R-Tech Ueno

4573 JASDAQ

Company Research and Analysis Report
FISCO Ltd.
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■Establishing a profit structure that allows development & stable dividends

R-Tech Ueno (4573) is a drug discovery venture specializing in ophthalmology and dermatology. It is already a profitable business, manufacturing and selling glaucoma and ocular hypertension treatment drug Rescula® Eye Drops, and contract manufacturing of AMITIZA® capsules, a drug for the treatment of constipation. A characteristic feature of R-Tech Ueno i.e. RTU is that it has already established an earnings structure that allows it to continue providing the costs associated with drug discovery as well as stable dividends. Further, as its basic development strategy RTU focuses its target on medicines for which there is a strong need from a doctor's perspective, seeking high return on middle risk.

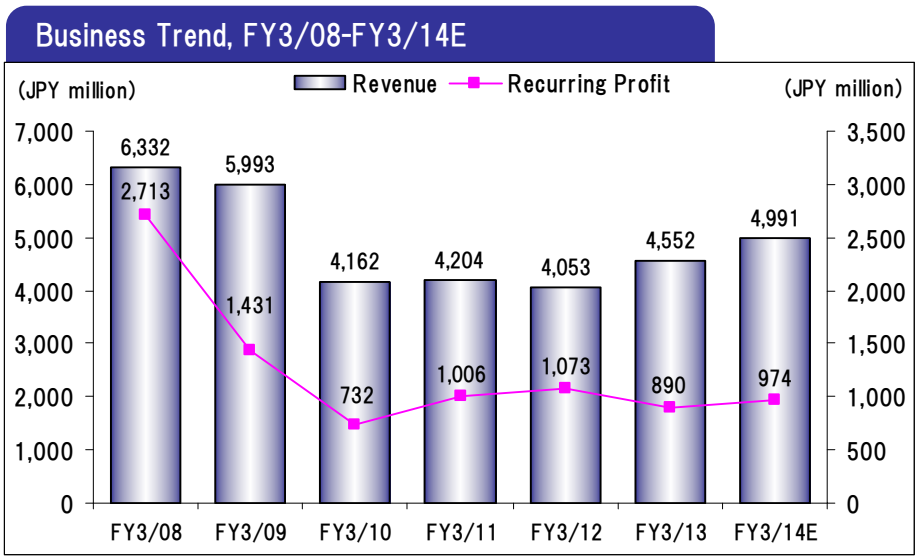
While RTU's FY3/13 results showed revenues up 12.3% YoY, operating profit declined 26.2% YoY, the first time in 3 years that earnings have dipped. Apart from R&D costs rising JPY362 million YoY due to new drug discovery, a JPY252 million YoY decline in royalty income from Rescula® eye drops was the main cause of the decline in profits.

On the other hand, FY3/14 revenues are expected rise 9.6% YoY and operating profit 23.8% YoY with a return to growth in both revenues and earnings. The main factor behind this is that, despite the slight downward trend in Rescula® Eye Drops continuing, and, apart from it being planned for R&D costs to be flat, it is expected that revenues for AMITIZA® capsules, which received Japanese sales approval in June 2012, including for the Japanese market will grow significantly by 31.6% YoY.

In the pipeline that will drive growth over the mid- to long-term, we can point to retinitis pigmentosa treatment drug unoprostone eye drops (development code UF-021) and a world first dry eye treatment by way of biological medicine, recombinant human serum albumin eye drops (development code RU-101). Apart from it being anticipated that just domestically there will be peak sales of JPY2.0 billion, it is expected that the potential market for RU-101 globally will be JPY150 billion. Given that to roll this product out by RTU alone would require significant funds, in the previous phase 2 clinical trials the effectiveness was proved with the basic policy being to out license, RTU is planning to secure profits from out licensing. On the other hand, UF-021, which was entirely developed in-house, it is expected that it may contribute to sales as early as FY3/17, and it is forecast that the pace in RTU's earnings growth will accelerate rapidly after that.

■Check Points

- Rescula® & AMITIZA® represent over 90% of sales
- Growth in revenues and earnings expected this term with a full-year contribution from Japanese AMITIZA® sales
- Proactive shareholder rewards with this term's expected payout ratio 60.9%



■Corporate Overview

Policy towards focusing on drug discovery after developing Rescula® & AMITIZA®

(1) Corporate History

RTU was established in 1989 by its founder and leading shareholder Ryuji Ueno, as a company for managing patents in relation to the functional fatty acid Prostone, that he had himself discovered. Dr. Ueno was conducting pharmaceutical research and development at the Ueno Fine Chemical Industry, Ltd. in Osaka that was managed by his father. It was there that he developed the current flagship product Rescula® Eye Drops (herein "Rescula®"), a treatment drug for glaucoma and ocular hypertension, with sales commencing in 1994. Subsequently, in April 2011 as well as assuming the manufacturing and sales rights at R-Tech Ueno, in April 2003 he transferred completely along with the development staff.

