------------------|---|
| Launched  | Geninax<br>(T-3811)   | Oral        | New-type quinolone antibacterial agent                                       | Toyama Chemical       | Toyama Chemical          | Approved on Jul.31, 2007<br>Launched on Oct.5, 2007 |
| Submitted | Clarith<br>(tab. 200) | Oral        | Macrolide antibiotic:<br>Nontuberculous Mycobacteriosis (lung infection)     | Abott Japan           | Taisho                   | Additional indication                               |
| Phase 2/3 | CT-064                | Injection   | Osteoporosis   | Chugai Pharmaceutical | Roche                    |   |
| Phase 2   | NT-702                | Oral        | Intermittent claudication<br>caused by ASO*, SCS**                           | Nissan Chemical       | Nissan Chemical          |   |
|           | TT-063                | Topical     | Osteoarthritis, scapulohumeral periarthrits,<br>myalgia and other conditions | Tokuhon               | Tokuhon                  |   |
|           | CT-064                | Oral        | Osteoporosis   | Chugai Pharmaceutical | Roche                    |   |
|           | NT-702                | Oral        | Asthma   | Nissan Chemical       | Nissan Chemical          |   |
|           | TS-033                | Oral        | Type 1 and 2 diabetes  | In-house              | Taisho                   | In Japan and Overseas                               |
|           | TS-022                | Topical     | Pruritus caused by atopic dermatitis   | In-house              | Taisho                   |   |
|           | Palux                 | Injection   | Intermittent claudication<br>caused by SCS**                                 | In-house              | Taisho/Mitsubishi Tanabe | Additional indication                               |

\* ASO: Arteriosclerosis obliterans

\*\* SCS: Spinal canal stenosis