Following that, he shifted the development base to United States and established Sucampo Pharmaceuticals, Inc. (NASDAQ: SCMP). There he succeeded in developing AMITIZA® capsules (herein "AMITIZA®"), a treatment drug for constipation, leading to sales in the US. In Japan also, it received manufacturing and sales approval in 2012, and made news as the first new constipation medicine in 32 years. Sucampo entered into a contract manufacturing agreement in respect of manufacturing with R-Tech Ueno, which already possessed the Rescula® production factory. In September 2005 RTU's Sanda factory (Hyogo Prefecture) obtained US FDA (Food and Drug Administration) approval as a production facility for AMITIZA®, commenced full-scale production, leading to the establishment of the current structure with two core operations, which are Rescula® and AMITIZA®.

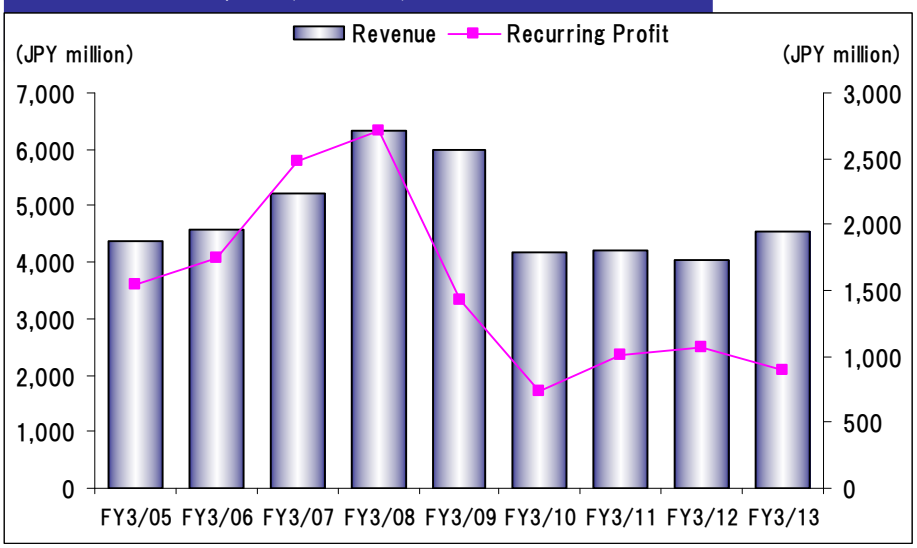
It listed publicly in April 2008 on the Hercules market in Osaka (currently JASDAQ). At that time, it was a period when AMITIZA® sales were increasing, and with the double line-up including Rescula®, growth was expected, however, AMITIZA® sales fell below forecasts, with, conversely an inventory adjustment occurring in North America resulting in 2 consecutive terms of declining earnings. Recognition grew of the need for the development of new drugs as a result of the continuation of deterioration in results, leading to a policy shift to drug discovery that continues to the present.

■Business Trends

History

Year	Major Events
Sep-89	Established as a medical patent management company in Osaka City, Osaka Prefecture, Current HQ is in Chiyoda Ward, Tokyo)
Apr-01	Marketing and manufacturing operations for Rescula® Eye Drops were inherited from Ueno Fine Chemicals Industry, Ltd.
Apr-03	Employees transferred from the Prescription Drug Division, Ueno Fine Chemicals Industry, Ltd.
Oct-04	Marketing affiliation for Rescula® Eye Drops was changed from Fujisawa Pharmaceutical Co., Ltd (now Astellas Pharma Inc.) to Santen Pharmaceutical Co., Ltd. Contract for manufacturing and provision of AMITIZA® capsule was made with Takeda Pharmaceutical Company Limited and Sucampo Pharmaceuticals, Inc.
	3-way agreement with Takeda Pharmaceutical and Sucampo Pharmaceuticals, Inc. for manufacturing and supply of AMITIZA® capsules.
Sep-05	Sanda Office obtained approval for a factory manufacturing AMITIZA® drug substance from U.S. Food and Drug Administration (FDA).
Sep-06	Science Group was established in Pharmaceutical Division for reinforcing domestic marketing of Rescula® Eye Drops.
Apr-08	Listed on Hercules, Osaka Securities Exchange.
Oct-08	Sanda office obtained approval for a factory manufacturing AMITIZA® drug substance from Medicines and Healthcare Products Regulatory Agency (MHRA), UK.
Feb-09	Contract for exclusive manufacturing and provision of AMITIZA® capsule to Japan, Asia and Oceania Areas was made.
Apr-09	Contract for assignment of marketing approval and dealership of Rescula® Eye Drops, licensing of related patents, and exclusive manufacturing and provision of the product in U.S. and Canada for indications of glaucoma and ocular hypertension was made with Sucampo Pharma Americas, Inc.
May-10	Sanda Office obtained approval for a factory manufacturing Rescula® Eye Drops from U.S. Food and Drug Administration (FDA).
May-10	Sucampo Manufacturing and Research AG and Unoproston enter into a licesning agreement for development, manufacture and commercialization in the Japanese, Chinese, Taiwanese, Korean and North America regions.
Apr-10	KOBE R&D Institute was established in Kobe City, Hyogo.

Business Trend, FY3/05-FY3/13



Rescula® & AMITIZA® Represent More than 90% of Overall Sales

(2) Operational Overview

In addition to the manufacture and sale of Rescula®, which is already profitable, and contract manufacturing services for AMITIZA®, RTU's operations have a further division for research and development of new drugs that will support future results.

■Business Trends

In research and development operations, given the fact that the current President, Dr. Mashima is a physician, the underlying strategy l to focus on developing medicines for which there are actual needs from a doctor ' s perspective. This led to what are known as "Unmet Medical Needs" (medical fields where there where there are no satisfactory treatment methods, despite there being needs in medical settings), orphan drugs (rare treatment drugs indicating medicines with low profitability even if developed due to low patient numbers, despite there being strong demand in the medical setting for incurable and other disease treatment), and anti-aging (lifestyle drugs) being target areas. Also, another characteristic is that RTU undertakes development focusing on ophthalmology, cutization and other regional disease fields where development costs can be relatively contained given its small corporate scale.

On the other hand, RTU has a sales collaboration with Santen Pharmaceutical Co., Ltd (4536) for Rescula® through which the majority is being sold domestically. In overseas markets, in April 2009 a collaborative sales agreement was entered into with Sucampo for North American regional sales, with re-launch into the United States market achieved from FY3/13. Previously there was a sales tie-up with Novartis AG (SIX: NOVN, NYSE: NVS), however, because it was a secondary drug choice at the time of prescription (approved as a medical prescription being a secondary candidate after, despite use, the efficacy of one medicine is not recognized) sales did not grow, leading to the cancellation of the contract. Sucampo obtained approval for an Additional New Drug Application for Rescula® to be able to be selected for use as a first choice drug. This medicine has been a long-seller being sold for 19 years since sales commenced in 1994, however, domestically it is pretty well widely spread, with declines associated with drug price revisions a major factor behind lower earnings. As a result of this, the outlook is for a downward trend in the domestic market going forward, and how to grow overseas and be able to cover the declines in the domestic market a focal point. Moreover, the gross margin on Rescula® is in the order of 70%.

Further, the contract manufacturing service for AMITIZA®, produces the bulk medicines at RTU ' s Sanda factory, with the encapsulation and bottling processes being outsourced. In United States, the Takeda Pharmaceutical Company Limited (4502) obtained sales approval in June 2012 with Abbott Laboratories (NYSE: ABT) selling via Sucampo. Moreover, in Europe it has received sales approvals in Switzerland and the UK, however, it has not as yet decided on a sales partner. Given that RTU holds the global exclusive manufacturing and supply rights, if a European sales partner is decided on, a sales contribution for Europe may also be expected.

Rescula®

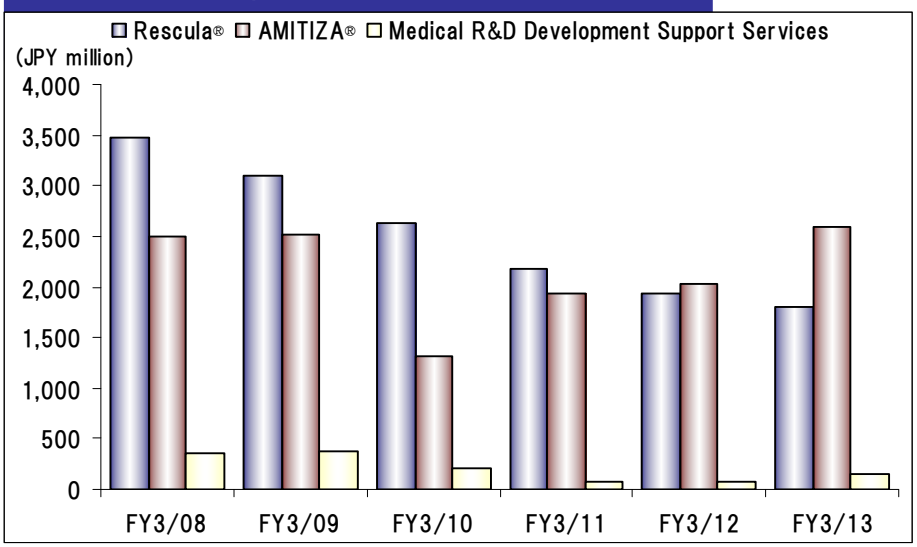
AMITIZA®

Source: Company website, company

■Business Trends

Moreover, in the FY3/13 sales composition Rescula® was 40% and AMITIZA® 57%. The remaining 3% comprises medical R&D support and contract manufacturing services, including various services from R&D collaboration (appraisal, consideration, testing) in the non-clinical phases, to obtaining and preparing application data. Looking at the graph one can grasp that Rescula® is continuing its downward trend. Further, looking at the gross margin, Rescula®, which comprises manufacturing and sales operations, is the highest being in the order of 70%, with AMITIZA® next at around 50%. A level of 50% is high within the contract manufacturing service sector, however, the fact that RTU had undertaken the R&D support up to its market launch is one of the factors behind this.

Business Trend by Divisions



■Results Overview

Last term saw lower earnings due to R&D costs despite higher revenues

(1) FY3/13 Results

FY3/13 results show lower earnings despite revenue gains, with revenues up 12.3% YoY to JPY4.552 billion, operating profit down 26.2% YoY to JPY784 million, recurring profit down 17.0% YoY to JPY890 million, and net profit down 17.4% YoY to JPY561 million.

Within revenues, declines in Rescula® were absorbed by gains in AMITIZA®, with a JPY499 million YoY increase, from a profit perspective, there was an impact from R&D costs for new drug development rising JPY362 million YoY to JPY1.279 billion, and royalty income from Rescula® falling JPY252 million YoY. In relation to the increment that R&D costs rose, the cost increases associated with the commencement of 3rd phase clinical trials for retinitis pigmentosa treatment drug unoprostone eye drops (UF-021) was significant. Also, due to COGs rising 4.7% as a result of changes in the product mix and the SG&A ratio rising 4.2% on the back of increases in R&D costs, the OP margin fell 17.2%.

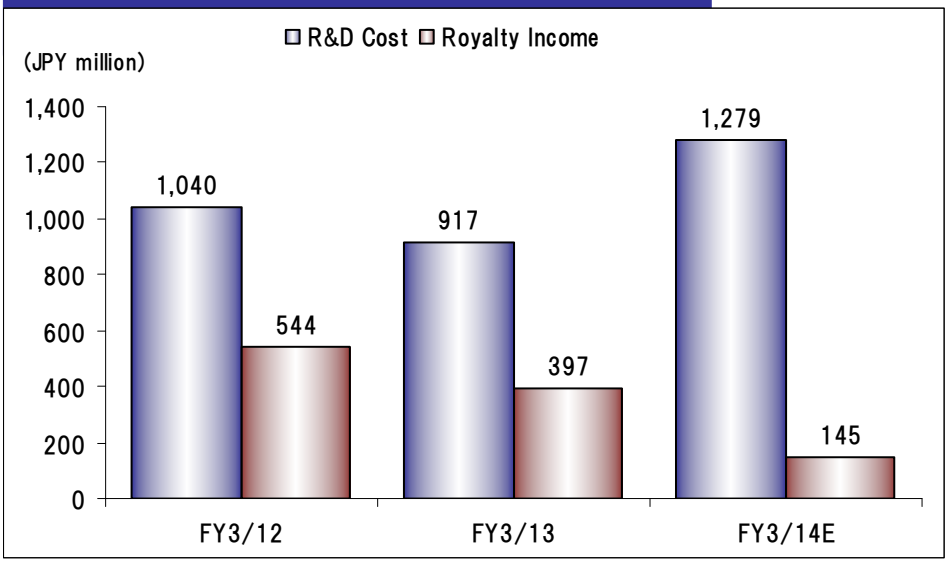
■Business Trends

FY3/13 Results (JPY million)

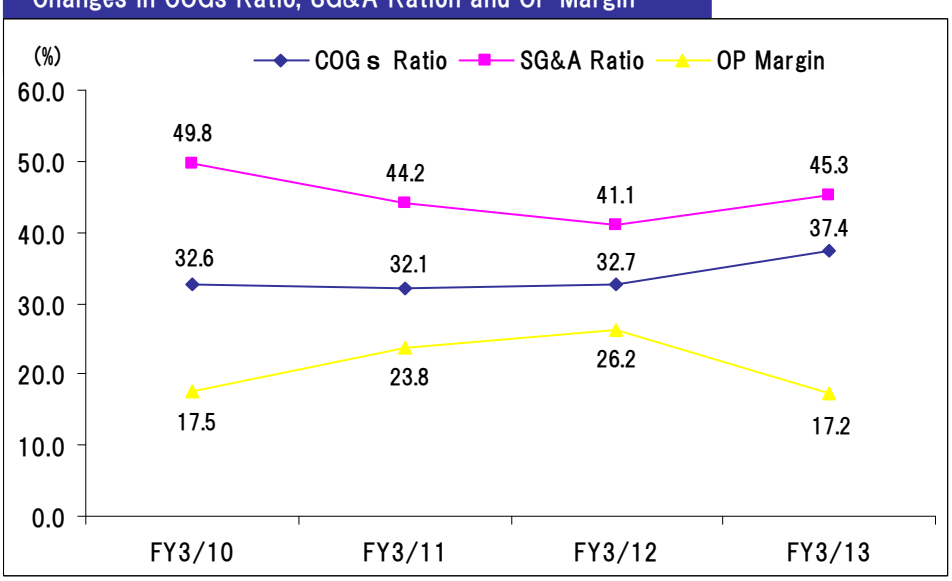
	FY3/12	FY3/13	% Change
Revenue	4,053	4,552	12.3%
Operating Profit	1,063	784	-26.2%
Recurring Profit	1,073	890	-17.0%
Net Profit	680	561	-17.4%

Towards the end of the term the yen weakened, with this giving rise to a JPY93 million non-operating foreign exchange gain. The main factor in the impact on earnings from foreign currency fluctuations, is the JPY5 million for each JPY1 per USD weakening. The assumed FY3/14 exchange rate is JPY90/USD.

Changes in R&D Cost and Rotalty Income



Changes in COGs Ratio, SG&A Ration and OP Margin



■Business Trends

Looking at the breakdown of flagship product sales by region, first, in respect of Rescula® sales, there was a 6.8% YoY decline to JPY1.811 billion. Within this, in the North American market, due to the approval of the additional new drug application, there was a market re-launch, with JPY464 million in revenues recorded (no result in FY3/12), while in the Japanese market (for Santen Pharmaceuticals) there was 20.6% YoY decline to JPY1.347 billion. In the Japanese market, apart from a 5.5% impact from unit price decreases associated with drug pricing revisions, in the highly competitive glaucoma market, the fact that it is a pharmaceutical for which 18 years have passed since sales were launched is felt to be one of the reasons behind the decline.

On the other hand, AMITIZA® sales grew 27.9% YoY to JPY2.592 billion. Within this, the Japanese market, for which the manufacturing and sales approval was received in June 2012, delivered JPY262 million (no result in FY3/12), while the North American market rose 15.3% YoY to JPY2.327 billion.

In respect of the balance sheet, there was a 6.3% YoY rise in total assets as of year-end FY3/13 to JPY9.919 billion. The majority of the reason for the gain was an increase in accounts receivable for United States. Against this, on the liability side, apart from rises in accounts payable due to payment increases associated with the commencement of retinitis pigmentosa investigations, JPY246 million in funding support from the Japan Science and Technology Agency was recorded in as long-term borrowings. The increase in demand for working capital associated with the commencement of investigations forms the background, however, there is ample cash and near cash, and we can say as far as that goes that in reality it is debt free. Further, from the perspective of management indices, while the shareholders' equity ratio declined slightly due to liabilities increasing, it still maintained the 70% mark, and is a level that raises no issues.

Balance Sheet

(Unit: JPY million)

	FY3/09	FY3/10	FY3/11	FY3/12	FY3/13
Current assets	5,201	5,371	6,878	7,235	7,799
(cash & near cash)	2,387	3,196	4,741	5,209	5,119
(Inventory)	1,892	1,601	1,441	1,296	1,282
Tangible fixed assets	896	657	565	421	400
Intangible fixed assets	176	146	114	86	117
Investment & other	1,568	868	935	1,586	1,602
Total Assets	7,843	7,043	8,493	9,329	9,919
Current Liabilities	763	741	890	705	973
Fixed Liabilities	869	143	367	529	755
(Interest-bearing debt)	500	0	0	0	246
Total Liabilities	1,632	884	1,257	1,234	1,728
Shareholders' equity	5,355	5,702	6,753	7,138	7,217
Capital	653	653	653	653	654
Capital reserves	593	593	593	593	405
Retained earnings	4,107	4,454	5,505	5,890	6,157
Treasury stock	0	0	0	0	0
Appraisement of securities	855	457	482	944	948
Total Net Assets	6,210	6,159	7,235	8,095	8,191
Total Liabilities & Net Assets	7,843	7,043	8,493	9,329	9,919
(Reliability)					
Current ratio (current assets/current liabilities)	681.6%	724.7%	772.3%	1025.6%	801.3%
Shareholders' equity ratio (shareholders' equity/total assets)	68.3%	81.0%	79.5%	76.5%	72.8%
D/E ratio (interest-bearing liabilities/shareholders' equity)	9.3%	0.0%	0.0%	0.0%	3.4%
(Profitability)					
ROA (OP/total assets)	18.7%	10.3%	11.8%	11.4%	7.9%
ROE (NP/shareholders' equity)	17.5%	11.7%	18.5%	9.5%	7.8%
Profit margin on sales	24.5%	17.5%	23.8%	26.2%	17.2%
(Efficiency)					
Inventory turnover (COGs/inventory)	110.6%	84.9%	93.6%	102.2%	132.8%
Total capital turnover (revenue/total assets)	76.4%	59.1%	49.5%	43.4%	45.9%

■Business Trends

Revenue & Earnings Growth Expected this Term with Full-year Japanese Sales Contribution from AMITIZA ®

(2) FY3/14 Results Outlook

The FY3/14 company results outlook plans growth in both revenue and earnings, with revenues up 9.6% YoY to JPY4.991 billion, operating profit up YoY 23.8% to JPY971 million, RP up 9.4% YoY to JPY974 million and net profit up 12.7% YoY to JPY633 million. Further, RTU announced a 200 for 1 stock split as of July 1, 2013.

In the revenue outlook by operating segment, despite expecting Rescula® to decline 21.1% YoY to JPY1.43 billion, continuing its underlying decline, in the domestic market. By implementing proactive marketing activities and new sales promotions, it is expected to be flat compared with the previous term. On the other hand, in respect of the North American market that RTU have re-entered, in reaction to the initial shipments in FY13/3, sales of JPY80 million are expected this term, this being the reason for the revenue decline. This is because at 40, there are few MR staff at Sucampo, and it is difficult to believe that sales will expand in the near term.

At the same time, high growth is expected for AMITIZA®, up 31.6% YoY to JPY3.41 billion. This is because, as noted above, Japanese sales started from June 2012, and this term there will be a full-year contribution. Apart from expecting an approximately 3-fold growth YoY to JPY800 million for sales in the Japanese market, even in the North American market RTU is looking for steady expansion of 12% YoY. Solid sales of treatment drugs for chronic constipation and irritable bowel syndrome form the backdrop for this assumption.

Further, in April 2013 Sucampo obtained an additional new drug approval for noncancerous opioid-induced constipation (see note below), and, while we may expect new demand from these patients, currently given that the timing for commencement of sales, volumes and other issues are undecided, they have not been included in this term’ s plan.

Note - Opioid-induced constipation: This is a condition with similar symptoms to constipation where, in pain treatment and other therapies, when narcotic analgesics have been prescribed, impairment in intestinal function arises.

Moreover, in respect of R&D costs, apart from phase 3 clinical trials for retinitis pigmentosa being continued, because expenses from phases 1 and 2 of clinical trials for the dry eye treatment drug will arise, costs on par with last year of JPY1.282 billion are expected. Additionally, net non-operating incomes will deteriorate, however, this is due to an absence of the foreign exchange gains recorded last term.

■Company Forecasts for FY3/14

Revenue Trends & Forecasts by divisions

(Unit: JPY million)

	FY3/11	FY3/12	FY3/13	FY3/14E	Change (%)
Rescula eye drops	2,184	1,943	1,811	1,430	-21.1
Japan			1,347	1,430	6.1
North America			464	80	-82.7
AMITIZA capsules	1,940	2,026	2,592	3,410	31.6
Japan			264	800	203.0
Other			2,328	2,610	12.0
Medical product R&D development support services	80	83	148	150	1.4
TOTAL	4,204	4,053	4,552	4,991	9.6

Income Statement for FY3/09-FY3/14E

(Unit: JPY million)

	FY3/09	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14E
Revenue	5,993	4,162	4,204	4,053	4,552	4,991
(YoY)	-5.4	-30.6	1.0	-3.6	12.3	9.6
COGs	2,093	1,358	1,349	1,324	1,703	-
(YoY)	34.9	32.6	32.0	32.6	37.4	-
SG&A	2,431	2,074	1,856	1,665	2,064	-
(YoY)	40.5	49.8	44.1	41.0	45.3	-
Operating profit	1,468	728	998	1,063	784	971
(YoY)	-47.7	-50.4	37.0	6.5	-26.2	23.8
(YoY)	24.5	17.5	23.7	26.2	17.2	19.4
Recurring profit	1,431	732	1,006	1,073	890	974
(YoY)	-47.2	-48.8	37.4	6.6	-17.0	9.4
(YoY)	23.8	17.6	23.9	26.4	19.5	19.5
Extraordinary gains	0	303	972	0	0	-
Extraordinary losses	16	19	6	51	4	-
EBIT	1,415	1,017	1,972	1,022	885	-
(YoY)	-59.7	-28.1	93.9	-48.1	-13.3	-
(YoY)	23.6	24.4	46.9	25.2	19.4	-
Corporate income tax	479	350	724	342	323	-
(Effective tax rate)	33.8	34.4	36.7	33.4	36.5	-
Net profit	936	666	1,248	680	561	633
(YoY)	-54.8	-28.8	87.2	-45.5	-17.4	12.7
(YoY)	15.6	16.0	29.6	16.7	12.3	12.7
[Major indices]						
Depreceiation expenses	278	287	242	167	129	-
R&D costs	1,651	1,362	1,040	917	1,279	1,280
(YoY)	27.5	32.7	24.7	22.6	28.1	25.6
Outstandinh shares (1000 shares)	19,688	19,688	19,688	19,688	19,290	19,290
EPS (JPY)	47.62	33.87	63.40	34.55	28.73	32.83
DPS (JPY)	16.25	10.00	15.00	15.00	15.00	20.00
BPS (JPY)	315.43	312.82	367.50	411.15	423.33	-
Payout ratio (%)	34.1	29.5	23.7	43.4	52.2	60.9

Note: a 2-for-1 stock split was effected on October 1, 2009.
On July 1, 2013 RTU plans to make a 200-for-1 stock split.
Per share data has been revised to reflect this in the past.

■Company Forecasts for FY3/14

■Mid- to Long-term Outlook

Aiming for 10% or greater ROE as a mid-term management numerical target

RTU has announced that it aims for 10% or greater ROE (return on shareholders' equity) as a numerical mid-term management target. From the 7.2% forecast for FY3/14 they will require to increase profitability another notch. By FY3/16 AMITIZA® will become the growth driver. Apart from sales growth through expansion of North American territories in which it is available, it is anticipated that, even in the domestic market there will be peak sales contributions of JPY1.0 billion. Also, Sucampo is currently looking for partners for sales alliances in Europe and Asia, and RTU is establishing a plan to expand sales globally. For Sucampo, that holds the exclusive rights for manufacturing and supply, if entry into new markets in Europe, Asia and elsewhere can be determined, further revenue gains may be expected.

From FY3/17 onwards in order to continue growth and expansion contributions from new drugs is vital. RTU has many in the development pipeline, however, among them those with the greatest expectations are retinitis pigmentosa treatment drug unoprostone eye drops (UF-021) and the chronic dry eye treatment drug, recombinant human serum albumin eye drops (RU-101).

By practical application RTU's retinitis pigmentosa treatment drug has the potential to monopolize the market

(1) Retinitis pigmentosa treatment drug unoprostone eye drops (UF-021)

Retinitis pigmentosa is a genetic disorder that is a progressive form of hemeralopia (night blindness), where narrowing of the field of vision is the main symptom but can lead to loss of sight. In Japan it is the 3rd greatest leading cause of vision impairment (1st for those under 60). With approximately 30,000 sufferers domestically (around one million globally), it falls into the orphan drug sector. To date, no effective treatment methods have been established using small molecular of unoprostone, and there is arguably strong social demand (apart from gene therapy being undertaken in the United States and United Kingdom for special forms of retinitis pigmentosa, in the United States they are undertaking treatment via intraocular capsules that emit neuroprotective albuminuria medication.

If it may be practically applied it will be a treatment drug first, not only in Japan but also globally, with the potential to monopolize the market. With it being estimated that there are approximately 30,000 sufferers domestically and more than one million around the world, the potential demand is enormous. RTU's policy is to initially establish the domestic market, and currently it has entered phase 3 clinical trials. If it proceeds smoothly they expect to receive manufacturing and sales approvals by the Summer of 2016. Given that there are no similar products, it is anticipated that RTU can secure around 80% of the 30,000 patients domestically, and expect peak sales of approximately JPY2.0 billion. In addition to forecasting the activation of orders without incurring sales expenses, we can point to that fact that, from a manufacturing perspective also it has the same constituents as unoprostone with slightly altered concentrations, and thus has the merit of not requiring new investment. As a result, there is ample potential that it will attain a gross margin from the outset of more than 80%, exceeding that of Rescula®, and arguably have an extremely significant impact on profits.

Moreover, RTU applied to, and was accepted for the Japan Science and Technology Agency development support program A-STEP (Adaptable and Seamless Technology Transfer Program through Target Driven R&D) in respect of UF-021. The details of that development support program are that it is system to support R&D costs of up to JPY2.0 billion over a maximum 7 year period, with repayment in full of the amount of support by royalty payments that correspond to sales when the development is successful, or where repayment of only 10% of the amount of support is acceptable when the development is not successful. For companies that have few funds for development, given that it reduces the funding risk associated with development, the benefits are substantial. Further, in practical challenge type (commissioned development) there were 17 applications, with RTU alone being selected.

Plan to out license dry treatment post-development

(2) Dry eye treatment drug, recombinant human serum albumin eye drops (RU-101)

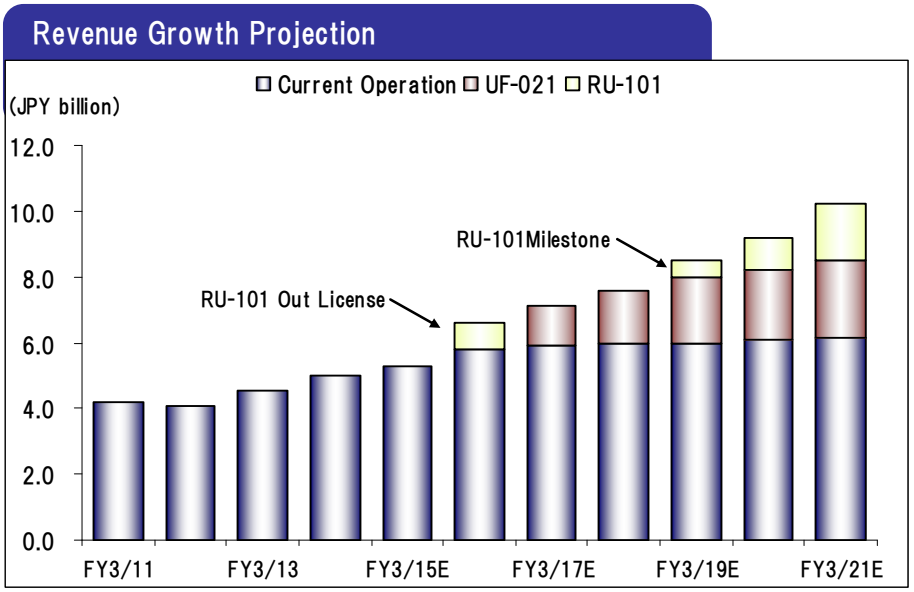
After UF-021 RTU's dry eye treatment drug is attracting attention as a new medicine. From May 2013 1st and 2nd phase clinical trials commenced in the United States, and after obtaining data on efficacy and stability in 2014, RTU is establishing a plan to out license it to a large pharmaceutical manufacturer. This is because the market is large and there are limits on funding in trying to cover it all in-house. It is arguably based on RTU's underlying middle risk for high return strategy.

This medicine is a world first biological dry eye treatment drug, bearing the merit that there is no risk of infection from the recombinant human serum albumin formulation. The dry eye market size is estimated to be around JPY150 billion globally, having grow 2x in the last 5 years, and being expected to grow by 10% per annum going forward.

Currently there are a various approaches being taken towards dry eye treatment. These include cases where anti-inflammatories are prescribed (2012 sales estimates of United States company Allergan, Inc. (NYSE: AGN) for its anti-inflammatory RESTASIS® are USD780-800 million (JPY62-64 billion), still unapproved in Japan), cases where moisturizing and rehydration medicines/agents are used (such as sodium hyaluronate and Methyl cellulose), and cases where mucin/water secretion promoting ophthalmic agents (only approved in Japan, 2 companies, clinical trials in progress in the United States also). Within these, RTU is seeking to enter with albumin preparation that has biological preparations with zero risk of infection. In terms of effect, there is epithelium protection and anti-inflammation from moisturizers and mucin secretion, and its use in conjunction with anti-inflammatory RESTASIS® may be considered. Also, RTU is setting its sights on initiatives such as expanding application from serious cases to patients with moderate cases of dry eye, and expanding application to corneal epithelium wound healing agents.

There is the possibility it may be out licensed to a pharmaceutical manufacturer as early as during FY3/16, and after the 2nd/3rd phase clinical trials, with expectations of contributing milestone income from FY3/19.

■Company Forecasts for FY3/14



Source: Prepared by FISCO from company materials.

■Risk Factors & Shareholder Rewards Measures

At this point in time none of these risk factors have materialized

(1) Risk Factors

The 3 points below may be raises as operational risks, however, at this point in time, none of these risk factors have materialized.

○ Uncertainty in new drug development - In the event that results are not produced in line with expectations in the development of new drugs from the corresponding R&D investment, or sales and earnings cannot be secured, there is the potential for this to impact on RTU's results and/or financial condition.

○Drug pricing revisions - Every 2 years a revision in drug pricing standards is undertaken, with reductions coming into force in drug pricing for Rescula® of 12.0% in April 2010 and 5.6% in 2012. Going forward also it is expected that there will be periodic reductions in drug prices, and in the event of greater-than-expected reductions there is the potential for this to impact on RTU from an operational perspective.

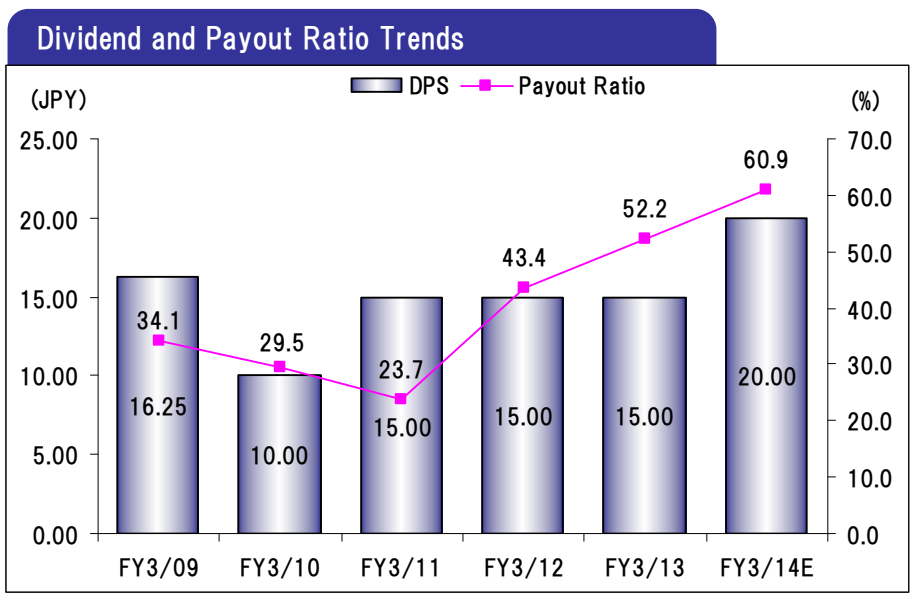
○Reliance on flagship products - 2 products, Rescula® and AMITIZA® represent more than 90% of RTU's revenues, and in the event that unexpected side effects, defects or other flaws were discovered in either and sales suspended, there is the potential for RTU's results and/or financial condition to be significantly impacted.

■Company Forecasts for FY3/14

Proactive in rewarding shareholders with a forecast payout ratio of 60.9% this term

(2) Shareholder Reward Measures

As a shareholders' reward measure, while retaining internal reserves in order to strengthen the management platform, RTU comprehensively considers results and the payout ratio, with its underlying policy being to effect continuation in mid- to long-term dividend payment. The dividend per share in FY3/14 shall be JPY20 after the 200 for 1 stock split scheduled for July, having been JPY15 per share under the same calculation last term, which computes to an actual JPY5 per share dividend hike. With a payout ratio of 60.9%, as a drug discovery venture, RTU may be rated highly as a company that is extremely proactive in rewarding shareholders.



Note: 200-for-1 stock split July 1, 2013.
Per share data has been revised to reflect this in the past.

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